

**Final Business Case**  
**ANGUS Alive**

**Angus Council**  
October 2015



## Abbreviations

ALEO	Arm's Length External Organisation
B/NB/PE	Business/Non-Business/Partial Exemption
BRIS	Business Rates Incentivisation Scheme
Charitable Trust	Culture and /or Leisure Trust
CBA	Cost Benefit Analysis
CT	Corporation Tax
Council	Angus Council
ETO	Economical, Technical or Organisational
EY	Ernst & Young LLP
GVA	Gross Value Added
HMRC	Her Majesty's Revenue and Customs
IPS	Industrial and Provident Society
K	Thousand
KPI	Key Performance Indicator
M	Million
OSCR	Office of the Scottish Charity Regulator
NDR	Non Domestic Rates / Business Rates
NPV	Net Present Value
SCIO	Scottish Charitable Incorporated Organisation
SLA	Service Level Agreement
SORP	Statement of Recommended Practice
SPV	Special Purpose Vehicle
TPF	Tayside Pension Fund
TUPE	Transfer of Undertakings (Protection of Employment)
VAT	Value Added Tax

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## **Executive Summary**

Angus Council, in December 2014, agreed the Outline Business Case for the creation of a Culture and Leisure Trust, to be formally called Angus Alive. This Final Business Case (FBC) sets out how Angus Alive will deliver Culture, Leisure and Customer Services on behalf of Angus Council. This FBC captures the reasoning for the project, identifies how the preferred option, Angus Alive, will deliver the services and sets out the case for an affirmative decision from Angus Council to proceed and establish Angus Alive from 1 December 2015. The document presented provides all the relevant information and detail to enable a decision to be debated.

## **Strategic Case for Change**

The Council has made clear that as part of its strategic options, it is open to alternative methods for providing services which would enhance and contribute to the health, fitness and personal development and wellbeing of the residents of Angus. This also includes educational, sporting, cultural, environmental, heritage and customer based community activities. This focus is driven by the Council's desire to be more outcome focussed and to ensure the delivery of high quality services to its citizens as well as the fiscal pressures which the local government sector continues to face.

The Council faces the challenge of a reducing budget. The Corporate Plan sets out the aim of saving £23.6m by financial year 2018/19, or broadly 11% of its annual revenue budget. The provision of the services outlined in this FBC is viewed as a crucial aspect of this cost saving programme and has been identified as a pathfinder project for the Transforming Angus Programme.

The Council is progressing a transformational change programme. There are a number of initiatives underpinning the programme, some of which are being supported by EY in the capacity of Strategic Partner. The Council has recognised the need to review the model of service provision for culture and leisure services as there are a range of perceived advantages of alternative models, including:

- ▶ Single focused body with clarity of outcomes
- ▶ Independence and ability to diversify
- ▶ Less bureaucracy and greater speed of decision-making
- ▶ Increased access to other funding streams
- ▶ Ability to react quickly to market forces
- ▶ VAT and Non-Domestic Rates ("NDR") savings
- ▶ Commercial revenue growth
- ▶ Improved financial performance
- ▶ Sustainability of service provision

The review of the various models available allows these perceived advantages to be explored across a range of options and against appraisal criteria that reflect the Council's overall aims and objectives.

In addition to this, Angus Council has made the strategic decision to be more entrepreneurial and business like and to be more focussed on outcomes rather than the mechanisms through which service delivery is organised. This represents a step change in thinking and action and opens up new possibilities for service design and delivery. In governance terms this represents an excellent opportunity for communities to have greater say and control in delivery of their services.

## **Economic Case**

### **Identifying options and selecting the preferred option**

The Council agreed in December 2014 that the preferred option for delivery of the services detailed in this FBC is by transfer of the services to a wholly owned by the Council ,company limited by guarantee with charitable status.

### **Cost Benefit Analysis**

In December 2014 the cost benefit analysis of the preferred option demonstrated that when compared against the status quo, the Charitable Trust demonstrated value for money, as follows:-

- ▶ The net benefit across a 25 year period was indicatively estimated at £6.254m in net present value terms with a nominal saving of £9.475m;
- ▶ This financial benefit is the result of VAT and NDR savings less the additional costs of running the Charitable Trust. These savings are unlocked with the selection of the Charitable Trust as the preferred delivery option.

In addition to this, the Communities Directorate and the ANGUS Alive shadow board has reviewed savings as set out in the Council's Revenue Budget and Savings Proposals 2015/16 to 2016/17. This has enabled Angus Council to make savings at the senior management level in the order of £165K. The acceleration of these savings will be used to mitigate future savings for ANGUS Alive by delivering a brief respite for the new organisation from having to make revenue savings. This will enhance the opportunity for the new organisation to get off to the best possible start by seeking new revenue streams without the threat of budget reductions for a limited period.

In order to deliver these benefits the commercial issues and risks must be robustly managed and a clear financial position established by way of a business plan for the new entity.

## **Commercial Case**

The OBC identified the preferred option as a company limited by guarantee. The structure offers the protection and familiarity of the Companies Act, supported by clear and established legal precedents over the rights and obligations placed on the members of the Board.

The Company structure is that the company will be wholly owned by Angus Council with a Board of Directors comprising 4 elected members, and 5 independent directors. There is an option for additional Trade Union representation and for Council Officers to attend in an observer capacity.

The independent directors have been selected following a recruitment process. A formal strategic risk assessment and risk mitigation strategy will be regularly undertaken by the Board and its Chief Officer.

The main commercial arrangements between the Council and the Charitable Trust are as follows:-

- ▶ Licence Agreements – ownership of the building assets will be retained by the Council and will be licenced to the Charitable Trust
- ▶ Support Service Agreement – the Charitable Trust will require a range of support and administration services to be provided by the Council (over time the Trust may decide to receive this support from other providers)
- ▶ Service Agreement – this sets out the terms of the management agreement and the services to be delivered by the Trust to the Council and includes a range of KPIs and places outcome and performance obligations on the Charitable Trust.

## **Financial Case**

### **Savings from VAT and NDR**

The preferred option allows the Council to realise significant financial savings. These savings are driven from the treatment of VAT and relief from NDR.

As the Trust will have a charitable status, certain income it generates will be exempt for VAT purposes and this provides VAT savings to the Charitable Trust. The Council is currently required to charge VAT on the provision of these services, whereas the Charitable Trust will be able to treat the provision of the services as exempt for VAT purposes. The savings arise where the price charged to customers remains unchanged and the Charitable Trust is able to retain the portion of income that the Council had to charge and account for as VAT.

For the NDR savings the Trust must be a registered charity. The application has been submitted to OSCR. OSCR has confirmed that the company meets the criteria to achieve charitable status subject to the articles of association being agreed by the Council. Once this has been approved, a charity number will be issued.

Together the estimate for potential NDR and VAT savings for the first year are in the range of £0.624M to £1.056M per annum.

### **Additional costs**

The Council will incur costs during the setup of and initial transition to the Charitable Trust. These are projected to be £0.563m for expenditure in areas such as Charitable Trust office set up costs, legal costs, media, website and marketing.

Additionally, the Charitable Trust will incur a range of recurring annual costs. Commonly, such costs can be in a range of £0.200m to £0.350m and have been estimated for Angus Alive to be £0.272m.

## **Additional Savings**

In addition, Angus Council has highlighted additional savings as identified in this executive summary which represent a maximisation of the VAT and NDR savings plus a review of the options and savings from the management review of ACCESS and Libraries and as Services to Communities transfers from Angus Council to Angus Alive. This approach has allowed savings to be maximised which will minimise the impact on Angus Alive at its inception and during its immediate start-up period.

## **Annual management fee payable by the Council**

Services to Communities currently operates within a deficit funding model. For the year 2014/15 this amounted to £8.370m. In order for the Charitable Trust to be financially viable the Council will need to pay a management fee to the Charitable Trust in order to meet the deficit. The amount of the management fee will be dependent on a range of factors, such as the expected level of service provision, arrangements between the parties over the provision of functions by the Council by human resources, IT, Finance, Legal, procurement, communications, insurance and risk management, performance management/ continuous improvement, trust income and the final position on expected savings including service redesign through digital angus. The level of the management fee is projected to be in the order of £5.4m in a full year.

## Summary of financial savings

The table below provides a summary of the financial implications:

**Table 1 - Financial Implications Summary**

	Amount £'000
<b>One off implications</b>	
Transition costs incurred to set up Charitable Trust	563
<b>Year 1 implications</b>	
VAT, NDR and management structure savings	737 – 1,169
Recurring costs incurred by Charitable Trust	272

Source: EY

The above analysis excludes the potential for further upside for efficiency savings in the operating model other than for VAT and NDR savings.

## Management Case

To ensure the successful delivery of Angus Alive a Cross Party Shadow Board has been established as well as Project Board and a Project Team designed to ensure the has being made. The following key areas are being delivered:

- ▶ Establishment and training of a Cross Party Shadow Board
- ▶ Establishment of work streams looking at Property, service level agreements, company documentation, pensions, human resources, finance, branding, governance, preparation of the Business Plan and Full and Final Business Cases
- ▶ Preparation of Key Go Live Governance Documents
- ▶ Preparation and Delivery of Key IT functions such as internet and intranet and review of booking and payment systems
- ▶ Recruitment Process for Angus Alive Directors
- ▶ Recruitment of Senior Staffing
- ▶ Completion of the TUPE transfer process for 1 December
- ▶ Completion of the OSCR application process
- ▶ Completion of HMRC engagement
- ▶ Completion of Admitted Body Status for the provision of pensions for staff



The project is supported by strong governance, with the Project Team reporting to a Project Board and thereafter to the Shadow Board and the Transforming Angus programme Board, with decisions on further approval to be made by the Full Council. Effective risk management will continue through monitoring and updating the risk register. A suitable contingency plan to continue with the current service model, is available should unforeseen issues delay the implementation of the Charitable Trust.

Throughout this process regular communication with elected members, employees and service users and unions is being undertaken.

### **Next steps**

If the council agrees the Final Business Case the next steps are to agree the key documents, rebrand buildings and prepare for the going live date of 1 December 2015 ensuring from the customer perspective there is a high quality service in place. There will be extensive harmonisation and development work that will need to be undertaken by both Angus Alive Employees and Angus Council Employees. This work will, by the end of the "Golden Handcuff Period" of 3 years 4 months, show Angus Alive and Angus Council have developed full business like service specifications demonstrating quality service provision, excellent performance and value for money enabling both organisations to make informed decisions as to how services are provided in the future and by whom.

## **1. Introduction**

This final business case follows the five case model recommended by HM Treasury Green Book Guidance. The purpose of this document is to update the outline business case (OBC) prepared in December 2014 and to capture the reasoning for initiating the project and to describe the resources required to deliver the project.

### **1.1 Approach to applying the five case model**

The standard guidance requires business cases to be developed in 3 stages:

- ▶ Strategic outline case
- ▶ Outline business case
- ▶ Final business case

The ambitious timeframe set by the Council required an accelerated approach. This approach combined the strategic and outline business cases into a single document and this FBC has been developed to provide the basis of information and scrutiny to enable a decision to be made.

### **1.2 Structure of this report**

The FBC is structured as follows:

- ▶ Strategic case – To confirm the strategic fit and business needs within the context of Angus Council and the Transforming Angus initiatives.
- ▶ Economic case – To demonstrate the options that were identified, the appraisal process undertaken and to identify the preferred option.
- ▶ Commercial case – To set out the commercial implications in areas of corporate structure, governance, contractual arrangements and staffing considerations.
- ▶ Financial case – To set out affordability implications of the preferred option.
- ▶ Management case – To describe the approach to implementation of the preferred option, demonstrating the project is achievable and can be delivered successfully.

Where appropriate, further detail on specific areas is contained in the appendices.

## **2. Strategic Case**

### **2.1 Introduction**

This section updates the strategic context driving the need for Angus Council to review the model for the provision of the services outlined in the FBC. The section provides summary background information on the Council, the services within scope for ANGUS Alive and the Transforming Angus initiatives. This enables the strategic case for change to be established.

## 2.2 Angus Council

Angus is located in the north east coast of Scotland and has population of over 115,000 across a land mass of 850 square miles. The population is focused around the main towns of Arbroath, Brechin, Carnoustie, Forfar, Kirriemuir, Monifieth and Montrose, with the local populations varying between 6,000 and 24,000 (Kirriemuir and Arbroath respectively).

The following key highlights on the Angus' demographics are set out by way of context:

**Table 2: Angus Demographics**

<b>Key Area</b>	<b>Result</b>
Population age	62.6% between 16 to 64 years old 49.1% over 45 years old 20% over 65 years old
General Health	84.1% of the population consider themselves to be in good or very good health 82.2% is the Scottish average
Labour	2.2% unemployment in January 2014 Top industries: human health and social care; wholesale and retail trade; manufacturing and education

*Source: Scottish Government Census 2011 and Angus Council's Corporate Plan*

The Council services a widespread population with no 'central' population base. It is an ageing population with 20% of the population over 65 years old. General health is above the Scottish average and there is a low level of unemployment.

The Council supports the local population by providing a range of statutory and non-statutory services. This cost of service provision was £243m in the year ended March 2015. The table below shows the split of expenditure across the main service offerings.

**Table 3: Annual cost of services**

	<b>2014/15 £'000</b>
Education	109,918
Social work	67,270
Roads & Transport	23,793
Cultural & Related Services	13,256
Environmental Services	16,651
Planning & Development Services	4,634
Central Services	4,728
Housing Revenue Account	(4,226)
Housing - General Fund	615
Joint Boards	765
Corporate & Democratic Core	4,673
Non Distributed Costs	976
<b>Cost Of Services</b>	<b>243,053</b>

*Source: Angus Council – Annual Accounts for year ended 31st March 2013*

As expected, education and social work and health spend dominate the budget and combined are almost 72.9% of spend. Cultural and related services broadly represent almost 5.5% of annual spend. It should be noted that the Cultural and Related Services net expenditure of £13.256m per Table 3 above is higher than the Cultural and Leisure Services 2014/15 figure of £8.370m mentioned in Section 2.5 and throughout this FBC as the Annual Accounts figure incorporates other services such as Parks and Grounds Operations and ACCESSline which are out with the scope of this FBC.

### **2.3 Transforming Angus**

The key objectives of this transformation programme (as specified in the Council Plan 2014 to 2017) are to review, where appropriate, current service delivery models and be open to adopting different and more efficient models to deliver services with fewer resources. Through this programme (Transforming Angus) the Council is planning and managing the following key areas:- staffing and management structures, Agile Angus, Digital Angus, Procurement, Help to Live at Home, Passenger

Transport, Income Generation and ANGUS Alive to improve performance, address service priorities and reduce costs.

Alongside this focus, there is also a clear emphasis from the Council to have positive outcomes for its citizens as a result of this change.

The review of the model for the provision of the ANGUS Alive trust is a pathfinder initiative within the Programme and is consistent with the Council Plan, Transforming Angus

A set of strategic objectives have been set to structure the vision and purpose of the Trust. These objectives map out the future of the Trust and provide a framework for future performance to be measured. They are summarised as follows:-

- Manage the services, assets and employees in accordance with good charities governance, good business practice, legislative requirements and in accordance with the Articles of Association to ensure strong governance, public accountability and public benefit.
- Ensure that services contribute to the outcomes contained in the Improving Lives – Angus Alive Business Plan 2015/16.
- Deliver best value for every pound invested in the Trust; including generating investment opportunities for the development and improvement of cultural, leisure and community services.
- Promote the positive benefits of leisure, cultural and community services in terms of health and well-being, learning, community development and creativity.
- Promote participation in activities at all levels and for all sections of the community to enable residents to fulfil their potential in their chosen area of activity.
- Ensure that services meet or exceed the Trust's obligations under the Equalities Act 2010.
- Develop and nurture robust and productive partnerships with local clubs, community groups, voluntary organisations, the National Health Service, national bodies and customer groups.
- Ensure the Trust's services listen to service users and respond to their views.
- Value and develop staff and promote a culture of empowerment.
- Offer community venues from which to deliver activities and resources which support inclusion, empowerment, lifelong learning, skills development and literacy.

These objectives focus on the key stakeholders of the Trust, such as a focus on staff and service users and promote the wellbeing of the local community. The Trust also focusses strong internal charities and corporate governance and value for money themes.

## **2.4 Services proposed to be delivered by ANGUS Alive**

The proposed services are as follows:-.

### **CULTURE AND LEISURE SERVICES**

- Libraries and ACCESS
- Museums, Galleries and Archives
- Sport and Leisure
- Theatre and Venues
- Countryside Adventure

Leisure, culture, education, community engagement, health, wellbeing and the environment are recognised as fundamental cornerstones of the Trust's commitment to the people of Angus. The services represent a broad spectrum of facilities, services and programmes related to the provision of enhancing the health, fitness and personal wellbeing of the residents of Angus (and beyond). For example:-

### **LIBRARIES and ACCESS**

Libraries provide an extensive range of services across all seven former burghs with a strong focus on community engagement. Mobile libraries also serve rural residents. These libraries serve multiple functions to the local community: from the classic borrowing books; to e-reading and online references; to accommodation hire; to various clubs and activities for all ages.

The Council's vision is for Angus libraries to be attractive and vibrant community spaces where friendly and knowledgeable staff, help people of all ages to connect with reading, information, learning, culture and each other. With the integration of Council's customer services functions, these facilities will become even stronger community hubs acting as accessible and inclusive community spaces providing services that contribute to personal and community development and health and well-being through direct delivery and partnerships.

The Council's ACCESS services provide community members with general information and advice regarding services provided in the Angus Council area by the Council and other agencies, and assist with application forms for council housing, concessionary travel and the Scottish Welfare Fund, etc. in order to support community inclusion.

### **MUSEUMS GALLERIES AND ARCHIVES**

There are 7 museums and galleries currently owned and managed by Angus Council. These display objects from the Council's collections and mount temporary exhibitions and displays showcasing key aspects of the environment, history and culture of the people of Angus past and present. Activities and events focus on a wide variety of topics responding to visitor demands and changing demographics. The Museums provide an identification and enquiry service, support amateur and academic research based on the collections which hold an estimated 96,000

objects. The galleries exhibit a wide range of artwork from local to international and across all artistic disciplines.

- Signal Tower Museum Arbroath is housed within the original Regency shore station for the Bell Rock Lighthouse. Museum exhibitions explain the dramatic history of the construction and operation of the lighthouse and of Arbroath's maritime history.
- Arbroath Art Gallery is housed in the Town's Public Library, the gallery hosts a changing display of artworks and community generated exhibitions. Permanent exhibits include 2 significant works by Pieter Breughels the Younger alongside the work of local artists.
- Forfar Museum and Art Gallery is housed in the Meffan Institute it interprets the history, art and industry of the Royal Burgh of Forfar of Angus including a significant collection of Pictish sculptured stones and extensive social history displays alongside a changing monthly programme of Scottish contemporary and fine art exhibitions.
- Montrose Museum and Art Gallery, opened in 1841, is one of the first purpose built museums in Scotland. Today it explores the story of Montrose and its people, from the earliest archaeological finds to the Marquis of Montrose, the Jacobite uprisings, the harbour and maritime trade and local life up to the present day. The Art Gallery hosts changing exhibitions from the museum's collection of paintings and sculptures.
- Kirriemuir Gateway to the Glens Museum is in Kirriemuir Townhouse, which dates from 1604, tells the story of Kirriemuir and the Angus Glens, in changing displays on historical and natural history themes. There is a fantastically detailed town model and a display of the natural history of the Angus Glens. Visitors can uncover the stories of personalities from Kirriemuir as varied Peter Pan author JM Barrie, Sir Charles Lyell the eminent Geologist and AC/DC singer Bon Scott.
- Brechin Townhouse Museum tells the story of the City of Brechin and its people from the earliest times to the present day with a broad collection of objects, photographs, archival material and artworks, focusing particularly on Brechin's early ecclesiastical history and more recent industry and local community history.
- The William Lamb Studio, Montrose houses the work of the artist William Lamb, a native of Montrose, who sculpted many society figures from the 1920s onwards including the Queen Mother, and the Queen and Princess Margaret as young girls. Lamb's work was inspired by the everyday people and places around Montrose and is displayed in the Studio, designed by Lamb himself. The Studio has been preserved much as it was when the artist worked there.
- Angus Archives, is based in the Hunter Library, Restenneth and holds the archives for the seven former burghs of Angus for the past 800 years. It is open for visitors free of charge and provides care conservation, research and enquiry, genealogy and outreach services.

## **SPORT AND LEISURE**

### **Leisure Facilities**

The Trust will manage the following sports centres and swimming pools:

4 Sports Centres without swimming pools. All facilities have modern fitness suites with a full range of cardiovascular and strength equipment, large sports halls that cater for a large selection of individual and team sports, general purpose areas, meeting rooms and other associated facilities. All facilities offer a full range of activities suitable for all ages and abilities.

Sports Centres with swimming pools. These dual use facilities are located next to the towns high schools and are used to deliver the PE curriculum during term time. In addition to the dry side facilities these facilities have pools of various sizes and health suites. All facilities offer a full range of wet activities for individuals and clubs.

One Swimming Pool. This facility is located in Forfar and facilities include a 25 yard pool, health suite, small gym and a meeting room. This facility offers a full range of wet activities for clubs, groups and individuals.

High School Pools which are available to the community at weekends and school holidays. The arrangements will be detailed in an agreement between the Trust and the Council to allow the Trust to use these facilities for community use at the weekends and school holidays.

In addition two new community campus facilities are being built at Brechin and Forfar and management of the sports and swimming facilities within these buildings will be managed by the Trust once the buildings are complete.

### **Sports Development**

The Sports Development team work across the spectrum, delivering programmes that encourage people to be active and contribute to local regional and national outcomes linked to sport, physical activity and health & well-being. At both strategic and operational levels the Sports Development team is also involved with child protection in sport and promoting and developing community sports clubs and other voluntary groups. It caters for people of all ages and abilities ranging from those who enjoy recreational sport to those who compete at a high level. It also offers financial and educational support to coaches, helpers and volunteers who wish to develop their skill base and make a contribution to their local community.

## **THEATRE AND VENUES**

### **The Webster Memorial Theatre**

This is a 500 seat auditorium and is a performance venue for drama, dance, comedy, concerts and music events as well as cinema screenings, and a venue for hosting meetings.



Six community halls: These venues are available for hire for various purposes to all members of the public. The uses include performances, show, exercise classes and are used regularly by clubs, organisations and other local groups. The trust will also use these facilities to deliver various group fitness sessions and other sporting activities.

Resources from the Webster Memorial Theatre will be utilised to add value to the programmes delivered through the venues to attract increased visitor numbers.

### **COUNTRYSIDE ADVENTURE**

The Angus Council Rangers service operates from 5 bases- 3 country parks (Forfar Loch Country Park, Crombie Country Park and Monikie Country Park) plus Montrose Basin and Angus Glens. These outdoor facilities are currently managed by the Council for the use by the general public. Crombie and Monikie are both reservoirs sites and are covered under legislation with a designated Reservoir Managers under the Reservoirs (Scotland) Act 2011

The Council's outdoor education service which operates from Monikie Country Park will also be transferred to the Trust, which provides various outdoor activities services to all schools and to the general community. There will be reasonable charges for the leisure services generally; the cost varies on the type of service being offered.

In transferring the management of these services, the Trust has the opportunity to refresh the way in which services are delivered.

## **2.5 Financial position**

In the year 2014/15 Culture and Leisure services recorded a net deficit of £8.370m as summarised below.

**Table 4: Annual Culture and Leisure services Financial Position 2014/15**

	<b>Leisure £'000</b>	<b>Culture £'000</b>	<b>Access £'000</b>	<b>HQ £'000</b>	<b>Total £'000</b>
Income	4,732	133	985	71	5,921
Expenditure	(9,689)	(3,087)	(993)	(522)	(14,291)
<b>Total Surplus / (Deficit)</b>	<b>(4,957)</b>	<b>(2,954)</b>	<b>(8)</b>	<b>(451)</b>	<b>(8,370)</b>

Source: Angus Council

The combined service generated £5.9m in income and cost some £14.3m to run.

The Council, like a number of local authorities, wants to review alternative methods for providing Culture and Leisure Services to the local community. This focus is driven by the fiscal pressures the local government sector continues to face and the increased demands on resources. As such, there is a need to establish delivery models that can provide more sustainable services.

The Council faces the challenge of a reducing budget. The Council Plan sets out the aim of saving £23.6m by 2018/19 or broadly 11% of its annual revenue budget. The provision of Culture and Leisure Services is viewed as a crucial aspect of this cost saving programme and has been identified as an early pathfinder projects for its Transforming Angus Programme.

## **2.6 Strategic Case for Change**

The Council has recognised the need to review the model of service provision for Culture and Leisure Services. The briefing paper for elected members dated July 2014 notes that of the 32 Scottish local authorities, 23 provide leisure and other Council services through an alternative model and that a number of the remaining authorities were reviewing alternative methods of service delivery. There are a number of perceived advantages of alternative models, including:

- Less bureaucracy and greater speed of decision-making
- Increased access other funding streams
- Ability to react quickly to market forces
- Single focused body
- VAT and National Non-Domestic Rates ("NDR") savings
- Commercial revenue growth
- Improved financial performance
- Independence and ability to diversify
- Sustainability of service provision.

Review of the models of service provision for Culture and leisure services allows these perceived advantages to be explored across a range of options and against appraisal criteria that reflect the Council's overall aims and objectives in its Corporate Plan and through the Transforming Angus programme. This options appraisal forms the basis of the Economic Case.

## **2.7 Update Position**

During the development process the Shadow Board have visited a number of other Scottish Trusts and witnessed first-hand the strategic advantages for both the respective Council's and the Trusts. These advantages have included ability to recruit for and utilise specific skills which have added a different dimension to the commercial thinking of the trusts, new and positive relationships with Council and other public sector services and the potential to work more closely with private sector partners in the pursuance of improved outcomes. In addition exposure to experienced support services has also enabled a development of a critical analysis of the direction of travel, a testing of ideas and a pushing of the limits of what can be included. All of that has reinforced the view of the Shadow Board that direction of travel is strategically sound.

## **3. Economic Case**

### **3.1 Introduction**

The Strategic Case has demonstrated that there is an opportunity to review the model for the delivery of Culture and leisure services which could help the Council deliver it's objectives under the Transforming Angus programme.

The purpose of the Economic Case is to select a preferred option for future delivery of Culture and Leisure Services. This assessment will be informed by:

- The qualitative fit of these options compared against the Council's transformation objectives
- A cost-benefit analysis of the preferred option to demonstrating value for money.

### 3.2 Delivery models

The Council's briefing paper dated February 2014 identified an initial long list of six strategic options for appraisal. Since the briefing paper was presented, no new options have been identified or considered by the Project Team. The table below provides a summary description of each option, with a detailed description in Appendix B.

**Table 5: Delivery options**

<b>Option</b>	<b>Description</b>
<b>Status Quo</b>	Under the status quo, the existing arrangements would remain the same. The Council would continue to provide the services as part of its current remit.
<b>Outsource to a private sector operator</b>	Under this option, the services would be outsourced to a private sector operator. This would be in the form of a management contract for the services and the Council would pay a set charge per month to the operator. How these services are delivered would be set by the terms and conditions of the negotiated contract.
<b>Establish a Private Public Partnership</b>	Under this option, the services and the buildings would be outsourced to a new special purpose vehicle (SPV). The council would pay the SPV a set charge per annum which could include a level of maintenance required on the properties.
<b>Transfer to a new wholly owned charitable subsidiary</b>	Under this option, the council would set up a separate not-for-profit Charitable Trust to run the services. This would allow a focus on how these are best delivered moving forward whilst still under the Council's group structure.
<b>Outsource to an existing Charitable Trust</b>	Under this option, the assets would be transferred to another Charitable Trust, which would run the facilities on behalf of the Council.
<b>Delivery of services</b>	Under this option, the services would be delivered

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Source: Angus Council

The Project Team and Project Board established to oversee the review of delivery options for Culture and Leisure Services met on 12 November 2014 and reviewed the above long list. Following a detailed discussion it was concluded that options 5 and 6 were not appropriate for the Council at this stage and were discounted from the final evaluation shortlist.

Option 5 would only be appropriate if the Council had an existing Charitable Trust to transfer to, as it does not, the option was discounted. As for option 6, it would not be any different from the status quo scenario for the purpose of the evaluation. Thus the options were not progressed to the assessment workshop and the shortlist of the first 4 options was agreed.

### 3.3 Qualitative Evaluation Criteria

The preferred option for delivery requires to be aligned to the Council's objectives. These objectives were used as the basis to form the qualitative criteria to assess each delivery option.

The criteria were reviewed and approved by the Project Team and Project Board on the 12 November 2014 and are described in the table below.

**Table 6: Qualitative Assessment Criteria**

<b>Title</b>	<b>Objectives</b>	<b>Link to Angus' Core Principles</b>
Quality	The option will deliver the set quality standard agreed with stakeholders and has the ability to adapt and improve over time.	P1
Operational Efficiencies	The option presents a clear opportunity for driving operational efficiencies through expertise of management, economies of scale and a commercial outlook.	P3
Commerciality	The option provides enhanced long-term commercial viability for Culture and Leisure assets, based on skill sets, experience and sectorial understanding.	P1
Community	The option provides opportunities to engage with and benefit the wider community and contribute to the single outcome agreement.	P1

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Accountability and Governance	The option provides the council and community with a degree of transparency, flexibility and comfort over the ongoing delivery of the services and the council's interest in the services.	P4
Resources and Investment	The option provides for the effective utilisation of resources and investment to allow for the successful delivery of the services in sustainable manner. This included staff and managerial resources working together to realise the governing organisations goals and objectives.	P2
Reputation & Political Considerations	The option is unlikely to present materially substantial objections from the Council's stakeholders.	P6
Risk Management	The option provides opportunity to manage the relevant risks associated to service delivery.	P5

Source: EY The criteria referenced above are contained within Appendix G

### 3.4 Delivery options assessment

#### 3.4.1 Assessment criteria

Each of the four options has been assessed against the criteria described above. To capture the importance of each option to the Council, these options have been weighted and this is set out below.

**Table 7: Criteria Weighting**

Option	Weighting (%)
Quality	25
Operational Efficiencies	20
Commerciality	20
Community	10
Accountability and Governance	10
Resources and Investment	5
Reputation & Political Considerations	5
Risk Management	5
Total	100

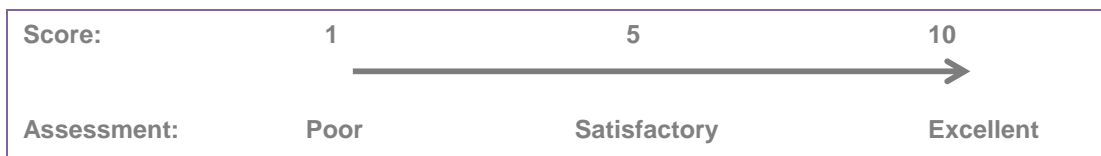
Source: EY

The weightings were agreed by the full Project Team and Project Board prior to the evaluation workshop.

### 3.4.2 Scoring Range

The options were scored against the criteria using the following scoring scale:

**Figure 1: Scoring Criteria**



Source: EY

### 3.4.3 Appraisal Method

The options appraisal was undertaken by the Project Team and the Project Board at a workshop on 19 November 2014. The attendees had representation from across the following Council services:

- Services to the communities, including leisure
- Transforming Angus
- Finance
- Human Resources
- Legal
- People Directorate
- Internal Audit
- Property

In total 12 people attended the workshop and scored each option across the set criteria. The scoring was completed in 3 groups of 4, mixed service lines, with a full group discussion on each criteria across the 4 options, with a consensus score being taken. A detailed summary of this workshop is provided in Appendix C.

### 3.4.4 Delivery options evaluation summary

The table below summarises the assessment of the four options against the qualitative criteria. It shows that the highest scoring delivery option is to establish a new charitable organisation wholly owned by the Council.

**Table 8: Qualitative Assessment Summary**

Criteria	Option 1: Status quo	Option 2: Private sector operator	Option 3: Establish a PPP	Option 4: Transfer to a charitable organisation
Quality	5.0	5.0	5.7	7.3
Operational Efficiencies	5.0	6.0	5.7	7.0
Commerciality	5.3	6.0	6.0	7.0
Community	7.0	4.7	5.3	7.0
Accountability and Governance	8.0	4.0	5.7	7.3
Resources and Investment	5.3	5.7	5.7	7.0
Reputation & Political Considerations	7.3	3.0	4.0	5.3
Risk Management	6.0	6.3	6.3	6.0
<b>Total</b>	<b>48.9</b>	<b>40.7</b>	<b>44.4</b>	<b>53.9</b>
<b>Weighted Score (out of 100)</b>	<b>57.4</b>	<b>52.7</b>	<b>56.7</b>	<b>69.7</b>
<b>Ranking</b>	<b>2</b>	<b>4</b>	<b>3</b>	<b>1</b>

Source: EY

The preferred option, the Charitable Trust, scored 69.7, being 12.3 marks higher than the next best placed option of the Status Quo.

The preferred option to transfer the model for the provision of Culture and Leisure Services to a Charitable Trust owned by the Council. The key points of the appraisal were:

The preferred option scored 69.7, being 12.3 marks higher than the next best placed option of the Status Quo.

It ranked first against criteria in four of the eight criteria, being Quality, Operational Efficiencies, Commerciality and Resources & Investment.

It was also joint highest with the Status Quo option in the criteria of Community.

The Status Quo, as the option ranked second, scores highest against two of the criteria. These were Accountability & Governance and Reputation & Political Considerations. In each of these areas the preferred option ranked second.

The summary of justification and commentary for these scores are set out in the table overleaf. For full details and analysis of the workshop, refer to Appendix C.



### 3.4.5 Options appraisal workshop commentary highlights

**Table 9: Options assessment workshop commentary**

<b>Criteria and Weighting</b>	<b>Option 1: Status quo</b>	<b>Option 2: Private sector operator</b>	<b>Option 3: Establish a PPP</b>	<b>Option 4: Transfer to a charitable organisation</b>
1. Quality (25%)	The current service was deemed to be high in quality, however, lacked the ability to adapt going forward when faced with spending pressures.	The operational quality would be defined in the contractual arrangement.  The private sector would have the ability to use different resources; however, as profit orientated, these might not benefit the end customer.	This has similarities to option 2.  The group's view was that, as a partnership, the Council would still continue to have involvement; this could improve the potential for increased quality.	The organisation would be set up with a set of measurable objectives.  This would allow the Council to have a degree of control over the quality.  The flexibility and strategic focus by the organisation could allow an improvement in quality.
2. Operational Efficiencies (20%)	The Council currently has access to some economies of scale for items such as utilities.  However the Council may not have the ability or personnel across the services to drive efficiencies.	As a private sector organisation, it would be able to implement efficiencies across the business.  Consequently, these efficiencies may not be passed over the Council.	The private sector could bring in the commercial experience to drive efficiencies.  The underlying contractual arrangement with the private sector partner	This organisation would be able to buy in the expertise requirement to implement efficiencies.  It would be able to continue to take advantage of the

<b>Criteria and Weighting</b>	<b>Option 1: Status quo</b>	<b>Option 2: Private sector operator</b>	<b>Option 3: Establish a PPP</b>	<b>Option 4: Transfer to a charitable organisation</b>
			might restrict continued improvement.	economies of scale available to the Council in areas such as support services.
3. Commerciality (20%)	<p>Currently the status quo is perceived as providing a commercially focussed service.</p> <p>Due to the size of the Council and competing priorities, it is unable to react to all opportunities.</p> <p>Ability to provide an enhanced service over time may be challenging.</p>	The private sector would not have the full sector knowledge required, however, it would be able to provide the commercial acumen and react quickly.	<p>The additional acumen would be limited to what the private sector is prepared to bring.</p> <p>The Council would be able to provide a level of additional local sector knowledge to the team.</p>	<p>The existing staff and expertise would build a strong foundation to the organisation.</p> <p>Able to supplement the team with the required expertise.</p>
4. Community (10%)	Good opportunity to engage with the local community, but effectiveness varying across services.	Engagement with the community would be limited to the contractual inputs which may be difficult to enforce during the contract.	As there is representation on the board, there is slightly more potential for engagement to be delivered. Although elements will still be contractual.	The outcomes were deemed to be similar to the current situation; however, there would an increased focus due to the specific remit of the organisation.

<b>Criteria and Weighting</b>	<b>Option 1: Status quo</b>	<b>Option 2: Private sector operator</b>	<b>Option 3: Establish a PPP</b>	<b>Option 4: Transfer to a charitable organisation</b>
5. Accountability and Governance (10%)	<p>The status quo allows for full transparency and accountability.</p> <p>Potential for issues in the future due to budget restraints.</p>	<p>The level of interaction would rely on the contract which may be limiting.</p>	<p>As there is public sector involvement, there would be improved aspects than option 2, however, still contractual based.</p>	<p>As it would be within the Council's group structure, there would be more visibility than the private sector options.</p>
6. Resources and Investment (5%)	<p>There is an ability to move resources around and access capital. However, this may reduce as budget pressures increase going forward.</p>	<p>As part of a larger organisation, there is more ability to react and be flexible around resources.</p>	<p>Similar to option 2, however with the slight reduced private presence being offset with the increased Council input.</p>	<p>There are efficiencies of using the structure which provide opportunities for reinvestment.</p> <p>Downside is the Council will still need to fund the service deficit.</p>
7. Reputation & Political Considerations (5%)	<p>There would be limited impact to the general public.</p> <p>Consequently no change might result in internal issues with staff as they expect change.</p>	<p>There is a negative perception of privatisation of services; therefore, this presents higher risk.</p>	<p>As there are PPP projects already in the area, this might have a better reception as a known quantity.</p>	<p>A potential pressure from stakeholders as legal structure is not fully understood.</p> <p>More accepted position than the private contractors.</p>

<b>Criteria and Weighting</b>	<b>Option 1: Status quo</b>	<b>Option 2: Private sector operator</b>	<b>Option 3: Establish a PPP</b>	<b>Option 4: Transfer to a charitable organisation</b>
8. Risk Management (5%)	The public sector has control over the risks.  Conversely, the risks would not be transferred to reduce the Council's exposure.	The private sector has the ability and depth to deal with the risks.  However the Council loses control on how these risks are dealt with.	Same as option 2.	Same as option 1, the risk still ultimately rests with the public sector.

*Source: Options Appraisal Workshop 19 November 2014*

### **3.5 Cost Benefit Analysis**

The outcome of the qualitative assessment of the options has highlighted a transfer to a new charitable organisation as the preferred option. In this section we have conducted a cost benefit analysis ("CBA") against the status quo to consider the value for money of implementing the new delivery model. Costs and revenues are analysed further in the Financial Case.

#### **3.5.1 Costs**

The creation of the new Charitable Trust would result in additional running costs which will need to be taken into consideration when analysing against the base case. These costs have been estimated at £0.272m per annum. In addition there will be one off costs associated with the setting up of the new organisation. These have been estimated at between £0.563m. The cost ranges are based on EY's experience of other Leisure Trusts. For the purpose of the CBA we adopt the upper end of both cost ranges.

#### **3.5.2 Benefits**

The CBA considers three main areas of financial benefits – NDR, VAT and management structure changes.

##### **3.5.2.1 NDR**

The NDR savings assume that the Charitable Trust will be a registered charity and that the application to OSCR for charitable status will be approved. The detailed NDR savings are set out the financial case.

#### **3.5.3 VAT**

It is expected that the Charitable Trust will have a charitable status and consequently certain income it generates will be exempt for VAT purposes under the VAT Sporting Services and Culture Services exemptions, and this can provide VAT savings in Charitable Trust. The financial case details the approach to calculation of VAT savings.

##### **VAT implications on status quo option**

We are aware that a number of local authorities have approached HMRC with arguments that a similar VAT treatment to that given to a Charitable Trust structure should also be available to the current in-house model of service provision. Should these arguments be successful it would allow local authorities to adopt the same VAT treatment as a Charitable Trust structure. However, there could also be potentially significant partial exemption implications that would need to be managed especially around capital expenditure. It also noted that the arguments do not extend to the NDR position which would remain a cost to the current status quo delivery option and a benefit to the Charitable Trust structure.

HMRC do not accept the arguments put forward by the local authorities. The arguments are currently subject to ongoing litigation at a First Tier Tribunal. The lead case on the exemption argument is due to be heard around May 2015. It is possible

that HMRC would appeal any successful decision on the part of the local authorities and the litigation would be ongoing for a number of years.

There is, therefore, no certainty over whether the local authorities' arguments will succeed and HMRC is likely to appeal the decision if it was successful. To place reliance on a successful litigation process to achieve a VAT benefit is a higher risk option than the Trust structure. Based on these risks and uncertainties we do not believe it would be prudent to allocate the VAT benefit to the in house provision structure as it is by no means achievable at this stage.

### 3.5.4 Operational Efficiency Savings

As part of moving to a Charitable Trust model, there is the potential to realise a level of operational savings driven from either an increase in revenues and /or a reduction in costs. This is based on the track record of other similar Charitable Trusts. However, these savings are not guaranteed and at this stage of the business case process, have not yet been developed. For the purpose of this CBA, to ensure a prudent result, no efficiency savings have been factored into the analysis.

### 3.5.5 Additional local and national economic benefits

The final aspect to be considered in a CBA is the local and national benefits arising from the change in the service delivery such as additional jobs and Gross Value Added ("GVA") to the economy. This business case is based on the continued delivery of a set of services and accordingly we consider there to be no additionally between the options, in both terms of direct and indirect GVA to the economy. No adjustment is therefore made in respect of additional economic benefits.

### 3.5.6 Analysis of Costs and Benefits

The following table summarises the CBA calculation associated with the transfer to a charitable organisation compared to the status quo with Brechin and Forfar new community campus facilities excluded (to reflect the new campus facilities as described in the financial case). The analysis has been undertaken over 25 years due to the long term nature of the assets under review, applying the HM Treasury Green Book discount rate of 3.5% real.

**Table 10: Cost Benefit Analysis: 25 years**

	<b>Nominal Operational Annual Charge (£'000s)</b>	<b>Nominal Total (£'000s)</b>	<b>NPV (£'000s)</b>
Cost	272	7,363	5,027
Benefit	897	22,425	14,784
<b>Net Benefit</b>	<b>625</b>	<b>15,062</b>	<b>9,757</b>

Source: EY Analysis

The results of the CBA show that setting up the Charitable Trust shows clear net benefit of £9.8m in NPV terms over 25 years in comparison to the current position and £15.1m in nominal terms. A levelised annual benefit in nominal terms is estimated at £0.625m per annum reflecting the net gain from the NDR and VAT savings and additional costs of the Charitable Trust delivery structure. The CBA results are indicative and will be subject to a detailed business planning process should the Council proceed with implementing the Charitable Trust model.

In the above analysis, no optimism bias has been included. This is deemed appropriate due to the following reasons:

- **Costs:** The figures being used for the costs have been calculated based on benchmarking to the current market against similar sized Charitable Trusts in Scotland.
- **Benefits:** The only benefits which have been included in our analysis relate to tax and NDR efficiencies, these have been calculated based on the current tax laws and therefore deemed to be factual and no bias adjustment is required.

Sensitivity analysis has been carried out on the length of time included in the NPV calculation and the probability of realising the full tax efficiencies. There is no adjustment to cost in this analysis. These have been selected as possible scenarios if the tax rules are changed, therefore a short term NPV analysis should be reviewed to ensure still has a positive net benefit. These have been summarised on the table below:

**Table 11: Sensitivity Analysis**

<b>Sensitivity of NDR and VAT savings</b>	<b>5 year NPV (£'000s)</b>	<b>10 year NPV (£'000s)</b>	<b>25 year NPV (£'000s)</b>
100% Probability	2,278	4,654	9,757
80% Probability	1,468	3,162	6,800
60% Probability	658	1,670	3,843

*Source: EY Analysis*

The results show that there is a projected positive net benefit in all the scenarios within a range £0.7m and £9.8m. It should be noted that in terms of additional operating and set-up costs, then the upper level of the benchmark has been used. Also no efficiency savings are assumed for the purpose of the CBA.

The CBA supports the qualitative assessment preferred option of the charitable organisation by providing a tangible net benefit in financial terms.

### **3.6 The Preferred Option**

The options appraisal concluded that the charitable organisation is the preferred option which will take the form of a Culture and Leisure Trust. This was the result of qualitative assessment agreed with representatives of Project Board and Project Team. This qualitative result is supported by the CBA which yields a net financial benefit compared to the status quo. The key differentiates from the other options are noted as:

- The organisation having objectives which can be aligned to the Council
- The organisation has a stronger ability to adapt to services requirements and customer feedback through the focus of the organisation
- The Council maintains an element of visibility and governance over the organisation
- The organisation has the ability to attract the correct skill sets to improve services going forward and potentially other sources of funding
- There is a strong net benefit from the setup of the Charitable Trust, which could be reinvested into the services and/or off-setting the management charge paid by the Council.

It should be noted that the preferred option was selected based on the quantifiable financial benefits, in other words, the NDR and VAT savings. It has not taken into account potential operation efficiencies or the potential for increased commercial return.

### **3.7 Culture and Leisure Trust (“Charitable Trust”)**

A Charitable Trust is a not-for-profit organisation which can be set up by a local authority to manage a range of Culture and leisure facilities. A Charitable Trust of this type is run as a separate charitable company from the local authority with a governance board made up of elected members, independent people, employees, community representatives and sometimes, commercial partners.

In Scotland, a significant number of local authorities have developed Charitable Trusts for the management of their leisure and/or Culture services with the size, scale and detailed operation varying depending on each council's circumstances.

The majority of Culture and leisure facilities require subsidy to a greater or lesser degree, so it is normal for local authorities to fund the operating deficit by way of a management charge which represents the cost of the Charitable Trust providing services on behalf of the Council.

Contrary to public opinion, Charitable Trust status is not a form of privatisation. The Council retains control and ownership of the assets and, being the main funder, has continuing major influence over policy.

From an operational perspective, the Charitable Trust would deliver the services through the existing staff base that would transfer from the Council to the trust under



transfer on the basis of TUPE from the Council to the Charitable Trust. The structural changes associated with the development of a Charitable Trust have a number of potential advantages to the Council.

### **3.8 Summary**

The Economic Case has selected a preferred delivery option for the services associated with the Culture and Leisure assets. It proposes that a Charitable Trust is established. The key drivers for changing the current delivery model to that of a Charitable Trust include:

The ability to hire new skills and focus on the commerciality of the services available, allowing them to adapt and quality to improve going forward

The Council still maintains an element of oversight and the objectives are aligned to its objectives

The potential ability to use savings for reinvestment into the services and assets

The ability to generate new income streams or commercialise existing income streams to maximise income and offset against required savings

When compared against the status quo, the Charitable Trust demonstrates value for money:

The net benefit across a 25 year period was indicatively estimated at £9.8m in NPV terms

This financial benefit is the result of VAT and NDR savings against the additional costs of running the Charitable Trust. These savings are unlocked with the selection of the Charitable Trust as the preferred delivery option.

The remainder of this paper updates Angus Council Members establishment of Angus Alive utilising 2014/2015 final accounts. The following sections of the report are the financial, commercial and management cases.

### **3.9 Update Position**

The development of Angus Alive has proceeded as envisaged within this section. Detailed work on the VAT/NDR position is underway taking further advice from EY regarding the position of the shared campuses and with HMRC. The decision has been taken to utilise the audited 2014/2015 accounts which have been recently published.

## **4. Commercial Case**

### **4.1 Introduction**

The various options have been considered and it has been determined that a Company Limited by Guarantee with a Trading Subsidiary is the preferred option for the vehicle to provide the services to the council. The options and advantages and disadvantages are set out in section 4.2 below. A number of different considerations regarding the future commercial and operating structure of the Charitable Trust have been considered and developed. The purpose of this section is to develop analysis regarding important commercial and operating considerations for the Charitable Trust.

The assessment will be informed by:

- A discussion regarding the Charitable Trust structure, governance and commercial arrangements
- A description of the issues related to the provision for support services and repairs and maintenance arrangements
- Regulatory and staffing arrangements

### **4.2 Charitable Trust Structure**

#### **4.2.1 Options**

The key issues to consider on formation of the Charitable Trust are:

- The type of charitable organisation to set up
- The type of corporate structure to choose
- Registration and ongoing regulation formalities of the charity.

There are a number of different options typically considered for Charitable Trusts. These are examined below.

#### **4.2.2 Option 1: Company limited by guarantee**

A company limited by guarantee is the most common structure usually employed when creating a new charity. The key features of this structure include:

- It is incorporated under the Companies Act 2006 without issuing shares but instead the member guarantees a sum of money in the event of insolvency
- It gives the company, and its members, limited liability in respect of the debts and obligations of the company
- The directors have duties and responsibilities under the Companies Acts and additional duties as trustees once the company is a registered charity

- It is regulated by both the Companies Act and the Office of Scottish Charity Regulator (“OSCR”).

After incorporation, an application to OSCR will be made to obtain charitable status. Once the Charitable Trust is formed it would enter into a number of agreements with the Council including the Licences, the Service Agreement and the Support Services Agreement. The directors will have to comply with both the requirements of the Companies Act and OSCR.

#### **4.2.3 Advantages of a Company limited by guarantee**

The benefits of this structure are considered to be:

- Protection and familiarity of the Companies Act.
- Supported by clear and established legal precedents over the rights and obligations placed over the member of the board.

#### **4.2.4 Disadvantages of a Company limited by guarantee**

However, there are disadvantages of this structure, such as:

- Separate registration is required under Companies Act and under OSCR requirements.
- Reporting requirements apply under both regulatory regimes.
- Board members act as directors under Companies Act and as trustees under OSCR regulations.

#### **4.2.5 Option 2: Scottish Charity Incorporated Organisation (“SCIO”)**

A SCIO is a new legal form of charity available in Scotland which was introduced in April 2011. As with a company limited by guarantee, the SCIO is a corporate body and so can hold property and enter into contracts in its own name. The members of the SCIO also have the benefit of limited liability.

The purpose of the SCIO was to create a corporate model that is specifically tailored to the requirements of the charity sector and allows charities access to the benefit of limited liability whilst simplifying the regulatory framework. The key features of this structure include:

- OSCR is responsible for granting both charitable status and a corporate identity at the same time
- SCIOs are governed solely by Scottish Charity legislation and not governed by the Companies Acts.

#### **4.2.6 Advantages of a SCIO**

The benefits of a SCIO when compared with a company limited by guarantee are considered to be:

- A simpler registration process in relation to charitable status and incorporation, as OSCR grants charitable status and a corporate identity simultaneously
- A simpler regulatory regime, as the reporting requirements are those that apply to Scottish charities and avoids reporting to both Companies House and OSCR
- The legal framework governing SCIOs is simpler in comparison
- The duties of charity trustees have been simplified, so the trustees are only subject to the requirements of Scottish charities legislation.

#### **4.2.7 Disadvantages of a SCIO**

However, there are disadvantages of a SCIO structure, such as:

- A key downside of the SCIO is that it is not incorporated under the Companies Act and therefore is not afforded the same legislative protection. Similarly, the SCIO is a new structure and the processes required for certain circumstances may not have precedent to rely upon.
- A SCIO must have at least two members, which differs from the company structure, which only requires a sole member. In practice, this means the Council will need to set up a nominee company to constitute the second member. The SCIO's constitution can be drafted so that the Council has the sole power to appoint the board. Additional administration would be required to set up a nominee company but, thereafter, the ongoing administration should be minimal as the nominee company would not be active.
- The application to register a SCIO must be made by at least two individuals and not corporate bodies. The Council, and the nominee company, would be admitted as members at a later point. This can be accommodated by having provisions in the Charitable Trust constitution, stating that as soon as the Council and the nominee company are admitted as members, the two initial individual members cease to be members.
- SCIOs can be removed from the Scottish charity register by OSCR, which would automatically prompt the entity to cease as a corporate body. Conversely, if a company limited by guarantee is removed from the Scottish charity register there would be no effect on it continuing as a legal entity. Practically, it would be highly unlikely that OSCR would proceed with the dissolution of a SCIO without first carrying out detailed enquiries and without having compelling reason for taking such action.
- A SCIO is unable to grant a floating charge security over its assets. SCIOs are, however, able to grant fixed charges securities over assets, such as land or buildings, similar to a company. Typically, this is not a problem as all the Charitable Trust's major assets would be owned by the council and leased to the Charitable Trust.

#### **4.2.8 Option 3: Industrial and Provident Society (“IPS”)**

An IPS is similar to a company but is governed by different legislation and is incorporated through the Financial Conduct Authority (“FCA”) rather than under the Companies Act. IPSs can be used for charitable purposes provided they can demonstrate they are for “community benefit”. The key features of an IPS structure include:

- They are registered under the Industrial & Provident Societies Act 1965
- They are corporate bodies with limited liability
- They qualify for registration if they are conducting a business or trade established for the benefit of the community.

The IPS legislative framework and registration system do, however, lag behind company law. From a structural perspective, it offers no advantages over a company limited by guarantee or SCIO structure and, as such, is rarely used by local authorities developing a Charitable Trust.

#### **4.2.9 Charitable Trading Subsidiary**

Irrespective of which option is chosen, it is anticipated that the Charitable Trust will require a Charitable Trading Subsidiary to undertake all non-primary purpose activities. These include all activities that do not fall squarely within the charitable objectives of the organisation (e.g. bar, café and rental of business spaces).

#### **4.2.10 Recommendation**

Local Authorities would commonly adopt a Company Limited by Guarantee status as well as the Charitable Trading Subsidiary. The structure offers the protection and familiarity of the Companies Act, supported by clear and established legal precedents over the rights and obligations placed on the members of the Board.

An organisational structure that adopts this approach is defined in the following diagram. This is the model that is proposed in terms of this business case.

*Source: EY*

### **4.3 Charitable Trust Board and Governance**

The charitable trust will be established as a company limited by guarantee, wholly owned by Angus Council. At present the company has been registered as Angus CLT Limited but the intention is that the name will be changed to Angus Alive or Angus Alive will be used as the trading name of the trust.

The articles of association of the company set out clearly the objects of the trust, as follows:-

The Trust will promote, advance and contribute to the personal development, wellbeing and health of the residents of Angus (and beyond) including, but not limited to, educational, cultural, sporting, environmental and heritage based community activities.

In delivering its services, the Trust will seek to:-

- support people to be more creative and nurture potential for personal success and wellbeing through the provision of cultural facilities including libraries, museums, theatres and resources;
- help individuals and community groups to benefit from social engagement, community interaction and volunteering;
- promote and make available lifelong learning opportunities, including the promotion of literacy and digital inclusion and outdoor education, and stemming from these opportunities make a social and economic contribution to society and contributing to Curriculum for Excellence;
- involve local people in caring for the areas' environment and heritage, and in doing so encouraging others to visit the area;
- manage community land, country parks and associated assets in a sustainable manner, the aim of which is to advance the education of the wider community (including those attending local schools, universities, local clubs and organisations) about the natural history, environment and cultural heritage of Angus; continue to promote water sports, high ropes and other woodland countryside adventure activities in promoting and advancing healthier lifestyles; and
- encourage the population of the Angus area to be more active by promoting and supporting the development of sport, health and fitness and outdoor and countryside activity opportunities that are accessible and affordable for everyone.

### **Management, Staff and Governance**

All staff wholly or mainly assigned to the roles transferring to the Trust will move to the Trust from Angus Council. Staff will transfer with their existing terms and conditions of employment under the Transfer of Undertakings (Protection of Employment) Regulations 1981 (TUPE). The Trust will also apply to be admitted to Tayside Pension Fund. All other local authorities who have set up a Trust have been successfully admitted previously.

A Chief Executive Officer will be appointed by the Trust and tasked with guiding the Trust through its early years, ensuring that the transferred services are maximised for the benefit of the general public in the Angus area – opening these services up to those not only geographically situated in Angus, but also to those visiting.

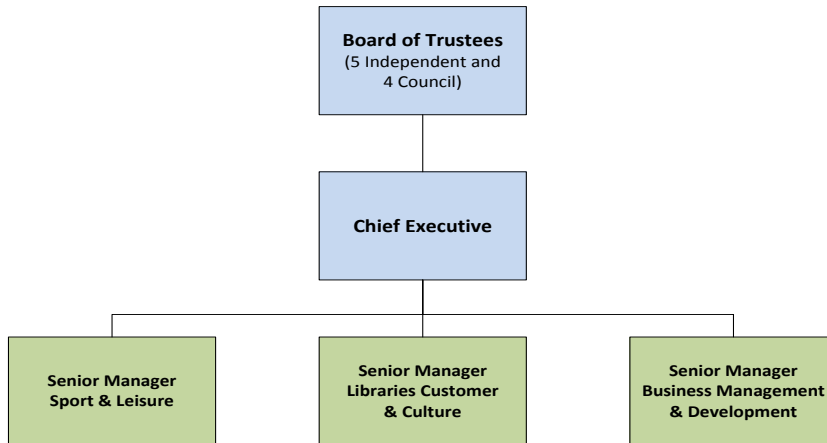
The proposed Board structure for the Trust comprising of nine individuals: four elected members nominated from the Council and five independent members. Council members are therefore in the minority on the Trust Board. There is provision for trade union representation and 2 council officers as observers. A detailed discussion of these points is contained within Appendix E. However, the following narrative highlights the commonly adopted principles.

The recruitment of the board has been designed to ensure an optimal mix of skills and experience and the directors have all been appointed and are acting as a "shadow" board until the commencement of operations. The mix of skills and experience of the independent directors is set out in appendix D and is contained in their pen portraits below.

- Robert Carroll: business executive Robert Carroll brings a wealth of strategic and operational experience to our board. A time served engineer Robert now works in the international oil and gas and manufacturing sectors. His extensive experience in quality management and system improvement will ensure Angus Alive keeps its focus on continuous improvement.
- Hannah Whaley in her role as assistant director in the University of Dundee's Library and Learning Centre, Hannah Whaley has responsibility for research and systems. A qualified software engineer, Hannah is known in the field of e-learning. She specialises in system design, service development and innovation within Higher Education teaching and research.
- Kenneth Fraser: Kenneth recently retired from the Scottish Fire and Rescue Service, following a career spanning almost 30 years. Having risen through the ranks Kenneth served most recently as business manager and strategic planning advisor to the Chief Officer and Scottish Fire and Rescue Board. He has worked extensively at the national level but has in depth knowledge and understanding of Angus from his time in Tayside.
- Ken McKay: Ken comes to Angus Alive following a successful career in education, specialising in the development and improvement of PE and sport in schools. A former Commonwealth Games athlete, Ken's sporting career in track and field has given him exceptional team building and team work skills as well as lengthy experience in sports administration.
- Donald Archibald: former Detective Chief Superintendent Donald Archibald has a strong background in strategic management. His performance management and scrutiny skills were honed during a highly successful career with Tayside Police. Donald's considerable experience of promoting and delivering positive outcomes for vulnerable adults and children will be an asset to Angus Alive

The Chair of the Shadow Board is one of the Council elected members and to ensure continuity during the transfer of arrangements from the Council to the Trust it is recommended that this elected member becomes the chair of the full board. In terms of the articles of the Trust, the Trustees can determine the Chair and is expressed in the articles of association that the Trustees should select an independent trustee to be chair in due course.

The Trust board and senior management structure is proposed as follows:



Following the appointment of Independent Trustees the recruitment of the Senior Management Team took place with the Chief Executive appointment on 15 October and the 3 Senior Managers transferring to their new roles following interviews on 19 October.

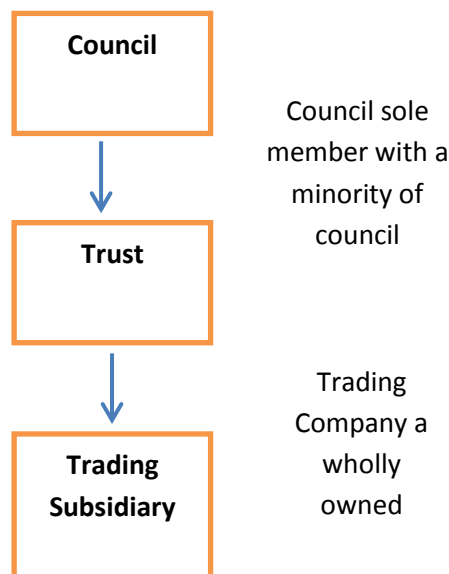
A formal strategic risk assessment and risk mitigation strategy will be undertaken by the Board and the Chief Executive. In addition, a formal risk assessment will be conducted as part of the detailed financial and operational plan undertaken by the board and the new Chief Executive.

It is proposed that the Council will continue to provide core back office support to the Trust on its establishment. These services will include Accountancy, HR, Legal Services and a range of other functions.

The Trust will be run as a wholly separate entity from the Council with its own governance and board structure. The Council will retain ownership of the assets that transfer to the Trust. The management of the services will transfer from the Council to the Trust. The diagram below represents the structure of the Trust and highlights the wholly owned status in addition to the trading company.

### Angus Alive (the "Trust")

#### Charity Legal Structure





The Trust will establish a trading subsidiary, at this stage referred to as “Angus CLT Trading Limited” (“the Trading Company”). The Trading Company will undertake all non-primary activities that sit outside the charitable objectives, for example the commercial activities associated with operating any cafés and the rental of business space with profits gift-aided from the Trading Company to the Trust.

An application has been made to OSCR seeking charitable status for Angus Alive to operate as a charity within the terms of the Charity and Trustee Investment Act 2005 and OSCR has confirmed that the proposal meets the requirements for obtaining charitable status.

#### **4.4 Council and Charitable Trust Commercial Arrangements**

The relationship between the Council and the Charitable Trust will have its basis through a number of contractual documents:

The contracts between the Trust and the Council are being developed to set out a range of roles and responsibilities of the parties. A summary of the key components of these contracts are as follows:

- Transfer of control over the facilities and equipment from the Council to the Trust;
- Requiring the Trust to provide the culture and leisure services in exchange for service payments;
- Protection for Council employees transferring to the trust in relation to their employment terms and conditions and pensions;
- Reporting and governance mechanisms ensuring proper public funding accountability while supporting and encouraging the Trust's purposes as a charity and the flexibility in delivery and development it can bring; and
- Reflects good practice as set out in, for example, OSCR's January 2015 ALEO Report.

The structure of the contractual arrangement is as follows:-

- The Transfer Agreement sets out the details for the transfer of the business from the Council to the trust and includes the provisions for the staff transfer, licencing of premises and assets. The trust will employ all of the council's staff who currently work within the services in the scope of this project and will transfer by operation of the Transfer of Undertakings Regulations. The trust will be granted a licence to occupy all of the buildings it needs to provide the services as set out in Appendix A. The Council will retain responsibility for maintenance of the buildings. The trust will also be granted a licence to use all of the council assets to provide the services, for example sports equipment and library books.
- The Services Agreement sets out the services which the trust will require to provide as detailed in the Strategic Case. This sets out how the contract is governed including the trust providing business plans to the council in terms of the budget processes and mechanisms for monitoring the performance of the Trust

- The Support Services Agreement provides that the Charitable Trust will be provided with a range of support and administration services from the Council no cost, These services will be provided by the Council for an initial period of 40 months at zero cost and on a rolling 12 month basis thereafter. The core services to be provided by the Council are detailed below.

The contracts will set out the details for the calculation of the of the management fee. The Financial Case demonstrates that the operations being transferred to the Charitable Trust operate at a deficit which would require external funding for the Charitable Trust to be financially viable. Consequently, the Council will pay for the services of the Charitable Trust in the form of a management charge. This will initially be set at a rate reflecting the operational deficit transferring to the Charitable Trust but would be expected to reduce over time as the Charitable Trust improves the service offering, drives revenue and achieves operational efficiencies.

Despite the contractual basis of the relationship between Council and Charitable Trust, it is important that the Charitable Trust is supported by the Council, particularly in the early years and so the Charitable Trust must be set up in such a way that the advantages of its arms-length structure and charitable status are maximised.

#### **4.4.1 Support Services**

The provision of support services to the Charitable Trust is another important consideration. These services provided by the Council will encapsulate the following:- Human Resources, Finance, Organisational Development, Information Technology, Legal Services, Insurance, internal audit, procurement, communications, grounds maintenance, property services and business support.

Currently the Culture and Leisure services incur central support costs of approximately £1.4m.

#### **4.4.2 Maintenance Options**

One of the key aspects of a Charitable Trust is that the Council retains ownership of the assets. Therefore it is in the interest of the Council to maintain these assets. There are two possible maintenance options for the properties based on whether the maintenance is supplied by the Council to the Charitable Trust or procured directly by the Charitable Trust:

- Option 1 Council delivery. All necessary capital and maintenance works are delivered through the Council for no charge to the Charitable Trust. This approach allows the Council to reclaim the VAT incurred on the related expenditure where it relates to the Council's non-business activities. In this scenario, where the Council does not charge the Charitable Trust for these works there is no direct effect on the management fee.
- Option 2 Charitable Trust delivery. If the Charitable Trust is given responsibility for all necessary capital and maintenance works this would mean that the Charitable Trust would incur expenditure and accordingly would require the payment of a higher management fee from the Council to the Charitable

Trust to balance the income and (higher) expenditure. The Charitable Trust will not be in a position to reclaim all the VAT incurred on the spend.

The advantages and disadvantages of the two different maintenance options are shown in the following table:

**Table 12 - Advantages and disadvantages of maintenance options**

<b>Option</b>	<b>Advantages</b>	<b>Disadvantages</b>
Maintenance responsibility is retained within the Council	The Council can reclaim the VAT on capital expenditure	Charitable Trust does not have control of its own maintenance regime and cannot act independently
Maintenance responsibility is transferred to the Charitable Trust	Charitable Trust has control of its own maintenance regime and can operate independently of the Council	The Charitable Trust is liable for the VAT and cannot reclaim the VAT in full.

Source: EY analysis

The implications of Option 2 are that the Charitable Trust will suffer a partial VAT cost on any capital works or repairs and maintenance obligations. Where the Charitable Trust has a VAT recovery position of 50% recovery this will result in a 10% VAT cost.

The Charitable Trust may be able to procure external contractors at a more competitive rate reducing the price differential, subject to compliance with procurement rules and so allowing the Charitable Trust to have control of its maintenance regime may be achievable without a material financial impact on the Council.

The proposal is that the Council will maintain all assets in terms of option 1.

#### **4.4.3 KPIs**

The Charitable Trust should measure, monitor and analyse performance in order to ensure best practice and the highest levels of delivery. The use of KPIs is critical to this process as they are:

- A powerful tool which ensures an improving standard of delivery across
- A means of actively measuring customer and employee satisfaction
- Enables the Council to measure and appraise the Charitable Trust based on performance

The KPIs are used to ensure the progress of the Charitable Trust by actively managing and communicating with customers, staff, management and the Charitable Trust Board. It will form part of the formal management reporting including:

- Monthly over-view by Charitable Trust Board
- Periodic Council meetings
- An annual report for the Council

The monitoring of KPIs should be linked to a Continuous Improvement Plan and reflected in the Charitable Trust business plan, setting out commitments to continuous improvement and targets that offer positive benefits. It should be reviewed annually in line with the Charitable Trust Business Plan.

Where performance is below target, or can be improved, the Charitable Trust should be required to develop action plans to be implemented and monitored to improve identified areas of weakness/improvement.

During the preparation of the Business Plan the Charitable Trust and the Council would agree a suitable set of KPI's with which to measure performance.

## **4.5 Staffing Considerations**

### **4.5.1 TUPE**

With the creation of the Charitable Trust, there are Transfer of Undertaking (Protection of Employment) ("TUPE") implications for the Council. All staff wholly or mainly assigned to the "transferable role" will move to the Charitable Trust. Staff will transfer with their existing terms and conditions of employment under TUPE. This includes:

- Current salary
- Hours of work
- Sick Pay
- Continuous service
- Annual leave and public holiday entitlement
- Working hours as per employment contract
- Pension rights

The shadow board agreed the top tier of Chief Executive and 3 Senior Managers and then requested that a Full employee Structure be developed below the Senior Management Team. The full board carried out the recruitment for these 4 top posts and were kept briefed with regard to the population of the structure below the Senior Management tier.

This employee structure was presented to those employees affected by the structure changes and provided to the Trade Unions as part of the formal consultation.

At the conclusion of the formal consultation period further meetings were held with employees where their options in the new structure were identified and the process of recruitment was clarified. This process is now underway.

#### **4.5.2 Pensions**

The Charitable Trust has applied to be given admitted body status within the Tayside Pension Fund ("TPF"). This will enable Charitable Trust employees to continue to participate in the Local Government Pension Scheme with no changes to pension provision and full service protection.

By entering TPF as an admitted body the Charitable Trust would be committing to all terms that need to be met by the employer. Dundee City Council has confirmed that a report will be placed before the Pensions Committee prior to 1 December 2015 seeking authority to transfer the existing pensions rights of the employees when they are transferred to Angus Alive.

#### **4.6 Update Position**

Since the approval of the OBC significant work has been undertaken in relation to the Commercial Case. Angus Council has made the decision to create a Company Limited by Guarantee and also to establish a Charitable Trading Subsidiary. ANGUS Alive is the Company name and a brand has been developed and agreed.

The Shadow Board has overseen the core work and ensured the Council's original intentions have been adhered to.

As highlighted, given the path chosen existing services will continue uninterrupted and there will be no disruption to services but development and refinement is scheduled. This work will include the capture of the relevant Statutory Performance Indicators and Key Performance Indicators. A critical advantage of the early establishment and recruitment of the Angus Alive Board is that this work can be done in conjunction with the full board whereas other organisations that learning has been taken form spent a considerable amount of their early period refining these rather than focussing on strategic issues, Angus Alive will have that balance built in from its inception.

In terms of staffing considerations, there is a commitment to protecting front line staff through retention of posts, TUPE and securing admitted body status for pensions. All of these are in hand but normal budget reductions are taking place as envisaged and approved through the Angus Council budget process.

This section has set out the commercial case of applying a Charitable Trust structure as the model to deliver Culture and Leisure Services.

The structural options for the Charitable Trust were set out and the recommendation is that a Company Limited by Guarantee be used. This company would have a Board of directors comprising elected members and independent members, with an independent member taking the Chair. The main commercial arrangements between the Council and the Charitable Trust would cover areas such as a licence

arrangement (ensuring the ownership of assets remains with the Council), support service agreement and service agreement.

The appropriate management of staffing issues are critical to the successful establishment and operation of the Charitable Trust.

The management case, considers how these issues should be taken forward as part of the wider project management and planning approach.

## **5 Financial Case**

### **5.1 Introduction**

For the purposes of the Final Business Case, the financial case has been prepared in line with the following underlying assumptions:

- The financial position for Angus Alive is based on the 2014/15 actual position. This has been updated from the Outline Business Case, which was based on the 2013/14 actual position.
- The 2014/15 base position reflects the most recent list of assets transferring from the Council and predefined 2015/16 budgetary savings.
- Removed the impact of central support costs currently incurred by the Culture and Leisure Services. It has been agreed that these services will be provided by the Council to Angus Alive for nil consideration.
- Updated transitional and recurring costs have been included in the analysis
- The VAT and NDR savings have been updated to the 2014/15 actuals to align with the base position.

### **5.2 Financial Position for 2014/15**

To understand the potential financial advantages of the Council creating Angus Alive, a baseline financial position has been established. This is based on the 2014/15 financial information (derived from the 2014/15 management accounts).

This position, previously based on the 2013/14 expenditure for only the Leisure and Culture assets, now includes the relevant ACCESS offices transferring to Angus Alive, as well as the income and expenditure associated with the Service to Communities headquarters function. The 2014/15 financial position is set out below.

**Table 13 - Financial Position for 2014/15**

	<b>Leisure</b>	<b>Culture</b>	<b>Access</b>	<b>Services to Communities HQ</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Income</b>	<b>(4,732)</b>	<b>(133)</b>	<b>(985)</b>	<b>(71)</b>	<b>(5,921)</b>
Staff Costs	5,052	1,851	617	305	7,825
Property Costs	2,205	479	273	38	2,995
Transport Costs	77	119	3	10	209
Supplies & Services	835	325	52	158	1,370
Third Party Payments	112	34	-	-	146
Central Support Costs	-	-	-	-	-
Capital Financing Costs	1,408	279	48	11	1,746
<b>Total Expenditure</b>	<b>9,689</b>	<b>3,087</b>	<b>993</b>	<b>522</b>	<b>14,291</b>
<b>Deficit</b>	<b>4,957</b>	<b>2,954</b>	<b>8</b>	<b>451</b>	<b>8,370</b>

*Source: Angus Council Management Accounts and EY Assumptions*

The analysis highlights that the combined assets have income of £5.921m and costs of £14.291m. This results in a net deficit of £8.370m.

The base case also incorporates the impact of the removal of the following items:

- The assets that have been determined as not transferring across to Angus Alive since the production of the OBC. The net impact of removing these assets is a reduction in the total deficit of £0.608m from the management accounts position. The majority of these assets have been subject to a community asset transfer with the remainder being deemed as not appropriate to transfer to Angus Alive.
- Central support costs for the services which will be provided by Angus Council to Angus Alive at nil value. This is also consistent with the VAT/NDR prudent case position described in section 5.3.5 below. The total net impact of removing these costs is a reduction in the deficit of £0.712m from the management accounts position. For the purposes of the final business case, the reduction in the deficit of £0.712m does not include £0.099m of ACCESS central support costs. These costs are currently in a cost centre that will not be transferred to Angus Alive and therefore they have already been deducted in the analysis.

### 5.3 Projected year one financial position

The first year of trading for Angus Alive will reflect a number of adjustments from the financial position in 2014/15. These adjustments reflect the following factors:

- Removal of non-cash items in order to establish the underlying operational performance excluding accountancy adjustments such as depreciation.
- Inclusion of additional costs in respect of Angus Alive's structure:
  - One off transition costs for setting up Angus Alive
  - Recurring annual operational costs
- Recognition of the savings generated by Angus Alive in respect of NDR and VAT as well as savings generated from the associated management restructuring exercise.

**Table 14 - Adjusted Year 1 position (£000)**

	Base position	Non cash items adjustment	Transition Costs	Recurring costs	Management Restructure Savings	NDR Saving	VAT Saving	Year 1
<b>Income</b>	<b>(5,921)</b>	<b>55</b>	-	-	-	-	-	<b>(5,866)</b>
Staff	7,825	(618)	-	-	(113)	-	-	7,094
Property	2,995	-	-	-	-	-	-	2,995
Transport	209	-	-	-	-	-	-	209
Supplies & Services	1,370	-	563	272	-	-	-	2,205
Third Party Payments	146	-	-	-	-	-	-	146
Central Support	-	-	-	-	-	-	-	-
Capital Financing	1,746	(1,746)	-	-	-	-	-	-
NDR and VAT Savings	-	-	-	-	-	(629)	(155)	(784)
<b>Total Expenditure</b>	<b>14,291</b>	<b>(2,364)</b>	<b>563</b>	<b>272</b>	<b>(113)</b>	<b>(629)</b>	<b>(155)</b>	<b>11,865</b>
<b>Deficit</b>	<b>8,370</b>	<b>(2,309)</b>	<b>563</b>	<b>272</b>	<b>(113)</b>	<b>(629)</b>	<b>(155)</b>	<b>5,999</b>

Source: Angus Council Management Accounts & EY assumptions



The underlying assumptions are based on a prudent scenario (i.e. scenario 1 referred to in section 5.3.5), where Angus Alive incur costs relating to utilities and repairs and maintenance.

The overall impact of the adjustments is to project the underlying annual operating deficit as £5.999m. Further information on each adjustment is provided below.

### 5.3.1 Adjustment for non-cash items

An adjustment has been made for all the non-cash items in the analysis in order to provide an indication of the underlying cash position from service operations. This adjustment separates out the impact of year end accountancy adjustments such as depreciation from the operational performance. This approach therefore allows the Council to understand how the financial position drives the requirement for a management fee to Angus Alive which is based on operation performance.

Adjustments have been made for depreciation of £1.746m and pension costs of £0.618m. An adjustment for £0.055m has also been made to recognise the Corporate and Democratic income received from the Council's corporate centre. The removal of these adjustments gives a net deficit of £2.309m on non-cash item adjustments within table X above.

### 5.3.3 Transition costs

The Council will incur costs associated with setting up Angus Alive. Some of these costs have already been incurred by the Council therefore the actual figure has been included below with the remainder of these costs based on estimates.

**Table 15 - Transition Cost summary**

<b>Cost Category</b>	<b>£000</b>
Financial and Legal Advisors	140
Marketing, Media, Website, Branding	93
Office set up costs	47
Recruitment	14
Corporate Governance Costs	19
Early Retirement/Voluntary Redundancy Costs	250
<b>Total</b>	<b>563</b>

Source: Angus Council

### 5.3.3 Ongoing recurring costs

Additionally, Angus Alive would incur a range of recurring annual costs. These have been estimated and are categorised below.

**Table 16 - Recurring Cost summary**

<b>Cost Category</b>	<b>£000</b>
External auditors	15
Marketing	31
Legal and regulatory costs	20
Trustee expenses	6
Contingency	200
<b>Total</b>	<b>272</b>

Source: Angus Council

### 5.3.4 Management Restructure

The opportunity has been taken to review the management structure for Angus Alive to ensure the new organisational structure is fit for purpose and in place for the go-live date on 1 December 2015. The savings associated with this exercise are anticipated to be in the region of £0.113m annually and have been factored into the analysis within this Financial Case for completeness.

### 5.3.5 NDR and VAT Savings

It is estimated that Angus Alive could realise NDR savings in the range of £0.546m to £0.712m. This estimated range of NDR savings assume that Angus Alive's application to OSCR for charitable status will be approved and that Angus Alive will obtain the full mandatory rates relief of 80% as a charity and also a further 20% in discretionary relief. In order to achieve this, Angus Alive will need to occupy the facilities and the facility will need to be used 'wholly or mainly for charitable purposes'.

The estimated NDR savings are based on the total NDR costs for each facility discounted by the 5% overall relief that the Council will be required to fund. Where Angus Alive is unable to obtain the full relief this will directly impact on the NDR savings that can be achieved. At this stage it is not possible to confirm whether or not Angus Alive will be awarded the full relief.

The estimated range of NDR savings position also takes into consideration the potential complications associated with the dual use facilities at Arbroath, Webster's and Montrose Sports Centres. As these facilities are part of the overall school complex there will be a requirement for the rates assessor to make a judgement on

the area of the sports centres which relates specifically to Angus Alive – it is only this area that will be eligible for NDR relief.

Depending on the view taken by the rates assessor there is a risk that Angus Alive may not achieve NDR relief on the full area occupied within these facilities. The estimated NDR savings under each scenario therefore reflects this potential risk on these facilities by incorporating only an estimated proportion of the potential savings on scenarios 1 and 3 and estimating full NDR relief on scenario 2. The intention however would be to pursue the full available NDR relief on these facilities.

The VAT position has been modelled based on a range of savings depending on the acceptance by HMRC of the proposed approach. It is critical that the VAT position is agreed with HMRC as soon as possible as certainty on the potential VAT savings can't be achieved until HMRC has confirmed its approval to the proposed arrangements. The underlying assumptions for each scenario have been summarised below:

**Table17 – Summary of differences between cases**

<b>Responsibility For</b>	<b>Scenario 1</b>	<b>Scenario 2</b>	<b>Scenario 3</b>
Utilities	Angus Alive	Council	Angus Alive
Repairs & Maintenance	Angus Alive	Council	Angus Alive
Support Services	Council	Council	Angus Alive

Where a service is provided by the Council, it is expected the costs will be incurred by the Council whilst the benefit from these services will be transferred to Angus Alive for nil consideration. When the service is incurred directly by Angus Alive for a consideration, Angus Alive is expected to meet the costs of these services internally.

The estimated VAT savings are calculated by using the Council's actual figures from 2014/15 - the analysis has also been based on the Council's existing VAT treatment of income and expenditure.

The three scenarios can be described as follows:

- Scenario 1 – A prudent case for NDR and VAT savings
- Scenario 2 – An upside sensitivity
- Scenario 3 – A downside sensitivity

A breakdown of the range of estimated annual NDR and VAT savings of these options is included in the following tables along with an indication of additional Angus Alive related costs (i.e. irrecoverable VAT):



The upside scenario estimates that the total NDR and VAT savings will be £1.056m. This is based on the assumption that the Council takes responsibility for repairs, maintenance and utilities for the facilities transferring to Angus Alive and also provides support services. These services would all be provided to Angus Alive for no charge. This scenario will be pursued by the Council in order to maximise potential savings. However, as this position has not been agreed with HMRC, other scenarios (a prudent and a downside position) have also been modelled in this Financial Case. This scenario also assumes the full available NDR relief is awarded on all of the facilities transferring to Angus Alive including the dual use facilities.

**Table 20**

**Scenario 3 (£000)**

	<b>NDR</b>	<b>VAT savings</b>	<b>Irrecoverable VAT</b>	<b>Total</b>
Countryside	-	1	(31)	(30)
Sports Development	-	5	(10)	(5)
Sports Facilities	373	525	(300)	598
Museums	43	-	(23)	20
Libraries	107	-	(62)	45
Archives	6	-	(3)	3
Theatre	17	-	(24)	(7)
Access	-	-	-	-
<b>Total</b>	<b>546</b>	<b>531</b>	<b>(453)</b>	<b>624</b>

The downside scenario estimates that the total NDR and VAT savings will be £0.624m. This is based on the assumption that Angus Alive is responsible for repairs, maintenance, support services and the utilities services. In addition this scenario assumes that Angus Alive would be awarded the full available NDR relief for the majority of the facilities transferring but NDR relief on only one third of the occupied area for the dual use facilities.

In summary, there are potential NDR and VAT savings ranging from £0.624m to £1.056m, with the prudent expectation being £0.784m. With the addition of the management restructure savings (£0.113m) this would increase the estimated range of savings to between £0.737m and £1.169m, with the prudent expectation being £0.897m.

### 5.3.6 VAT savings – additional information

It is expected that Angus Alive will have charitable status and consequently certain income it generates will be exempt for VAT purposes under the VAT Sporting Services and Culture Services exemptions, and this can provide VAT savings in Angus Alive. The Council is currently required to charge VAT on the provision of these services, whereas Angus Alive should be able to treat the provision of the services as exempt for VAT purposes. The savings arise where the price charged to customers remains unchanged and Angus Alive is able to retain the portion of income that the Council had to charge and account for as VAT.

This can be best demonstrated with a simple example:

- If the Council charged £5 for admission to swimming
- £5 would include 83p of VAT – the net receipt for the Council would be £4.17
- If Angus Alive charged £5 for admission to swimming
- £5 is exempt from VAT – the net receipt for Angus Alive would be £5
- Saving would therefore be 83p.

Where Angus Alive provides services to the general public free of charge there will be non-business use of those assets. As Angus Alive does not benefit from the Council's section 33 VAT Act 1994 status, this requires Angus Alive to restrict recovery of a proportion of the VAT it incurs on expenditure where it is not used for taxable business purposes. Where Angus Alive undertakes activities that are exempt from VAT this will also require Angus Alive to restrict recovery of a proportion of the VAT it incurs on expenditure.

The Business/Non-Business/Partial Exemption calculation ("B/NB/PE") will determine how much VAT Angus Alive is entitled to reclaim from HMRC. The B/NB/PE method used for the purposes of the analysis has been based on a sectorised method which involves treating each of the service areas as a separate and defined B/NB/PE calculation. The B/NB/PE calculation must be agreed with HMRC.

Some sporting activities delivered by the Council are funded by grants as typically the users are not charged for the provision of the leisure service. The VAT analysis assumes the Council will continue to receive the grant funding and will act as the principal by subcontracting the management and delivery of the relevant projects to Angus Alive. Where this is the case Angus Alive will need to ensure the correct VAT treatment is applied to its supply of services to the Council. The VAT position will need to be considered on a case by case basis to determine whether it is a non-business grant arrangement or it should be treated as a taxable service.

VAT savings estimates contained within this Final Business Case are based around the following assumptions of areas where savings can be made or can potentially be made:

<b>Service</b>	<b>Commentary</b>
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**Areas where VAT savings have been identified**

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Leisure	<p>The VAT savings identified for Leisure are based on the following income streams (with nominal ledger codes included for reference purposes):</p> <p>841015 – Swimmers</p> <p>841016 – Swimmers Exempt</p> <p>841022 – S/Cent Admissions</p> <p>841156 – Recharge Education</p> <p>841229 – Direct Debit Income</p> <p>841256 – Phase 4 Income.</p> <p>VAT savings are calculated based on Angus Alive being able to apply the VAT Sporting Services Exemption with no non-business use of the sports facilities.</p>
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**Areas for potential VAT savings**

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Theatre	<p>There may be potential VAT savings associated with the Theatre facilities where Angus Alive undertakes performances which could qualify for the VAT Culture services exemption. This may apply to 831020 – Sale of Tickets - Events and 831510 - Panto Ticket Income, however the specific arrangements would need to be reviewed as part of the more detailed business plan exercise.</p>
Sports Development Service	<p>Whilst there are minimal VAT savings achieved in relation to transferring the Sports Development services to Angus Alive, there may be a wider operational benefit to transferring the services from a strategic fit perspective.</p> <p>The transfer of the Sports Development service may improve Angus Alive's B/NB/PE position depending on the method agreed with HMRC as it could provide additional taxable income in Angus Alive where Angus Alive organises, manages, and facilitates the delivery of the programme on behalf of the Council under a taxable service agreement with the Council.</p> <p>Where Angus Alive provides instruction, coaching or education services as part of this programme, the VAT treatment of these services should be treated as exempt for VAT purposes. This will result in an additional irrecoverable VAT cost for Angus Alive as Angus Alive is not entitled to recover VAT in relation to exempt or potentially non-business activities.</p>

## Areas with minimal or no VAT savings

---

Countryside	There are minimal savings associated with the Countryside facilities. There will be an additional irrecoverable VAT cost for Angus Alive, as Angus Alive is not entitled to recover VAT in relation to non-business activities.
Museums	Treatment is similar to Countryside as the Council does not charge for admission or exhibitions which could potentially qualify for the Culture services exemption. There will be an additional irrecoverable VAT cost for Angus Alive, as Angus Alive is not entitled to recover VAT in relation to exempt activities.
Libraries	Libraries generate relatively little external income, the majority of which is taxable sales of books or outside the scope of VAT fines and grants. There will be an additional irrecoverable VAT cost for Angus Alive, as Angus Alive is not entitled to recover VAT in relation to non-business activities.
Archives	Archives generate relatively little external income, the majority of which is taxable for VAT purposes. The archives are available to visitors for no charge which will constitute a non-business activity for Angus Alive. There will be an additional irrecoverable VAT cost for Angus Alive, as Angus Alive is not entitled to recover VAT in relation to non-business activities.
Access	There are no VAT savings associated with the transfer of the Access service as this service represents a taxable business activity for Angus Alive. The transfer of the Access service may improve Angus Alive's B/NB/PE position depending on the method agreed with HMRC as it should provide additional taxable income in Angus Alive where Angus Alive delivers the service under a taxable service agreement with the Council.

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Source: EY VAT Analysis

### **Key Assumptions**

The VAT savings identified are dependent on confirming the VAT treatments applied with HMRC. This will be updated for the final business case and business plan.

### **5.3.7 Community Campuses**

**5.3.8** The updated financial position of Angus Alive and the associated estimated savings have been prepared without making any adjustments for the Brechin and Forfar Community Campuses. As these facilities will not be operational on the go-live date of 1 December 2015 and as the budgets for these facilities are not yet sufficiently developed, including the financial performance of the assets that the campuses will replace (i.e. the existing Brechin Leisure Centre, Lochside Leisure Centre and Forfar Swimming Pool) is considered a more accurate forecast of the future trading position of Angus Alive for the purposes of this Financial Case.



**5.3.9** In addition to the risk on the dual use facilities highlighted in section 5.3.5, when the community campuses become operational and occupied by Angus Alive, the application process for NDR relief on these facilities will commence however these applications will be limited to the leisure areas and the shared reception areas between Angus Alive and the schools. Given the integrated design of the buildings it is uncertain at this stage what level of NDR savings can be achieved on these properties.

**5.3.10** Advice received so far indicates that in order to obtain the maximum NDR relief each area which will be subject to an NDR relief application needs to be distinct and must look and feel like an Angus Alive facility. This is clearly a risk to the level of savings that can be generated from NDR exemptions. The design of the facility can however potentially be tweaked slightly and a dialogue with the rates assessor will be undertaken as early as possible in order to secure as much NDR relief as possible.

#### **5.3.11 Capital expenditure**

In order to estimate the cash position of Angus Alive the adjustment for non-cash items removed depreciation from the financial projections. A significant area of cash flow demand can however be the need to incur substantial capital expenditure, however as the Council is retaining ownership of the facilities, any capital expenditure will remain a Council responsibility.

Capital expenditure will therefore be excluded from the base management fee paid by the Council to Angus Alive and accordingly separate arrangements are required. However, as no detailed expenditure proposals have been prepared at this stage, the specific arrangements, and tax consequences, remain to be addressed.

#### **5.3.12 Other Exceptional Events**

There were a number of minor closures to leisure facilities during the year. However, however there were no material exceptional events that would require the financial position of Angus Alive to be adjusted.

## 5.4 Financial projection

The table below sets out a 5 year financial projection for Angus Alive.

**Table 21 - Five year projected position (£000)**

<b>Year</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>Income</b>	(5,866)	(5,866)	(5,866)	(5,866)	(5,866)
Staff	7,094	7,094	7,094	7,094	7,094
Property	2,995	2,995	2,995	2,995	2,995
Transport	209	209	209	209	209
Supplies &	1,370	1,370	1,370	1,370	1,370
Third Party	146	146	146	146	146
Central Support	-	-	-	-	-
Capital	-	-	-	-	-
Transition costs	563	-	-	-	-
Recurring costs	272	272	272	272	272
NDR and VAT Savings	(784)	(784)	(784)	(784)	(784)
<b>Total</b>	<b>11,865</b>	<b>11,302</b>	<b>11,302</b>	<b>11,302</b>	<b>11,302</b>
<b>Deficit</b>	<b>5,999</b>	<b>5,436</b>	<b>5,436</b>	<b>5,436</b>	<b>5,436</b>

*Source: Angus Council Management Accounts & EY assumptions*

The projections are based on the analysis and assumptions set out within this final business case and in addition inflation has been excluded. To provide maximum transparency over each of the five years, the year 1 projection assumes a 12 month year. This will have to be updated in the business plan to reflect the go-live date of the 1 December 2015 and the subsequent four month period that will represent year one.

The analysis shows that Angus Alive is projected to have an operating deficit in each year. In order for Angus Alive to operate as a going concern detailed consideration will be required on the necessary steps to tackle the deficit, these would include:

- Initiatives to grow income for Angus Alive
- Identification of efficiency savings that can be realised
- Payment of a management charge by the Council to Angus Alive

## 5.5 Summary

In this section, the base financial position of the future operating model has been established. The financial projections reflect:

- The 2014/15 financial outturn of a £5.999m deficit excluding non-cash items such as depreciation.
- The first year financial position of Angus Alive has been established after making adjustment for non-cash items of £2.310m, transition costs of £0.563m and recurring costs of £0.272m.
- Angus Alive's financial outturn from year two onwards is a deficit of £5.436m.
- There are potential NDR and VAT savings ranging from £0.624m to £1.056m from setting up the Angus Alive organisation, with the prudent expectation being £0.784m. With the addition of the management restructure savings (£0.113m) this would increase the estimated range of savings to between £0.737m and £1.169m, with the prudent expectation being £0.897m.

## 5.6 Next Steps

During the preparation of the Business Plan for Angus Alive the following issues of detail would need to be addressed:

- Final operating position on the Brechin and Forfar Community Campuses
- Completion of the Council's budgetary savings exercise
- Confirmation of arrangements to meet capital expenditure requirements
- Updated VAT and NDR analysis based on the Angus Alive projected financial position and agreement reached with HMRC and the Rates Inspector.

## **6 Management Case**

### **6.1 Introduction**

The purpose of this section is to:

- This demonstrates that the implementation of the Charitable Trust is achievable and can be delivered successfully in accordance with accepted best practice.

The assessment will be informed by:

- The project plan and outline
- The proposed governance structure and legal implications
- The current risk register and communication plan.

### **6.2 Project outline, project plan**

A project plan, detailing the timing of the scheduled tasks is shown in Appendix H. It has been developed to tackle the issues identified in the commercial and financial cases. The project plan contains details of a number of actions that are central to the implementation of the Charitable Trust. It is expected that the majority can under-taken and completed prior to the proposed implementation date of the 1<sup>st</sup> December 2015. This includes the following items;

- Completion of the TUPE transfer process and application for admission to the Tayside Pension Fund, as identified in section 4.5 of the commercial section including admission to the Tayside Pension Fund.
- Completion of the OSCR application process (further detail in this is provided below).
- Completion of HMRC engagement

### **6.3 OSCR**

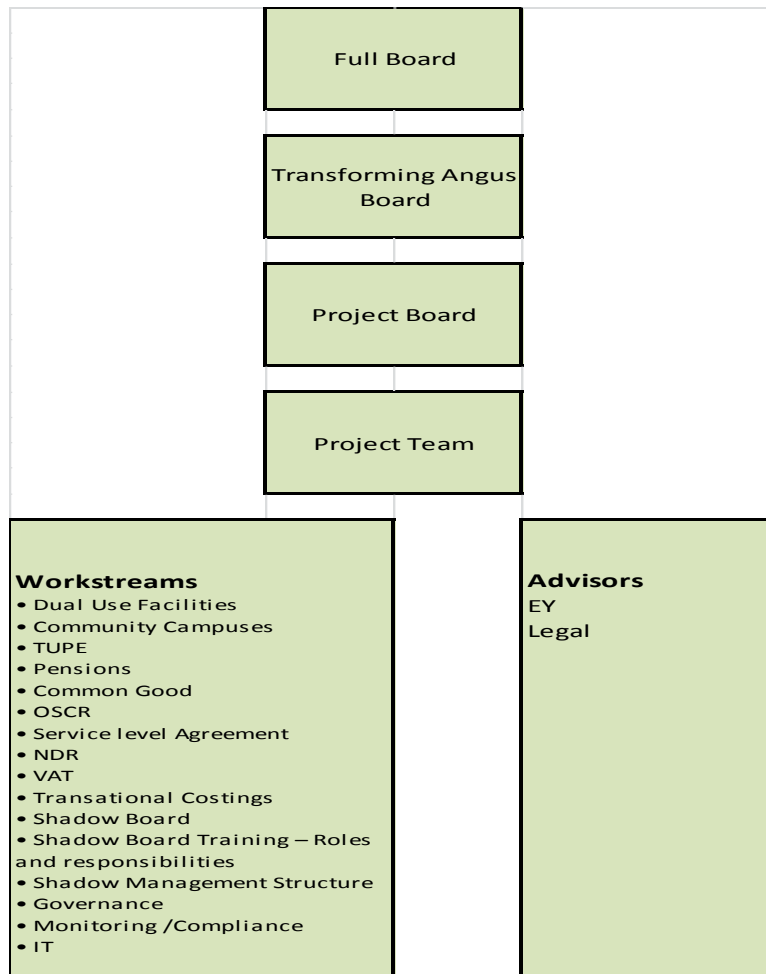
Angus Alive has submitted its application to OSCR (Office of the Scottish Charity Regulator) for charitable status. OSCR is Scotland's charity regulator. OSCR has confirmed that the company which has been established meets the charity test by having charitable objectives and providing benefits to the public.

The Council must be aware that there are additional financial and administration considerations for the Council that they must consider upon a successful OSCR application. A separate set of Charitable Trust charitable accounts must be produced that complies with the charities statement of recommended practice ("SORP"). The Council will be providing these services to the trust.

## 6.4 Governance Structure

The following governance structure has been utilised during the development of the projects.. The structure follows the best practice approach adopted to date, with a project team supported by advisors reporting to an overall Board and overseen by full Council.

### Governance Structure



Source: Angus Council

The Full Council will ultimately be responsible for approving this business case to implement a new model of service provision.

## 6.5 Risk Register

The Project Team have developed and manage a detailed risk register for the project. The effective identification, quantification and monitoring of risk is a critical part of effective project delivery. A full register outlining all the pertinent risks faced by the project is contained in appendix H.

## **6.5 Contingency Plan**

Should the new model for service provision not be implemented the contingency plan would be for the current model to continue. This approach ranked second in the options appraisal and is considered the approach that would allow service provision to continue with no impact on users.

## **6.7 Communication**

Successful implementation of a new mode of service delivery requires clear and regular communications. These communications have been undertaken with all stakeholders, including:

- Elected members
- Council employees
- Service users
- Unions

Communications were carried out by developing areas including:

- Dedicated email box
- Employee Briefing Notes
- Employee Forum with representative from all areas of Services to Communities
- Facility Drop in Sessions for 1-1 opportunities
- FAQ section on the intranet
- Open door policy to Senior Management

## **6.8 Summary**

This management case has set out how the transfer to a Charitable Trust model of service delivery is achievable and can be delivered successfully. A detailed project plan has been prepared and is set out in Appendix F. This sets out a challenging set of tasks that can be completed before 1 December 2015.

The project will continue to be supported by strong governance, with the Project Team reporting to the Project Board, thereafter to the oversight Transforming Angus Board, and with decisions on further approval to be made by the full Council. Effective risk management will continue through monitoring and updating the risk register. A suitable contingency plan to, continue with the current service model, is available should unforeseen issues delay the implementation of the Charitable Trust.

Throughout this process regular communication with elected members, Council employees and service users will be essential.

## **6.9 Update Position**

The Management Case is being systematically developed and delivered as envisaged. Given the timescales a prioritisation of key documents is underway with financial, OSCR and HMRC work being key. As highlighted the treatment of property assets is covered by lease agreements and maintenance, repairs and capital expenditure will continue as per the existing arrangements providing continuity of service and maximising the potential savings.

All the other key issues covered in the management case of licences, agreements, TUPE, OSCR, HMRC, Governance, Risk Management and Communications are all in hand utilising the existing structures and frameworks available from within the Council.

In addition the delivery mechanism chosen and the commitment to positive partnership means that on day one Angus Alive will be ready to deliver high quality customer services and Angus Council will be ready to provide the highest quality support services that will ensure Angus Alive is a success.

## **Appendix A**

### **Asset Listing**

#### **Sports Centres and Swimming Pools**

- Arbroath Sports Centre and Swimming Pool, Keptie Road, Arbroath
- Synthetic Pitch at Arbroath Sports Centre, Keptie Road, Arbroath
- Saltire Leisure Centre, Montrose Road, Arbroath
- Brechin Leisure Centre, River Street, Brechin
- Carnoustie Leisure Centre, Tennis Centre and Car Park, Links Parade, Carnoustie
- Lochside Leisure Centre
- Forfar Swimming Pool (Carnegie Baths), The Vennel, Forfar, including Vennel Car Park
- Sports Centre and Swimming Pool, Prosen Road, Kirriemuir
- Sports Centre and Swimming Pool, Marine Avenue, Montrose
- (two new community campus facilities)

#### **Museums Galleries and Archives**

- Signal Tower Museum, Ladyloan, Arbroath
- Townhouse Museum, High Street, Brechin
- The Meffan Museum and Art Gallery, 20 West High Street, Forfar
- Gateway to the Glens Museum, High Street, Kirriemuir
- Montrose Museum and Art Gallery, Museum Street, Montrose
- William Lamb Studio, Montrose
- Hunter Library and Archives, Restenneth, Forfar
- Units 12, 13 and 14 Arbroath Business Centre



## **Libraries and Access Offices**

- Arbroath Library, Hill Terrace, Arbroath
- Arbroath ACCESS Office, Old Parish Church, Kirk Square, Arbroath
- Brechin Library, St Ninian's Square, Brechin
- Brechin ACCESS Office, 26 Bank Street, Brechin
- Carnoustie Library, 21 High Street, Carnoustie
- Carnoustie ACCESS Office, 26 High Street, Carnoustie
- Forfar Library, 56 West High Street, Forfar
- Forfar ACCESS Office, Municipal Buildings, Forfar
- Monifieth Library, High Street, Monifieth
- Monifieth ACCESS Office, 81 High Street, Forfar
- Montrose Library, Castle Place, Montrose
- Montrose ACCESS Office, Montrose Town House, High Street, Montrose

## **Theatres and Halls**

- Arbroath Community Centre, Marketgate, Arbroath
- Webster's Theatre, High Street, Arbroath
- Reid Hall, Castle Street, Forfar
- Kirriemuir Town Hall and Library, Reform Street, Kirriemuir
- Montrose Town Hall, Melville Gardens, Montrose
- Inglis Memorial Hall and Historic Library, High Street, Edzell

## **Country Parks**

- Forfar Loch Country Park
- Monkie Country Park
- Crombie County Park
- Ranger Base, Glen Doll

## **Offices**

- The Yard, Queenswell Road, Forfar

## Appendix B

### Detailed List of Options Appraisal

#### 1. Status Quo

- 
- A reduction in revenue budget to accommodate savings over the next three years at least
- 
- Restructuring of service and re-targeting of resources.
- 
- Increased burden in National Non Domestic Rates (NDR).
- 
- Investment streams may be severely limited
- 
- Capital assets still maintained by the council
- 
- Management control of the community assets remains with the council
- 
- Decision making process long winded and at times cumbersome.
- 
- Invest-to-save projects compete with other council services for the finance available
- 
- Potential for local priorities to take precedence over sport and leisure needs.
- 
- Cross department and partnership working very effective.
- 
- Potential use of prudential borrowing is an advantage.

#### 2. Outsource to a private sector operator

- 
- National Non Domestic Rates (NDR) savings would be made
- 
- Outsourcing protects resources by ring-fencing spending through a contract to an existing operator
- 
- Low set up costs and lower support costs
- 
- Focus likely to be on an increase in income – contract needs to stress council/community objectives.
- 
- Access to external investment
- 
- Economies of scale and access to specialist services
- 
- Transfer of operating risks
- 
- TUPE transfers can be expensive
- 
- Ties LA into a medium to a long term contract (5+ years) which may be inflexible. Short term contracts would in all likelihood restrict investment.
- 
- Authority will need to realise savings in back office support costs

- Savings reduced but need to pay a management fee
- 
- External investment can be expensive but a longer contract may enable more investment. It is likely though that the council may obtain capital investment at a lower cost
- 
- Additional contract monitoring costs have to be taken in to account - the council would have to set up a monitoring group to oversee the contract (cv CCT)
- 
- A competitive procurement process would need to be undertaken – costs could be quite significant.

### **3. Establish a Public Private Partnership**

- Effective transfer of design and build risk - Expensive and time consuming to procure and set up
- 
- Transfer operating, maintenance and lifecycle risk - Ties LA into a long term contract which may be inflexible
- 
- Protects resources by ring fencing spending through a contract - LA usually retains some financial risks through income and cost benchmarking.
- 
- A potential source of significant external investment - Expensive if private sector finance is part of the package
- 
- Enables invest to save projects - Complex procurement and contracting arrangements
- 
- Encourages innovation - Additional contract monitoring costs

### **4. Transfer to a new charitable organisation**

- Make use of the new legal structure for Scottish Charities – the Scottish Charitable Incorporated Organisation (SCIO) as the vehicle for the combined operations.
- 
- (a) National Non Domestic Rates (NDR) and (b) VAT – (a) savings can be substantial and reinvested in the service; (b) council's threshold for VAT could be improved.
- 
- Focus on sport and physical activity and Culture services. Greater opportunities to develop/attract other income streams. Could lack economies of scale (this would become evident as part of an assessment exercise).
- 
- Management can grow business outside of LA control – freedom from LA framework and decision making process.
- 
- LA can retain a degree of influence and indirect control - Loss of direct control and influence over services to an independent body
- 
- Provides flexibility in terms of grant funding - Lack of ring fencing means the

## Charitable Trust reliant to a degree on uncertain grant funding

- 
- Can promote community engagement and involvement - Can be difficult finding Trustees with right skills and experience.
- 
- Can allow savings to be reinvested in services and facilities. Can be hard to attain investment in early years.
- 
- Improves the LA's partial VAT exemption position
- 
- May open up alternative sources of investment - Reliant on existing management to develop this source
- 
- Potential for more staff and community involvement and engagement – a number of trustees on the management group will be from the community. They may include people with successful business experience
- 
- Can boost future 'not for profit' capacity in an area if other leisure services run in-house. Too much control by the LA can limit ability of the Charitable Trust to operate effectively.
- 
- Much simpler legal framework for SCIOs specifically tailored to the needs of charities as compared with say companies limited by guarantee
- 
- Transfer of capital assets –for example through a long term lease agreement.
- 
- A simpler regime for board members
- 
- Likely to involve a quicker charitable status process thus opening up the benefits of rates relief at an earlier stage.

## **5. Outsource to an existing Charitable Trust**

- 
- There will be NDR, VAT and support cost savings. However, limited control and influence over Charitable Trust.
- 
- Low set up costs overheads and support costs but Angus may have to enter in to a long term contract that may be inflexible
- 
- Low management fee? Capacity of Charitable Trust to expand its services could be affected by being part of a 'partnership' Charitable Trust
- 
- Economies of scale and access to specialist services that could be shared.
- 
- Competitive process should maximise potential savings but additional contract monitoring costs would be incurred.
- 
- TUPE transfers can be expensive.
- 
- Protects resources by ring fencing spending through a contract - Authority will need to realise savings in back office support costs
- 
- Transfer of operations - Authority usually retains lifecycle risk

- Access to external investment - External investment can be expensive to the Charitable Trust.

- 
- Does the locality of the existing Charitable Trust impact on how effective the partnership will be or how trustees make decisions on local issues?

---

#### **6. Delivering Leisure Services through Schools.**

- 
- Can be a very efficient model of externally managed provision - Uncertainty over long term sustainability of model in terms of funding particularly capital funding

- 
- Share costs of provision with local school

- 
- Lack of clarity in responsibilities and obligations between partners e.g. finance and programming

- 
- Promotes local provision within communities - Potential for disjointed and inefficient management

- 
- Lower support costs and overheads but lack economies of scale

- 
- Can allow for rationalisation and self-financing investment in new leisure facilities

- 
- Angus council already operates leases with the school sector to make maximum use of indoor and outdoor facilities

- 
- Only suitable for facilities on or adjacent to school sites. There is a danger that the formal education side of the partnership will have prioritisation over the wider community needs.

## Appendix C

### Option Appraisal Workshop

Wednesday 19 November 2014. 2pm – 5.30pm

Angus Council Representatives	Communities Strategic Director, (interim) Head of Services to Communities, Angus Council Project Manager, Finance representatives, HR representatives, Legal representative,
-------------------------------	--

### Background

A workshop was held with representative of the Project Team and Project Board from Angus Council. Individuals had previously been briefed regarding the project background, including Transforming Angus, the four proposed options as well as the specific scoring criteria. The objective of this meeting was to score each of the possible service options, based on the predefined criteria and weighting. The criteria and weighting had been previously approved by the wider project team. After this scoring process it was intended that the group would reach a consensus decision on the preferred option.

### Scoring Process

Representatives from Angus Council were split into three subgroups and each team scored each criteria for each of the four different service options. Scores were allocated from 1 to 10, with one being poor and 10 being excellent. Each team explained their rationale for each score they allocated. These were collated and summarised in the narrative below. Scores were collated and averaged and have been summarised below.

### Results

The following scores were allocated for each of four different options. This is based on the average scores of each of the three teams shown below.

**Table 14 - Average Option Appraisal Scores**

Criteria \ Options	Options			
	1.Status Quo	2.Outsource to a private sector operator	3.Establish a Public Private Partnership	4.Transfer to a new charitable organisation
Quality (25%)	5.0	5.0	5.7	7.3
Operational Efficiencies (20%)	5.0	6.0	5.7	7.0
Commerciality (20%)	5.3	6.0	6.0	7.0
Community (10%)	7.0	4.7	5.3	7.0
Accountability and Governance (10%)	8.0	4.0	5.7	7.3
Resources and Investment (5%)	5.3	5.7	5.7	7.0
Reputation & Political Considerations (5%)	7.3	3.0	4.0	5.3
Risk Management (5%)	6.0	6.3	6.3	6.0
<b>TOTAL</b>	48.9	40.7	44.4	53.9
<b>Weighted SCORE</b>	5.7	5.3	5.7	7.0
<b>PERCENTAGE</b>	57.4	52.7	56.7	69.7

Source: EY

From the analysis it is clear that option 4, the transfer to a new charitable organisation, was the favoured option. It scored a total weighted percentage of 69.7. This was significantly higher than the other three options. The status quo was the next favoured at 57.4 with establish a Public Private Partnership next at 56.7, and outsourcing to a private sector operator in fourth place with 52.7.

The scores and subsequent ranking of options for the individual groups is shown the following tables. Team one were as follows;

**Table 23 – Team 1 Option Appraisal Scores**

Criteria \ Options	Options			
	1.Status Quo	2.Outsource to a private sector operator	3.Establish a Public Private Partnership	4.Transfer to a new charitable organisation
Quality (25%)	5.0	4.0	4.0	6.0
Operational Efficiencies (20%)	4.0	8.0	6.0	7.0
Commerciality (20%)	4.0	6.0	5.0	7.0
Community (10%)	9.0	4.0	5.0	8.0
Accountability and Governance (10%)	7.0	4.0	5.0	6.0
Resources and Investment (5%)	6.0	6.0	6.0	7.0
Reputation & Political Considerations (5%)	8.0	3.0	5.0	4.0
Risk Management (5%)	5.0	6.0	6.0	5.0
<b>TOTAL</b>	<b>48.0</b>	<b>41.0</b>	<b>42.0</b>	<b>50.0</b>
<b>Weighted SCORE</b>	<b>5.4</b>	<b>5.4</b>	<b>5.1</b>	<b>6.5</b>
<b>PERCENTAGE</b>	<b>54.0</b>	<b>53.5</b>	<b>50.5</b>	<b>65.0</b>

Source: EY

The ranking of the four options in team 1 followed a similar pattern as the group average, with the transfer to a new charitable organisation being the favoured option with a score of 65. The Status Quo followed at 54, with outsourcing to a private sector operator scoring 53.5. Establish a public private partnership was the least favoured option at 50.5.

The scores for team two were as follows;

**Table 24 - Team 2 Option Appraisal Scores**

Criteria \ Options	Options			
	1.Status Quo	2.Outsource to a private sector operator	3.Establish a Public Private Partnership	4.Transfer to a new charitable organisation
Quality (25%)	2.0	5.0	6.0	7.0
Operational Efficiencies (20%)	5.0	5.0	5.0	7.0
Commerciality (20%)	5.0	5.0	6.0	7.0
Community (10%)	5.0	5.0	5.0	5.0
Accountability and Governance (10%)	9.0	4.0	6.0	8.0
Resources and Investment (5%)	6.0	5.0	5.0	7.0
Reputation & Political Considerations (5%)	6.0	2.0	3.0	6.0
Risk Management (5%)	8.0	7.0	7.0	8.0
<b>TOTAL</b>	<b>46.0</b>	<b>38.0</b>	<b>43.0</b>	<b>55.0</b>
<b>Weighted SCORE</b>	<b>4.9</b>	<b>4.9</b>	<b>5.6</b>	<b>6.9</b>
<b>PERCENTAGE</b>	<b>49.0</b>	<b>48.5</b>	<b>55.5</b>	<b>69.0</b>

Source: EY

As before, the Transfer to a new charitable organisation was the most favoured option at 69. Establish a Public Private Partnership was second with a score of 55.5, followed by the Status Quo at 49 with outsourcing to a private sector operator last with 48.5.

The scores for team three were as follows;

**Table 15 - Team 3 Option Appraisal Scores**

<b>Options</b>	<b>1.Status Quo</b>	<b>2.Outsource to a private sector operator</b>	<b>3.Establish a Public Private Partnership</b>	<b>4.Transfer to a new charitable organisation</b>
<b>Criteria</b>				
Quality (25%)	8.0	6.0	7.0	9.0
Operational Efficiencies (20%)	6.0	5.0	6.0	7.0
Commerciality (20%)	7.0	7.0	7.0	7.0
Community (10%)	7.0	5.0	6.0	8.0
Accountability and Governance (10%)	8.0	4.0	6.0	8.0
Resources and Investment (5%)	4.0	6.0	6.0	7.0
Reputation & Political Considerations (5%)	8.0	4.0	4.0	6.0
Risk Management (5%)	5.0	6.0	6.0	5.0
<b>TOTAL</b>	<b>53.0</b>	<b>43.0</b>	<b>48.0</b>	<b>57.0</b>
<b>Weighted SCORE</b>	<b>7.0</b>	<b>5.6</b>	<b>6.4</b>	<b>7.6</b>
<b>PERCENTAGE</b>	<b>69.5</b>	<b>56.0</b>	<b>63.5</b>	<b>75.5</b>

Source: EY

Team 3 ranked option 4, the transfer to a new Charitable Trust as the most favoured option with a score of 75.5. The status quo was second with 69.5, establish a public private partnership was third at 63.5 and outsource to a private sector operator was last at 56.

### **Conclusion**

It was agreed that the Charitable Trust is the preferred option from this qualitative analysis and will be taken forward on the outline business case.



## Appendix D

### Illustrative Board Member Skills Matrix

**Table 26 – Illustrative Board Member Skills Matrix**

Board Member*	Behavioural		Governance			Technical				Industry				Comments
	Leadership	Communication	Previous Director experience	Community involvement	Strategic planning	Financial	Legal	HR	Comms / marketing	support for mission	fundraising	public policy	experience in sport / leisure / culture	
1. Elected Member														
2. Elected Member														
3. Elected Member/Independent Member														
4. Independent Member														
5. Independent Member														
6. Independent Member														
7. Independent Member														

**Scoring**

1	Low
2	Limited
3	Average
4	Strong
5	Very Strong

\*demographic mix: gender, age, ethnicity, demographic representative of local area

Source: EY

## **Appendix E**

### **Board Structure Paper**

#### **Introduction**

The Council is proposing to set up a Charitable Trust to deliver Culture and Leisure Services. It will be in the form of a company limited by guarantee, which is registered as a charity. This new company will have a separate board of directors/trustees; these will come from one of the three categories:

- ▶ Elected members of the Council;
- ▶ External from the council with the appropriate skills and interest.

This paper will discuss the required mix between the categories above. These individuals will be company directors in the terms of company law, and trustees for the purposes of charity law. In this paper, directors will be used to capture both.

#### **Considerations**

##### ***Conflict of interest***

Directors will need to make decisions in situations where the interest of the company and those of the Council may not be aligned. This could give rise to a conflict of interest.

Both from a company law and charity law perspective, the directors/trustees must put the interests of the company first. If a board member cannot, then he or she must not take part in any discussion or decision on the matter.

On the other side of the equation, for Elected Members the Councillor's Code imposes the "duty to act in the interests of the council as a whole and all the communities serviced by it". This could create tensions for those board members who are elected members of the council. The conflict rules could mean that elected council members would be unable to participate in the decision making process.

As a result, if all the directors had a relation to the council the board could cease to become functional. Therefore the board must include directors who are independent from the Council.

On appointment of the directors, it is important for them to fully understand their requirements and duties as a director and be provided with training and guidance on how to handle any potential conflict of interest.

##### ***Board Size***

There is no defined guidance for the board size. It is considered important to have the correct balance between having enough appropriately skilled board members able to engage in meaningful debate, while not having overly large, unwieldy and inefficient board. The market would suggest nine directors as appropriate number for a company this size, however the number does not need be fixed for all time if experience shows that more or fewer directors would be preferable.

## **OSCR guidance**

The Scottish charity regulator, OSCR, have specific guidelines on the type of individuals who should compose the board. The key requirements from this guidance are: the majority of the board members should be independent of the Council; and, governance arrangements and board structure must allow the board members to fulfil their duties to the charity.

It is likely that these guidelines will be required to be complied when applying for charitable status. Where the board comprises of nine members, it is recommended that the board has five independent directors to ensure an independent majority.

## **Other governance routes**

Board representation is not the only way which monitoring and governance can be achieved. An additional governance route for the council relates to the appointment of observers to the board. The observers would be able to attend and speak at board meetings, but would not take part in decision making. This allows for additional governance and monitoring at board level while, crucially, maintains the integrity of the independent board.

Other potential governance routes are: the board being required to submit written reports to the Council on certain aspects of the company, for example the performance; and the legal agreement between the council and the company will set out such requirement

## **Council officers as directors**

In the creation of the new board, the Council would be free to nominate an officer to be a director, however, this is not commonly considered to be appropriate. Audit Scotland has concerns that the ongoing working activities of a Council officer impinge on clear roles and responsibilities between Council and board duties. Accordingly, in order to monitor and examine the performance of the company, council officers can take an observer role on the board.

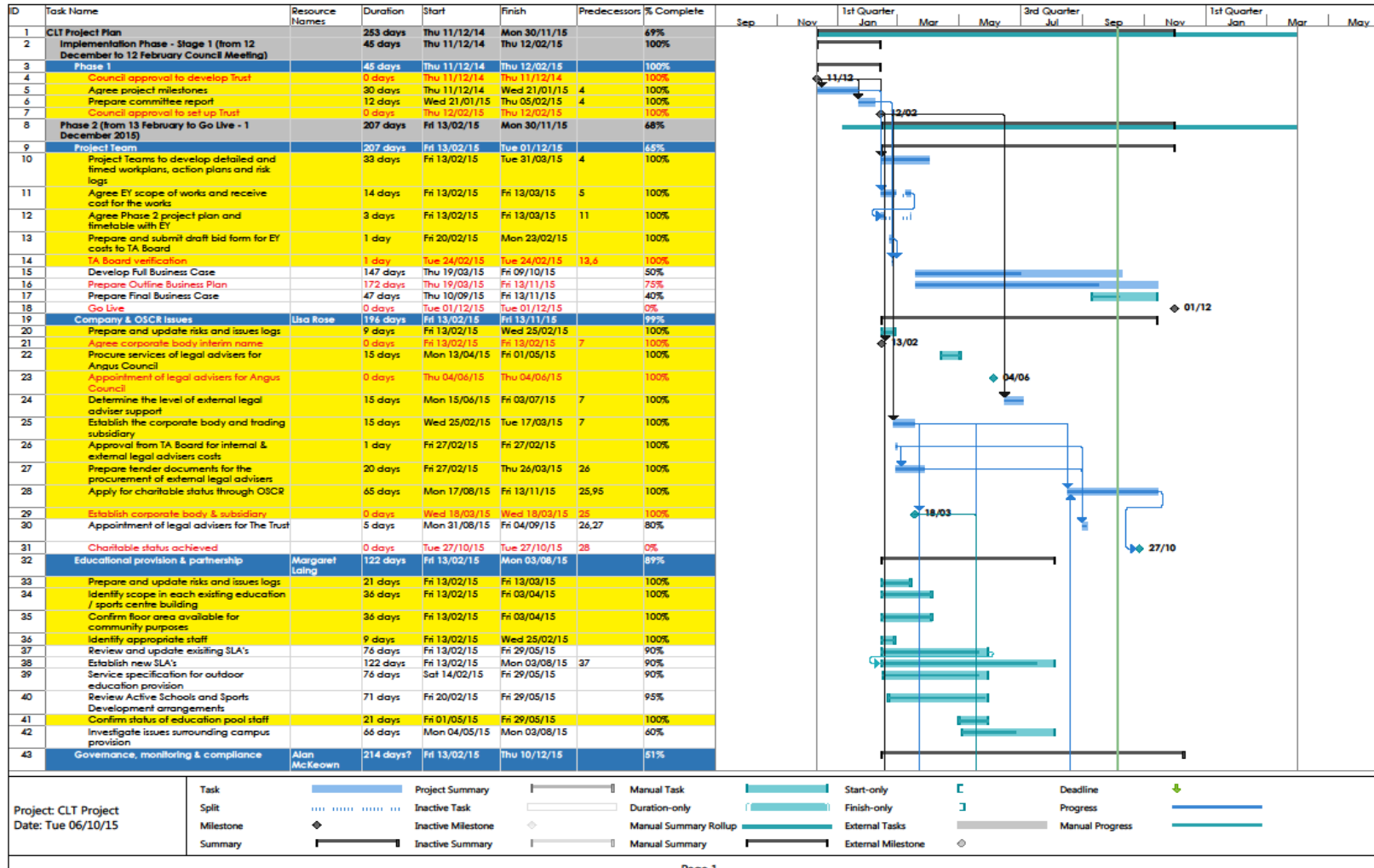
## **Recommendation**

The following recommendation is proposed for the Board Structure:

- ▶ the board to be formed of nine people;
- ▶ four Elected Members of the Council to be nominated to form a minority of the board;
- ▶ the Elected Members nominated are not those with a scrutiny and governance role from the Council side, and so are not, for example, members of the committee to which the company reports;
- ▶ a recruitment process is to be conducted to identify the best five independent candidates to fill the remainder of the posts on the board, with the correct mix of skills. A potential candidate here may be a trade union representative;

- ▶ two board observers who are council officers;
- ▶ a detailed conflicts policy to be developed and embedded in the governance arrangements;
- ▶ training on board duties, including conflict issues to be provided, in due course, to the board.

## Appendix F Phase 2 Project Plan



## **Appendix G**

### **Angus Council Principles**

The following Angus Council principles were used to establish the criteria for the Options Appraisal Workshop.

#### **Principle 1**

##### **Focusing on the purpose of the Council and on outcomes for the community and creating and implementing a vision for the local area.**

- Residents will receive a high quality service.
- The council will make better use of resources.
- The Council wishes to deliver a sustainable and more effective way of providing an equitable, quality service to residents and visitors to the area.
- Council policies and strategies will be implemented, effectively through agreed council pricing, programming and policy structures.
- A trust or other ALEO must have, at its core, a set of values and aims that link in to the council's priorities and the Angus Community Plan and SOA.

#### **Principle 2**

##### **Members and officers working together to achieve a common purpose with clearly defined functions and roles**

- There must be agreement on the respective roles and responsibilities of members and senior officers in relation to the creation and operation of an ALEO.
- The Head of Finance will give appropriate advice on all financial matters pertaining to the creation and development of an ALEO
- The Head of Legal and Democratic Services will give appropriate advice on all legal and administrative matters pertaining to the creation and development of an ALEO.
- Members and officers must ensure that effective mechanisms are in place to monitor and evaluate service delivery by the ALEO.
- A legally binding agreement must be put in place between the Council and the ALEO to ensure.

#### **Principle 3**

##### **Promoting values for the council and demonstrating the values of good governance through upholding high standards of conduct and behaviour.**

**Service Re-design - Developing a Business Case for a Re-designed Model of Provision for Cultural and Leisure Services. Briefing Paper 3 – A Scoping Paper – 24 July 2014/continued**

- Ensure that if an ALEO is put in place, it operates to the same high standards that the Council has in place with regard to equality and the employment and training of staff.
- The Council's vision for Angus citizens is achieved through customer services that are of a high quality, are continually improving and are efficient and responsive to local people's needs.

#### **Principle 4**

##### **Taking informed and transparent decisions which are subject to effective scrutiny and managing risk**

- Ensure effective scrutiny arrangements are in place for monitoring and evaluating the strategic and operational work of the ALEO.
- Ensure that appropriate records are in place and retained with regard to the operation of an ALEO at board room level e.g. formal meetings, minutes, etc.
- Ensure that a risk management strategy is in place and an action plan is updated annually (or earlier if the situation demands it).

#### **Principle 5**

##### **Developing the capacity and capabilities of members and officers to be effective.**

- Ensure that members and officers receive appropriate training and access to resources in relation to the remit they undertake with regard to the creation, operation and supervision of an ALEO.

#### **Principle 6**

##### **Engaging with local people and other stakeholders to ensure robust public accountability**

- Consult with service users and non-users on a regular basis.
- Provide performance information relating to the Community Plan and SOA.
- Ensure that a means of communication providing opportunities to inform, consult and obtain feedback is in place between the ALEO and staff and the ALEO and the community.
- The Council to have a major input into the management of the ALEO by being represented on the board by council members and senior officials.
- Systems to be put in place to ensure that outcomes are being achieved and these should be reported to the council on a regular basis.
- Establish a robust performance management and monitoring and evaluation system that links management payments to delivery of outcomes and other targets.

## Appendix H

### Risk Register

Risk Title	Risk Description	Internal Controls	Likelihood	Likelihood	Potential Impact	Impact	Appetite Likelihood	Appetite Impact	Approach	Year Identified	Assigned To	Managed By
HMRC - VAT Arrangements	Anticipated savings not realised following discussions with HMRC	Ensure the council has full support from EY's VAT expert in setting the proposed VAT arrangements for the charitable organisation. EY's VAT expert to lead the engagement with HMRC	We are reliant upon EY's VAT expert to guide us in this area and to assist with engagement with HMRC	2	It would have little impact on the actual go live date for the trust but would delay or reduce the anticipated savings	2	2	2		2015	Wilson, Craig	Wilson, Alastair
Financial Costs to Organisation	one off and recurring costs for the charitable organisation significantly higher than the OBC	Work with EY to ensure the correct costs are captured in the charitable organisations budget and obtain reasons for any variations between OBC and FBC	Risk is low given the review which was carried out to produce the FBC	1	Given costs are lower the is no impact	1	1	1		2015	Wilson, Craig	Wilson, Alastair
Budget/Management Fee for Organisation	Budget/management fee for the charitable organisation not reflective of actual operations	Ensure EY support the AC finance lead for this element of work to ensure all relevant costs are captured in the budget	Identified risk a low given that between EY & AC finance we think that all costs have been captured.	2	If costs were higher the management fee would not be sufficient to match the operating costs.	3	2	2	Further Treatment	2015	Wilson, Craig	Wilson, Alastair
VAT/NDR estimated Savings	Revised VAT/NDR estimated savings for FBC are significantly lower than calculated for OBC	showing the differences between the calculations for the FBC and OBC and also the reason behind these differences so that this can be scrutinised	Low Risk due to the fact that advice was received from EY & Brodies	2	significantly lower than indicated in the OBC this again would have an impact on the management fee covering	2	1	2	Further Treatment	2015	Wilson, Craig	Wilson, Alastair



**Table 16 - Risk Register Summary**

Risk Short Name	Overall Risk Score (Max 25)	Risk Control
Lack of resources to undertake the project in agreed strategies	20	<p>Resources to be monitored and additional requirements considered by Transforming Angus Programme Board.</p> <p>Resource issues to be highlighted at EMT and through each Project Team / Board members line manager.</p>
Governance compliance	6	Arrangements clearly set out in PID and Business Case.
Business Case being ready in time and fit for purpose	8	Liaise regularly with EY and seek updates on the status of the report.
Communications with affected staff members and other stakeholders	8	Communications strategy to be prepared and implemented.

*Source: Angus Council*