

ANGUS COUNCIL

10 SEPTEMBER 2020

ANGUSALIVE: UPDATE

**REPORT BY VIVIEN SMITH, DIRECTOR OF STRATEGIC POLICY, TRANSFORMATION &
PUBLIC SECTOR REFORM**

ABSTRACT

This report provides an update in relation to ANGUSalive, the Council's Arms-Length External Organisation (ALEO), following the suspension of the delivery of the services specification during the COVID-19 pandemic. It also sets out the emerging issues as a result of the pandemic on the ANGUSalive business model and outlines the next steps as the organisation moves through the recovery phases and, in partnership with the Council, progresses to develop proposals for transformational change required to achieve a sustainable future. This response also aligns with the significant savings which are already committed to be delivered by ANGUSalive over the current 3-year Finance & Change Plan period and COVID-19 has accelerated the requirement to commence that transformational change process.

1. RECOMMENDATIONS

1.1 It is recommended that the Council:

- (i) note the background to ANGUSalive and its establishment in December 2015, with the relationship being based on the delivery of a services specification commissioned by the Council;
- (ii) note that ANGUSalive suspended delivery of the service specification on 18 March 2020, which was required to comply with the national lock-down and subsequently ratified in law through the Coronavirus Act;
- (iii) note the operating position update (section 4 refers) and the issues and risks emerging in relation to the ANGUSalive business model as a direct result of the COVID-19 pandemic;
- (iv) note the emerging recovery plans (section 5 refers) and that, while it is understood that ANGUSalive will make every effort to align the time-frame for re-opening services with the phases provided for in the guidance emerging from the Scottish Government's 'route map through and out of the crisis', there will inevitably be deviation from this due to the prevailing local circumstances, risks and issues outlined in this report;
- (v) agree that from lock-down, through the current recovery phases and up to 31 March 2021, the Council will not reduce the Council management fee agreed in report 81/20;
- (vi) note that the details of the necessary interim operational changes to the services specification through the current recovery phases and up to 31 March 2021, informed by the decisions of the ANGUSalive Board, will be subject to any further report to Council along with any proposed permanent changes to the services specification;
- (vii) agree to the proposed changes to the ANGUSalive bACTIVE membership fees as set out in the ANGUSalive Board paper included in **Appendix 1** of this report;
- (viii) agree to progress the 'ANGUSalive Transformation Project' (section 6 refers) which will develop proposals for transformational change required to achieve a sustainable future for ANGUSalive to deliver culture, sport and leisure services, while working in

partnership with the Council in its capacity as commissioning body and sole member of the organisation;

- (ix) agree to partially fund a decision by ANGUSalve's Board regarding severance costs up to £364,000 as outlined in Section 7 of this report;
- (x) agree the support measures set out in Section 8 of this report (including the stated delegation to officers) which are required to allow ANGUSalve to continue operating as a going concern;
- (xi) note the significant additional support from the Council being provided to assist ANGUSalve during this challenging period; and
- (xii) note the intention to provide regular reports to Council on ANGUSalve's financial position and the transformation work proposed in this report.

2. ALIGNMENT TO THE COMMUNITY PLAN/ COUNCIL PLAN

2.1 This report contributes to the following local outcome(s) contained within the Community Plan:

- An inclusive and sustainable economy
- A skilled and adaptable workforce
- Attractive employment opportunities
- The best start in life for children
- More opportunities for people to achieve success
- Improved physical, mental and emotional health and well-being
- Safe, secure, vibrant and sustainable communities

3. BACKGROUND

3.1 ANGUSalve was established on 1 December 2015 as the culture, sport and leisure trust for Angus ([Report 410/15](#) refers).

3.2 The trust is a registered Scottish charity and must operate in a manner consistent with its charitable purposes and deliver public benefit. It is also a company limited by guarantee registered with Companies House. The group consists of the charity and a trading subsidiary for non-charitable activities. Trading subsidiary profit is donated to the charity at year end. Angus Council is sole member of the company.

3.3 ANGUSalve board members are trustees of the charity and directors of the limited company. The board composition is five independent trustees and four Council appointed trustees who are elected members. All trustees must act in the interests of the charity and always do what is best for the charity. Trustees must put the needs of the charity before the needs of any other organisation that they are involved with, either in a personal or professional capacity.

3.4 The relationship between Angus Council and ANGUSalve is governed by several documents including the services specification, which describes the services delivered by ANGUSalve to the Council for public benefit for an annual management fee, and the support services agreement, which are core support services delivered by Angus Council to ANGUSalve for no consideration (e.g. Finance, Human Resources support, etc.).

3.5 ANGUSalve has a licence to occupy the Council's facilities, including libraries, museums, galleries, archives, theatre, venues, country parks and sports centres, which it uses to deliver a mixture of free and chargeable services. Services are also delivered from community locations across the county of Angus. The Council retains the property budgets, which include energy, planned and unplanned maintenance costs, for these facilities.

3.6 The financial and non-financial benefits for the Council from establishing an ALEO to deliver culture, sport and leisure services using this model were documented as part of the original business case. The most significant financial benefit is that, as a registered charity,

ANGUSalve receives an annual saving of approximately £1.4 million from receipt of Charitable Rates Relief on Non-Domestic Rates (NDR). ANGUSalve NDR relief is now capped at the baseline property position on 28 November 2017 following the Barclay Report.

4. OPERATING POSITION UPDATE

4.1 Financial Operating Context

4.1.1 ANGUSalve is funded in part by income generated from sales, fees and charges combined with grants and contributions. The charity also receives an annual management fee from the Council to part fund the services provided. The 2020/21 management fee is £3.901m ([Report 81/20](#) refers) and this provides some valuable certainty in terms of revenue for the trust in a particularly uncertain financial climate during the current financial year.

4.1.2 However, to highlight the importance of income generation to the organisation, the management fee only represents around 45% of the overall operating costs, and 55% of revenue is achieved through income generation by the charity (based on the final 2019/20 financial position). Income generation is therefore critical for the ongoing viability of the business model.

4.1.3 It is also important to highlight that the sport and leisure area of the business generated 88% of all income during 2019/20, and therefore this aspect of the business is essential to sustain the overall delivery of the whole services specification for the Council.

4.1.4 The achievement of a net operating surplus at year end is also vital to ANGUSalve to maintain a sufficient level of reserves as required by the Office of the Scottish Charity Regulator (OSCR); and to continue to allow contributions to be made into the Equipment and IT Replacement and Renewal Funds for investment in the assets utilised by ANGUSalve.

4.1.5 Prudent financial management by the trustees and executive team of the charity from the outset has enabled around £1.5m in unrestricted reserves to be built since December 2015. This puts ANGUSalve in a stronger position than some trusts across the country, but the position is still very fragile and these reserves must only be used for appropriate purposes.

4.2 Plans for Transformational Change (Prior to COVID-19 Pandemic)

4.2.1 Over the past two financial years 2018/19 and 2019/20, ANGUSalve have successfully delivered an overall total of £600k recurring revenue savings required as part of the Council's Change Programme. This has mainly been achieved through an organisation-wide staffing review process.

4.2.2 At the February 2020 Council budget setting meeting, it was agreed there should be a further management fee reduction of £458k for 2020/21 (including an additional £158k from initial expectations of £300k) given the projected significant level of financial pressure on the Council's budgets.

4.2.3 Provisional savings estimates for ANGUSalve in subsequent years were also increased to £250k (2021/22) and £210k (2022/23) in the Council Finance and Change Plan, resulting in a total saving of £918k over the 3-year period 2020/21 to 2022/23. While this is recognised as being a significant challenge, the potential for the charity to be required to achieve further savings above this level has also been highlighted as being likely based on the Council's medium to long term financial planning assumptions.

4.2.4 ANGUSalve considered the higher level of savings in 2020/21 to be achievable without any direct impact on service delivery when the budget was set in February 2020. This was to be delivered through conclusion of the organisational review, but it was indicated further savings in future years would require a more fundamental review of the service specification supported through transformational change to existing service provision across Angus. Prior to the pandemic, ANGUSalve were therefore on track to deliver £1.058m in savings (12% of gross expenditure) over the 3 year period 2018/19 to 2020/21 with a further £0.460m (5%) of savings

being targeted in the 2 following years, i.e. 17% savings in a 5 year period. For an organisation whose costs are dominated by staff costs, this is a significant ask.

- 4.2.5 Officers from the Council and ANGUSalve intended to begin work on this fundamental review of service provision early in the new financial year but this work has been delayed as a result of the unforeseen events related to the current public health emergency.

4.3 Position during initial period of COVID-19 Pandemic (to end June)

- 4.3.1 ANGUSalve closed all venues to the public on 18 March 2020 and had safely shut down all venues with staff sent home by 23 March 2020 at the time when lock-down was announced by the Scottish Government. While this meant that ANGUSalve suspended delivery of the service specification for the Council at that time, this action was subsequently ratified in law through the Coronavirus Act.
- 4.3.2 Accordingly, ANGUSalve has not been able to generate any income in the first quarter of 2020/21 due to venues being closed and services ceased during lockdown in their entirety up to the end of June 2020. In comparison, during 2019/2020 (excluding the Council management fee) an average £400k income was generated per month by the charity through delivery of paid for services. As highlighted above, sport and leisure generated 88% of that income.
- 4.3.3 In order to mitigate the impact of this income loss, several measures have been deployed. This has included the Council continuing to pay the management fee and re-profiling payments to be made earlier than planned in order to mitigate cash-flow risk. A Business Support Grant application by ANGUSalve was also successful and negotiations with suppliers have reduced outgoings on other expenditure.
- 4.3.4 In addition, and to minimise the financial impact on the charity, approximately 85% of the ANGUSalve workforce were furloughed via the government's Coronavirus Job Retention Scheme (CJRS). The employees supporting Childcare Hubs during the school Spring Holiday and Humanitarian Assistance Angus Response Team (HAART) were furloughed after these activities concluded. Successful applications to obtain CJRS grant funds for the period to the end of June have been received by the charity. The claim for July has already been submitted with grant funds due to be received before the end of August. Further claims are expected to be made for the August to October period.
- 4.3.5 It is however highlighted that the financial recovery through the furlough scheme is less than the lost income, therefore ANGUSalve have been carefully managing their cashflow position throughout the period, taking account of the mitigation measures described above to understand when and how much may be required to be used from reserves to maintain the business as a going concern on a temporary basis.

4.4 Position during next phase of COVID-19 Pandemic (July to current)

- 4.4.1 As the pandemic has unfolded, it has become apparent that many organisations across the country who are reliant on income generation are finding themselves in perilous financial circumstances in relation to their business viability. ANGUSalve are therefore not alone in facing this issue, and other charitable culture and leisure trusts across Scotland are finding themselves in similar circumstances. Community Leisure UK in Scotland have been co-ordinating the overall position nationally to raise the profile of this issue on behalf of the sector.
- 4.4.2 Alongside the emergence of this ongoing business viability issue, the Scottish Government 'route map through and out of the crisis' has been developed and provided a basis for starting to develop recovery plans which cover the majority of the services delivered by ANGUSalve. While this has been helpful to set direction, the main income generation services of sport and leisure, have only recently been identified for re-opening beyond the end of August. As noted earlier, sport and leisure is a key driver for ANGUSalve in developing its recovery plans from a financial viability perspective providing 88% of income.

- 4.4.3 In addition, the recovery planning for sport and leisure at five of ANGUSalve's seven sites has had an added layer of complexity. This is due to the sharing of facilities with Schools and Learning who have been required to prioritise the return to on-site education for the benefit of our young people. These dual use sites are at Arbroath High School, Brechin Community campus, Forfar Community Campus, Montrose Academy and Webster's High School in Kirriemuir. The Saltire Sport Centre in Arbroath is shared with Dundee and Angus College and the one stand-alone facility is Carnoustie Sport Centre.

The complexities at the dual use sites arise for example, when considering the use of shared spaces which require to include appropriate safety and control measures, limiting the ability to offer the community as complete a sport and leisure service as was previously possible. Potentially schools may need to re-purpose sports space for other essential education use (e.g. for general break-out or teaching space beyond normal practice). Another factor impacting the availability of services is having suitable ventilation for using indoor spaces. Investigations are still ongoing to identify if existing building systems can meet the evolving safety guidance, however it may be that capital investment would be required to render a facility suitable for use – this therefore remains a risk to reopening.

Given these complex circumstances around the competing demands for shared space and the evolving priorities and safety advice, the income generation potential from the sport and leisure services is likely to be materially reduced from pre-COVID-19 levels, and potentially only starting to generate to any meaningful extent in practice from October. Expenditure to re-open, along with ongoing running costs, are also likely to be higher to operate venues in a safe manner in accordance with the relevant guidance.

- 4.4.4 Accordingly, given that position, continuing to make best use of the CJRS scheme has therefore been a key consideration in ANGUSalve's approach to recovery planning. Most of the currently furloughed salaried employees will continue on that basis subject to business need under new 'flexible furlough' arrangements. The Scheme has been extended twice since it was introduced by the Chancellor and is currently scheduled to end on 31 October 2020. Applications to obtain CJRS grant funds for the period to the end of October will continue to be made by the charity at the appropriate times.

- 4.4.5 The latest conditions associated with the CJRS does permit part-time working from 1 July 2020 and this flexibility has been helpful to support the limited re-opening of some services (e.g. introduction of the new Library 'click & collect' service). However, this also creates an additional financial burden as the charity must fund in full any hours worked.

The employer contribution towards furloughed workers also increases each month from August to October. As a result of this and other changes to the CJRS scheme, the ANGUSalve Board made the decision to reduce casual workers' support to 80% from July, with their last day of furlough being 31 August, and reduce salaried employees' support to 80% from August for the remainder of the Scheme until 31 October.

- 4.4.6 In the context of this backdrop, the Council's finance team and ANGUSalve senior management team have been working together to assess the financial implications for the 2020/21 financial year as a whole. This will inform whether the Council's management fee for 2020/21 will be sufficient or will require to be adjusted. The savings identified in the Council's Change Programme are also being considered and proposals in this regard are covered in the Revisions to the 2020/21 General Fund Revenue Budget Report (Report 211/20 refers) which is also being considered by Council on 10 September.

4.5 Post COVID-19 Pandemic Position/ Business Risks

- 4.5.1 Finding a solution for ANGUSalve to operate within a sustainable financial envelope is crucial to the charity's future sustainability and survival. There is a significant risk to the Council in so far as the financial and non-financial benefits of the original business case that was agreed by the Council to establish an ALEO in the first instance would be lost in the event of ANGUSalve becoming unviable. The risk of failure of ANGUSalve would also involve the TUPE transfer of all staff back to Angus Council which would require significant Council financial and staff

resource. Substantial negative VAT implications could also arise for the Council should ANGUSalve services be brought back under the direct control of the Council in the event of the Trust's demise.

4.5.2 In the current global pandemic, ANGUSalve's vision of 'changing lives by inspiring healthy, active and creative lifestyle choices' resonates more strongly than ever with the focus on supporting the physical and mental health and wellbeing of the country through and beyond this public health emergency.

4.5.3 However, the current position is stark - the sport and leisure sector estimates it could take a minimum of 18-24 months to rebuild and operators only expect to return to around 80% of income levels pre-lockdown. This equates to an annual minimum 20% reduction in revenue for sport and leisure in 18-24 months from now and the loss in revenue is anticipated to be even higher in the interim period.

For ANGUSalve that would equate to lost income of around £855k in comparison to the 2019/20 position for sport and leisure alone. There are also likely to be further losses of generated income across the portfolio of services e.g. Webster Theatre which generated £242k or 5% of income in 2019/20 but is not expected to be up and running again before calendar year 2021 and with reduced audiences.

4.5.4 During the recovery and rebuild period, the impact will be even more significant with sport and leisure income initially forecast to be as low as 40%. To indicate the scale of the challenge for ANGUSalve, for every quarter with an income level of 40% of normal there is gap of £634k in revenues (£2,536k per annum).

4.5.5 While the complexities from having dual use facilities (as described above, including the ventilation issue) is clearly one of the factors influencing the above projections, the projections are also predicated around several other identified business risks outlined as follows:

- The economic shock caused by the public health emergency will likely result in less availability of disposable income for discretionary spend in the local area.
- Sport and leisure cannot provide the same level of offering (dual use or stand-alone facilities) due to capacity restrictions resulting from social distancing and hygiene measures.
- Changes to personal circumstances and the marketplace may mean not all bACTIVE members and casual users will return to venues immediately (e.g. shielding), in medium term (e.g. minimising time outside the home) and some may never come back (e.g. now train virtually/ outdoors).
- Test and Protect is likely to result in groups within the workforce being required to self-isolate at the same time to prevent transmission of the Coronavirus which will impact the ability to operate venues as well as increase staff costs incurred.

4.5.6 To mitigate this significant risk of ongoing business viability as outlined in this report, it is clear that culture, sport and leisure services are going to have to be creatively reimaged by the Council and ANGUSalve working in partnership to determine the priorities and needs within an affordable financial envelope.

The outcomes, priorities and expectations of the Council as the commissioning body and sole member, along with other local/ national partners and the community need to be understood urgently. Alignment with ANGUSalve's charitable purposes will also require to be confirmed to enable transition to a new delivery model which will be reflected in an updated services specification.

A root and branch review of what services are provided, how they are delivered and where they take place needs to be conducted with partners. The model in place before lockdown is no longer affordable and cannot be maintained given the budget pressures with the current and forecast financial position.

5. ANGUSALIVE RECOVERY PLANS

5.1 Overview

- 5.1.1 While many of ANGUSalive's workforce have been furloughed as described above, the remaining members of the team have been involved in maintaining the business and engaged in designing initial recovery planning, married with what has been possible taking cognisance of the challenging financial position. That work has also included developing and delivering the 'ANGUSalive at Home' online offering for customers to access remotely. The Council have been kept informed of developments with this throughout in terms of its incident management and recovery work.
- 5.1.2 Re-opening will require to be a gradual process as ANGUSalive adapts the scope of services being offered and working practices to define the new normal and take all the necessary steps to reopen safely in order to protect the health and wellbeing of customers and colleagues. Re-opening plans must also consider the financial impact because costs cannot be covered in full while income levels remain below budget estimates. An overview of ANGUSalive's recovery plans at the time of writing this report are set out below.

5.2 Libraries

- 5.2.1 Libraries were the first services within ANGUSalive's portfolio to start to reopen from 15 July 2020, albeit not all Libraries were re-opened from the date when they are permitted to by Scottish Government's 'Route map through and out of the crisis'.
- 5.2.2 A new 'click & collect' service was designed and rolled out to Arbroath, Forfar, Carnoustie and Forfar libraries during July/ August, operating on three days per week. Limited browsing will also be made available at these locations from October.
- 5.2.3 The 'click & collect' service will also be delivered from Brechin, Monifieth and Kirriemuir libraries starting in September for one day a week.
- 5.2.4 ANGUSalive are exploring the phasing in of other library services such as rural services and home delivery and dates will be confirmed in due course.

5.3 Museums, Galleries and Archives

- 5.3.1 The reopening of Museums, Galleries and Archives will be starting with the Signal Tower Museum during October.

5.4 Country Parks

- 5.4.1 Car parks are now open at Country Parks and car park charges are in operation generating income. Public toilets and play parks (where applicable) are also open. ANGUSalive are exploring options to run boot camps and other activities safely from the country parks.

5.5 Sport and Leisure

- 5.5.1 The Scottish Government provided its latest update on the re-opening of gyms and leisure facilities on Thursday 20 August confirming these facilities can start to re-open from 31 August. The ANGUSalive plan for the reopening of these facilities is to begin on 14 September, the previously confirmed date, to enable all the important safety processes and procedures to be put in place as well as complete the necessary training for all employees.
- 5.5.2 These facilities will re-open between the 14 and 21 of September. The opening times of these facilities will be different compared to pre-lockdown and will be continually reviewed then changed where appropriate when demand and safety allows.

- 5.5.3 Other services such as pools, health suites and creche facilities will not open from 14 September as ANGUSalve require to review further detailed guidance which is still to be published by Scottish Government and associated governing bodies.

5.6 Theatres and Venues

- 5.6.1 The Scottish Government also announced its latest update on the reopening of theatres on Thursday 20 August advising these facilities can re-open from 14 September. ANGUSalve are currently awaiting further detailed guidance associated with this to identify when they believe they can re-open their venues for live performances in a way that is both safe for audiences and performers.
- 5.6.2 ANGUSalve have been working closely with promoters, artistes and community groups to re-schedule performances for 2020 and over the past five months have reprogrammed them to take place in 2021. ANGUSalve are also exploring the possibility of streaming performances digitally as well as opportunities to host outdoor events.

5.7 Services Specification implications

- 5.7.1 From the above update, it is clear that the full scope of the existing services specification cannot be delivered during this time and it is extremely unlikely to be fully re-established for the remainder of this financial year due to the ongoing public health guidelines and the resulting limitations on generating income. While it is understood that ANGUSalve will make every effort to align the time-frame for re-opening services with the phases provided for in the guidance emerging from the Scottish Government's 'route map through and out of the crisis', there will inevitably be deviation from this due to the prevailing local circumstances, risks and issues outlined in this report.
- 5.7.2 Accordingly, members are being asked in this report to agree that from lock-down, through the current recovery phases and up to 31 March 2021, the Council will not reduce the Council management fee agreed in [Report 81/20](#).
- 5.7.3 The details of the necessary interim operational changes to the services specification through the current recovery phases up to 31 March 2021, informed by the decisions of the ANGUSalve Board, will be subject to any further report to Council along with any proposed permanent changes to the services specification.

5.8 Membership Fees

- 5.8.1 As part of ANGUSalve's approach to its recovery planning, the meeting of the trust's Board of Directors on 15 June 2020 agreed to the findings from the review of ANGUSalve's bACTIVE membership offering.
- 5.8.2 The services agreement with ANGUSalve requires the Council to approve any changes to pricing and therefore members are asked to consider and agree the ANGUSalve Board paper which is included in **Appendix 1** of this report. These changes to pricing are considered by ANGUSalve to be a crucial part of their response to the impact of the pandemic and the Trust's recovery from it.

6. PROPOSALS: 'ANGUSalve TRANSFORMATION PROJECT'

- 6.1 Some 83% of ANGUSalve's costs are in staffing and substantial savings in that cost base have already been made through the organisation review which has concluded for the majority of the workforce. Delivery of further savings beyond the current financial year (2020/21) as targeted in the Council's Change Programme are not achievable without a more fundamental review of service levels and models of provision. This was the position before the COVID-19 pandemic. The pandemic has simply made that need for a fundamental review more acute, more urgent and frankly unavoidable.
- 6.2 As highlighted earlier in this report, to mitigate this significant risk of ANGUSalve's ongoing business viability, it is clear that culture, sport and leisure services are going to have to be

creatively reimagined by the Council and ANGUSalve working in partnership to determine the priorities and needs within an affordable financial envelope. That affordable financial envelope reflects the circumstances not only for ANGUSalve but also for Angus Council. In principle the Council could increase its funding to ANGUSalve through the Management Fee but in practice such an approach is considered unlikely to be affordable given the pressures on the Council's finances which themselves have been made worse by the pandemic.

6.3 The services specification agreed in 2015 will require to be updated, along with the suite of contract documents, reflecting the outcomes of a transformational change project that needs to be progressed with urgency.

6.4 To support a quick start-up for this project, assuming members agree, officers have already held two rapid improvement events. These events have considered overarching project objectives to:

- Transform the existing 2015 services specification and project agreements into a new version commencing on 1 April 2021, including updates to all the existing project documents. Current specification is deemed no longer sustainable.
- In the Council's position as sole member, support ANGUSalve with its recovery and renewal planning following the COVID-19 emergency lockdown (with operational re-start commencing on a phased basis from July 2020) and dovetailing this planning with the emerging options/ proposals in relation to the transforming services specification.
- Re-establish ANGUSalve as a sustainable organisation by April 2021, including opportunity for future growth as part of the annual business planning process, focussed on achieving the Charitable Objects and Strategic Aims of ANGUSalve whilst contributing to appropriate Angus Council, Angus Health & Social Care and the Angus Community Planning Partnership priorities and outcomes. Due to the magnitude of this, the project is expected to take circa 9-12 months and it should be recognised this is an ambitious timeframe.
- Develop the Project in a manner that continues to meet OSCR registration requirements and provides Best Value for Angus Council, in accordance with best practice guidance.

6.5 In line with those objectives, an outline timetable (which, as highlighted, must be recognised as being extremely ambitious given the scale of the task) has been developed as follows:

| Stage of Project | Indicative Dates |
|---|---------------------------------|
| <p>Phase 1: Initiation - collectively understanding the current provision while determining what culture, sport and leisure services we need, want and can afford to deliver for communities across Angus in future given reality of the forecast financial position</p> | <p>July to September 2020</p> |
| <p>Phase 2: Planning and Delivery - designing what the amended Services Specification would look like. This will be informed through the specialist area knowledge of ANGUSalve and consultation with the related Council services and partners, including market analysis.</p> <p>The specific costs of these proposals would require to be financially modelled for viability and to assess the sustainability of the proposals.</p> <p>This collaborative piece of work will inform the mutual creation of a 2021 - 2024 Business Plan.</p> | <p>October to December 2020</p> |

| | |
|--|------------------------------|
| <p>Phase 3: Finalise & Close - the finalisation of the updated specification and accompanying Business Plan for Angus Council and ANGUSalve Board approvals.</p> <p>Regular reporting with Councillors and Trustees up to this stage would ensure minimal amendments at this stage.</p> | <p>January to March 2021</p> |
| <p>Phase 4: Go-Live & Review - The commencement of delivery of the new Business Plan now under ownership of ANGUSalve. This Business Plan would include the agreed amended Services Specification.</p> <p>The continuation of liaison meetings between Angus Council and ANGUSalve nominees will monitor delivery of the updated services specification. The scope of the services specification will be required to adapt over time and this process will be managed through change requests (e.g. to introduce new services, remove services, change delivery model of services, modify target groups, etc.) as the wider operating environment continues to evolve.</p> <p>The 3-year Business Plan will then be reviewed and updated on a rolling annual basis linking to Angus Council Medium Term Budget Strategy and submitted each year at Special Council in February.</p> | <p>April 2021 onwards</p> |

- 6.6 It is intended that, assuming members agree to this proposal, a project update will be provided to each Council meeting scheduled between this meeting and the 31 March 2021. Each report will include an update on the progress with the ANGUSalve Transformation Project along with and update in relation to the evolving recovery plans. The reports will also include proposals and options for amending the services specification for members consideration and agreement as the detailed transformational information is developed.
- 6.7 Project management governance arrangements will be put in place to provide an appropriate and controlled delivery of the objectives set out in section 6.4 above, along with the management of issues, risk and communications.

7. ORGANISATIONAL REVIEW SEVERANCE COSTS

- 7.1 As mentioned elsewhere in this report, ANGUSalve have undertaken a whole workforce organisational review over the last 12-18 months in part driven by the financial savings targets set by Angus Council. That review has resulted in severance costs by way of redundancy and pension strain on the fund costs having to be paid. [Report 278/19](#) to the August 2019 meeting of the Policy & Resources Committee approved in principle a cost sharing arrangement to partially fund a decision by Angusalve's Board regarding severance costs, subject to the detailed costs being finalised and a further report with final costs and proposed share being brought back to members for agreement.
- 7.2 Report 278/19 estimated the severance costs which would fall to the Council would be between £300,000 and £400,000 based on a 50:50 split with ANGUSalve. The final position now confirmed with ANGUSalve would require a Council contribution of £364,000 using a 50:50 split. This cost can be met from the Council's severance provision held in General Fund balances which at 31 March 2020 stood at £1.5m. As noted in Report 278/19, providing financial support for severance costs incurred by ANGUSalve is consistent with similar support the Council has offered the Angus Health & Social Care Partnership from decisions they have made to live within the funding provided by the Council.

8. GOING CONCERN – ANGUS COUNCIL SUPPORT

8.1 The position presented in this report also has implications for completing the external audit process related to the ANGUSalve end of year accounts for 2019/20, which must be lodged with OSCR and Companies House by 30 December.

8.2 In preparing the financial statements, the trustees are responsible for assessing the group's and the parent charitable company's ability to continue as a going concern. Adopting a going concern basis of accounting is important to enabling an organisation to keep legally trading, to avoid instigating wind up proceedings and to avoid alternative methods of valuing assets and liabilities having to be adopted. At the time of approving the financial statements, the trustees must confirm to the external auditors that they have a reasonable expectation the Company has adequate resources to continue in operational existence for the foreseeable future (12 months minimum).

8.3 The trustees are scheduled to sign the ANGUSalve Report and consolidated financial statements for the year 1 April 2019 to 31 March 2020 in October 2020. Based on the current position and the significant financial risks facing the Trust in the coming months, the trustees will not be in a position to provide sufficient assurances to the external auditor about the Trust's ability to continue as a going concern without specific agreed support from Angus Council.

8.4 To enable ANGUSalve's 2019/20 Accounts to be prepared and audited on a going concern basis, members are asked to agree the following package of support measures:

a) Enhanced support from the Council's finance team

Significant additional support from the Council's finance team has been provided to ANGUSalve since March and it is proposed (subject to other demands on the finance team) that this will continue to ensure timely projections and estimates including cashflow forecasts are available to inform decision making. This will include appropriate treasury management support.

b) Flexibility on the timing of agreed management fee payments

Members are asked to delegate authority to the Director of Finance to make payments of the Council's agreed management fee to ANGUSalve earlier than the normal quarterly schedule where this is required to support ANGUSalve's cashflow requirements. This delegation would apply to the final 2 instalments of the 2020/21 management fee and to the management fee for 2021/22 when that is confirmed by the Council when it sets its budget in February 2021.

c) Flexibility on meeting Services Specification to 31 March 2021

This would be in line with recommendation (vi) of this report and will help ANGUSalve manage costs relative to income. In the event that flexibility is required beyond 31 March 2021 a further report will be brought forward for consideration.

d) Additional cash flow support of up to £0.5m

Members are asked to delegate authority to the Director of Finance to provide additional cashflow support of up to £0.5m to ANGUSalve until 31 March 2022 where this is required to allow the charity to remain as a going concern and meet everyday cash liabilities over that period (circa 18 months). This is cashflow support (similar to a bank overdraft) rather than additional funding and would be to help manage peaks in cash outflow versus available cash balances.

e) 2020/21 Budget Savings

In line with the recommendations in Report 211/20 (Revisions to the 2020/21 General Fund Revenue Budget) it is proposed that the Council set aside funding equivalent to the 2020/21 Change Programme savings target for ANGUSalve of £458,000. This funding (subject to further member approval) could be provided if required as a top up to the existing agreed management fee for 2020/21.

f) Severance Funding

In line with recommendation (ix) in this report, ANGUSalve's cashflow and Reserves position will be improved if members agree to provide 50% funding for severance costs arising from the organisational review.

g) Review of the business model as proposed in this report

The final measure and perhaps the most important is that members are asked to agree to the review work described in Section 6 of this report which is aimed at ensuring ANGUSalve can be kept on a sustainable financial footing into the future. Essentially this means that Angus Council will, through that review, work with the Trust to establish an updated services specification which is financially sustainable and meets the Council's requirements.

- 8.5 The above measures have been discussed with ANGUSalve's external auditor and although they will have to conclude a detailed review of the position including forward cashflows the above measures are expected to be sufficient to enable a going concern basis of accounting to be confirmed. Should this not be the case a further report will be brought back to members.

9. FINANCIAL IMPLICATIONS

- 9.1 The financial implications associated with this report are significant for the Council and have been set out throughout the relevant sections of this report. However, a key summary of the financial implications (also linked to risk) is summarised as follows:

- In the event of the business failure of ANGUSalve, the Council would suffer potential loss of financial benefits from ANGUSalve status being a registered charity and receiving an annual saving of approximately £1.4 million from receipt of Charitable Rates Relief on Non-Domestic Rates (NDR).
- In the event of the business failure of ANGUSalve, the Council would require to cover the cost of the TUPE transfer of staff back to the Council. That cost is unknown but is likely to be significant in terms of Finance, Legal and Human Resources support services staffing costs.
- The magnitude of the financial risk currently sitting with ANGUSalve when considering the loss of income, along with the Council's savings target included in the Finance & Change Plan 2019/20 to 2021/22, is estimated to be between £1.9m to £3.9m. In the event of the business failure of ANGUSalve, that financial gap would fall to the Council to address if services are to be continued.

The total value from these items alone is therefore in the order of £3.3m to £5.3m, unless the Council takes urgent action. The Council doing nothing to address this issue is not an option.

- 9.2 While ANGUSalve have reserves of approximately £1.5m which may support short term cash flow management and initial recovery work, these reserves may also be required to support the charity's contribution to undertake any restructuring required to reshape the charity and its services. Reserves are therefore not a sustainable solution to meet ongoing costs and income shortfalls. In addition, the use of reserves for cash flow management would be for a limited time period and unless changes are made, would only provide very temporary respite from the challenges faced.
- 9.3 The national position in Scotland will continue to be monitored regarding the ability for culture and leisure trusts like ANGUSalve being able to recover lost income through government support, albeit the UK position is not to provide this support.
- 9.4 The support measures set out in Section 8 of this report could have financial implications for the Council but where relevant these have been allowed for in the Council's budget revisions for 2020/21.

10. RISK

- 10.1 This report sets out the updated position with ANGUSalve and highlights the significant risk to the Council (including financial risk set out in section 9 above) in the event it fails to initiate urgent action to mitigate the potential for business failure of ANGUSalve, due to the changing circumstances around income generation capability crystallised by the COVID-19 pandemic.
- 10.2 Mitigation actions have been set out in this report and are included as part of the recommendations, including the requirement for the Council to agree to progressing a new 'ANGUSalve Transformation Project' in order to re-establish ANGUSalve as a sustainable organisation by April 2021, and including opportunity for future growth as part of the annual business planning process

11. CONSULTATION

- 11.1 The Chief Executive Officer of ANGUSalve has been consulted in the preparation of this report.

12. EQUALITIES IMPACT/ FAIRER SCOTLAND DUTY ASSESSMENTS

- 12.1 An equalities impact assessment and a fairer Scotland duty assessment have been prepared as part of the development of this report.

NOTE: No background papers, as detailed by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to a material extent in preparing the above report.

Report Author: Gordon Cargill, Service Leader (Governance & Change)

Email Details: GovChange@angus.gov.uk

Appendices:

Appendix 1 – ANGUSalve Board paper: Membership review phase 2