

ANGUS COUNCIL

ANGUS COUNCIL – 4 MARCH 2021

ANGUSalive CHARGES REVIEW AND BUDGET SETTLEMENT 2021/22

REPORT BY DIRECTOR OF FINANCE AND DIRECTOR OF STRATEGIC POLICY, TRANSFORMATION  
& PUBLIC SECTOR REFORM

**ABSTRACT**

This report presents the proposed 2021/22 budget settlement between Angus Council and ANGUSalive as well as the review of charges for services delivered by ANGUSalive.

**1. RECOMMENDATION**

- 1.1 It is recommended that the contents of this report are noted and approved as part of Angus Council's 2021/22 revenue and capital budget setting process, including the review of charges proposals set out in **Annex 1**.

**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 Whilst the responsibility for ensuring there is provision of leisure, cultural and ACCESS office services remains with the Council, the delivery of these services transferred from the Council to the ANGUSalive Charitable Trust on 1 December 2015. ANGUSalive is wholly owned by Angus Council but has an independent Board who manage the company's affairs. The ANGUSalive Board has 5 Independent Directors and 4 Angus Council appointed Directors who are elected members.
- 3.2 In normal course, ANGUSalive is funded in part by income generated from fees and charges but also receives a Management Fee from the Council to part fund the services provided. The Management Fee payment requires ANGUSalive to deliver services on behalf of the Council which are covered by a Service Agreement.
- 3.3 The Director of Strategic Policy, Transformation & Public Sector Reform is responsible for managing the Council's day to day relationship with ANGUSalive and for ensuring the Management Fee element of the budget is appropriately managed.
- 3.4 Preparing a budget for ANGUSalive therefore requires a partnership approach. Decisions have to be made by the Council in relation to the Management Fee and services it wants ANGUSalive to provide in return, and by the ANGUSalive Board on how it will deliver the services required by the Council, while taking cognisance of its own obligations acting in the best interests of the Charity and the Company.
- 3.5 With respect to the level of fees and charges to be levied, whilst ANGUSalive prepares and considers proposals for those fees and charges, the Service Agreement with ANGUSalive stipulates that it is for the Council to approve the levels proposed.

- 3.6 The charges proposals attached to this report were considered and approved from an ANGUSalve business and operational perspective at the ANGUSalve Finance & Audit Sub-Committee on 29 January 2021.
- 3.7 The proposals in this report were considered and noted by the ANGUSalve Board at its meeting on 26 February 2021.
- 3.8 As additional background this year, COVID-19 has impacted and restricted ANGUSalve's operations and activities throughout the whole of 2020/21. This has resulted in a significant reduction in fees and charges income. The implications from COVID-19 are expected to continue to have a considerable impact on the generation of income from fees and charges throughout 2021/22.

#### 4 2020/21 APPROVED BUDGET AND PROJECTED OUTTURN

- 4.1 ANGUSalve's approved revenue budget was specifically set to deliver a net income of £200,000 in 2020/21 to allow a base level of Renewal & Repair (R&R) Fund contribution to be made. Contributions to the R&R Fund are required to finance the annual equipment and IT replacement programmes essential to maintaining the customer base, facility usage and business operations. The 2020/21 revenue budget includes a Management Fee from Angus Council of £3.901 million.
- 4.2 No adjustments to the Management Fee level have been necessary during 2020/21.
- 4.3 The latest outturn position for ANGUSalve is based on actual income received / expenditure incurred up to 31 January 2021 and projects a year end net income of circa £1,034,000. A high-level budget summary along with a high-level projected year-end position is shown in the following table.

2020/21	Budget £m	Projected Outturn £m	Projected Variance £m
Income			
• Management Fee	3.901	3.901	0
• All Other Income	5.012	0.824	(4.188)
• COVID-19 Government Support	0	2.544	2.544
Total Gross Income	8.913	7.269	(1.644)
Gross Expenditure	8.713	6.235	2.478
<b>Net Income</b>	<b>0.200</b>	<b>1.034</b>	<b>0.834</b>

In respect of the above table, the following should be noted:

- Whilst availability of government support is very welcome, it falls well short of fully offsetting the income shortfall from activities and facility admissions
  - Proactive management of the staffing position during the prolonged COVID-19 restrictions along with robust and careful control of all other expenditure elements has allowed ANGUSalve to more than offset the overall income shortfall in order to provide flexibility for the further financial challenges the 2021/22 financial year will bring.
  - In particular, ANGUSalve took the decision after quarter 1 to pay salaries at the 80% support level of the furlough support scheme, based on emerging evidence that the pandemic would continue over the longer term, and held as vacant some 50+ posts resulting in a substantial underspend in respect of staff costs.
- 4.4 Despite the challenges faced in 2020/21, the achievement of a net income position continues to be vital to ANGUSalve for 2 main reasons:
1. to maintain a sufficient level of unrestricted reserves as required by the Office of the Scottish Charity Regulator (OSCR); and
  2. to allow contributions to be made into the Equipment and IT R&R Funds for investment in the Council assets occupied and utilised by ANGUSalve.

Regular equipment and technology refresh / replacement is essential to maintain ANGUSalve's customer base, facility usage and business operations through:

- Ensuring an attractive offering for customers by providing up to date and fit for purpose equipment; and

- Ensuring IT equipment and systems provide continuity of service as well as improvements in the customer and employee experience by enabling the organisation to keep up to date with changes in technology.

4.5 At this stage, the ANGUSalve Board have yet to determine how much net income will be contributed to top up the R&R Funds in 2020/21 and consequently how much will be retained in general reserves. The judgement of the appropriate mix will be both dependant on the final year-end position and what is known at the time of the decision as to how lockdown easing, facility reopening and activity restarting may progress over 2021/22.

The ANGUSalve Board will be asked to take this decision at its meeting of 18 June 2021 at the same time as it considers the 2020/21 draft annual accounts position.

4.6 It can however be noted that ANGUSalve Group reserves as at 31 March 2020 were:

<b>ANGUSalve Group Reserves – 31 March 2020</b>	<b>£m</b>
Restricted Reserves	0.033
Unrestricted Reserves	1.626
<b>Total Reserves (Excluding Pension Reserve)</b>	<b>1.659</b>

## **5 IMPACT OF COVID-19**

5.1 Reports have been presented to the last 4 Council meetings (most recently on 11 February 2021) providing members with information regarding ANGUSalve in light of the ongoing COVID-19 Government restrictions and current lockdown. The issues highlighted and information contained therein remain relevant to consideration of this report and the setting of the ANGUSalve Management Fee for 2021/22.

5.2 These reports have detailed significant impacts on ANGUSalve operations and activities but have crucially also highlighted some significant risks and unknowns regarding the way forward, even as the vaccination programme brings some hope of an eventual route out of the current lockdown.

5.3 The most significant risk relates to the availability of Government support (in particular the furlough scheme) alongside the uncertainty of when facilities may be able to fully reopen and activities fully restart. This risk can be summarised as follows:

- Availability of the furlough scheme ends on 30 April 2021.
- Little if any facility reopening / activity restarting is expected by that time.
- Significant expenditure (in particular staff costs) would be incurred whilst not being able to generate much income through fees and charges.
- For context:
  - normal operating staff costs amount to £524,000 per month.
  - the unrestricted reserves noted above equate to just 3 months of salary costs.

5.4 There is currently no clarity as to when Government guidance will once again allow sports and leisure or libraries, customer and culture facilities, to reopen and provide availability of activities and services. This gives considerable uncertainty as to when ANGUSalve will be able to again generate any sizeable levels of income from fees and charges – particularly from the sports and leisure area. Even when income generation is again possible, previous experience indicates that reopening will happen only very gradually and it will therefore be some time before income levels even begin to approach previous levels.

5.5 Despite the positive financial position currently indicated in section 4 above, it remains the expectation of the ANGUSalve Board and senior management that 2021/22 will continue to present substantial operational and financial challenges. This expectation is shared across the sector in Scotland and is not unique to Angus. To maintain ANGUSalve as a sustainable organisation (and crucially to maintain the going concern assessment that allows them to trade legally), it is expected that the continued backing and availability if required of financial support from the Council will be required throughout 2021/22.

## **6 ANGUS COUNCIL SUPPORT MEASURES**

6.1 Report 224/20 to Council on 10 September 2020, approved several support measures in order to ensure that the ANGUSalve 2019/20 accounts external audit process could successfully conclude on

the question of ANGUSalve being a going concern. This assessment looked at a 12-month period from the date of signing the accounts. The Council support measures for 2020/21 were thus central to that assessment.

- 6.2 An assessment of going concern will again be carried out as part of the closure and audit of the ANGUSalve 2020/21 final accounts. This assessment will again cover a 12-month period from the date of signing the accounts. This is expected to broadly cover October 2021 to September 2022 inclusive.

Several factors will play a part in that assessment. The existence of the package of Council support measures during the first 6 months of the assessment period will however be a crucial component. The support measures will also be a crucial component in addressing the business operation / income generation concerns highlighted above.

Members are accordingly asked to note the following update on the package of support measures.

#### SUPPORT MEASURES FOR NOTING

- 6.3 Enhanced support from the Council's Finance team

Significant additional support has been provided by the Council's Finance team over the course of 2020/21. This support will continue to ensure projections, estimates, financial implications and cashflow forecasts are available to inform decision making.

- 6.4 2020/21 Budget Savings

In addition to the original report 224/20, Council approved report 334/20 at its meeting of 17 December 2020. This report agreed that the £458,000 budget saving delivered from the 2020/21 ANGUSalve Management Fee, continues to be set aside as part of the overall Council budget position for 2021/22. This would be used to top up the 2021/22 Management Fee as required, subject to member approval.

- 6.5 Flexibility on the timing of Management Fee payments

Report 224/20 delegated authority to the Director of Finance to alter the normal quarterly schedule of Management Fee payments, where this is required to support ANGUSalve's cashflow requirements. This delegation covered both 2020/21 and 2021/22 and remains in place.

- 6.6 Additional cashflow support up to £500,000

Report 224/20 also approved the availability of £500,000 of cashflow support. This support has been available during the latter part of 2020/21 but ANGUSalve has not required to call on it. The availability of the support was however approved out to 31 March 2022 and thus remains in place at this time.

This support measure is available to help manage the peaks and troughs of ANGUSalve's cashflow. This would be on a similar basis to a bank overdraft rather than as additional funding. Thus, any draw on this support would be repayable by ANGUSalve.

- 6.7 Loss of income funding

The Policy and Resources committee approved report 17/21 at its meeting of 2 February 2021. The committee agreed that the Council's loss of income scheme allocation be added to the Council's COVID-19 Contingency Reserve. The committee further agreed that the £119,000 of the allocation relating to ANGUSalve be earmarked for ANGUSalve use, to be drawn down as required. This would be the first support measure to be drawn down.

Additional funding for the loss of income scheme was announced by the Scottish Government on 28 January 2021 – raising the Scotland-wide funding from £90 million to £200 million. As a result, the Council's loss of income funding allocation has increased by the same proportion. Confirmation of the Council's new total allocation was received on 18 February. This included confirmation that the ANGUSalve element of the Council's allocation has now increased to £265,000 – i.e. an increase of £146,000 from the original allocation, which is in proportion to the increase in the overall Council allocation. It is the £265,000 amount that will now be set aside in the Council's COVID-19 Contingency Reserve for ANGUSalve use subject to approval by Policy & Resources Committee on 9 March 2021.

## 6.8 Flexibility in meeting Service Agreement/ Specification

ANGUSalve's recovery plans during 2021/22 will continue to depend on the government restrictions in place to address the pandemic. During this ongoing period of uncertainty, ANGUSalve will likely be unable to meet the full scope of the Service Agreement and will therefore require flexibility to make interim operational changes and manage costs relative to income, while still being in receipt of the full Management Fee. Interim changes to the Service Agreement during this period will continue to be highlighted as part of future update reports for members' consideration, along with any proposals emerging from the transformation project that propose permanent changes.

### SUPPORT MEASURE SUBJECT TO APPROVAL OF ANOTHER REPORT

## 6.9 2021/22 & 2022/23 Budget Savings

In light of the expected ongoing challenges to ANGUSalve operations and finances, it is proposed elsewhere on the agenda of this meeting, that the previously planned budget savings targets for 2021/22 and 2022/23 (£250,000 and £210,000 respectively) both be delayed by 1 year. This would result in no budget saving target being applied to the ANGUSalve Management Fee for 2021/22. This would allow ANGUSalve to be financially better placed to get through the recovery phase when that eventually happens.

## 7 DETERMINING THE 2021/22 MANAGEMENT FEE

7.1 The level of the Management Fee is subject to discussion between Angus Council and the ANGUSalve Board. Previous years' have seen a savings target applied in each year, which ANGUSalve have always delivered on time and in full.

7.2 As noted at paragraph 6.8 above however, the pressures brought about by COVID-19 mean that the planned savings target for 2021/22 is now proposed to be delayed by 1 year.

7.3 Accordingly, it is proposed that the Management Fee for 2021/22 would be set as per the 2020/21 level, but that uplifts for pay award, increments and living wage would continue to be applied to the Management Fee.

7.4 It is intended that the setting of the Management Fee for 2022/23 would return to the position of requiring a savings target to be delivered, whilst still receiving staff cost uplifts.

### 2021/22 Proposed Management Fee

7.5 On the basis of the above, the budget settlement (Management Fee payable) for ANGUSalve for 2021/22 would be as follows:

	<u>£m</u>
Base Management Fee (2020/21 level)	3.901
Add: 2021/22 Staff costs uplift (estimate)	0.155
Less: Saving requirement (deferral proposed)	0.000
<b>Proposed 2021/22 Management Fee (estimate)</b>	<b>4.056</b>

7.6 Financial year 2021/22 will be uniquely challenging for ANGUSalve and it is not possible at this point to know for certain whether the proposed Management Fee shown above will be sufficient to maintain services and enable a sustainable position for the Trust. ANGUSalve does not have direct control over key aspects affecting its finances such as whether the furlough scheme might be extended or replaced or when and how facilities which generate income will be allowed to re-open. The Trust has managed its financial position exceptionally well during 2020/21 despite the challenges and in financial terms is well placed for the 2021/22 year. Nevertheless Finance officers believe that revisions to the budget settlement and the Service Agreement are likely to be required on a one-off basis during 2021/22 to respond to the impact of the pandemic and in particular a scenario where staff costs may be unsupported nationally and limited income is available to help meet those and other costs. Further reports to Council or appropriate Committees will be provided for any proposed changes to the Management Fee or Service Agreement.

## **8. 2021/22 REVIEW OF CHARGES**

- 8.1 As noted earlier in this report, whilst it is for ANGUSalve to prepare and consider the levels of fees and charges with respect to their business operations, the Service Agreement with the Council stipulates that it is for the Council to approve any such proposals.
- 8.2 To this end, the Finance & Audit Sub-Committee of ANGUSalve considered a report by the ANGUSalve Chief Executive at its meeting of 29 January 2021 which set out detailed proposals for the charges to be levied by ANGUSalve in the 2021/22 financial year.
- 8.3 The report to that Sub-Committee is attached as **Annex 1** to this report.
- 8.4 The Sub-Committee approved the proposals from an ANGUSalve business and operational perspective.
- 8.5 As required by the Service Agreement, Members are now asked to approve the charges proposals attached.

## **9. FINANCIAL IMPLICATIONS**

- 9.1 There are no immediate financial implications arising from the recommendations of this report.
- 9.2 The Management Fee proposals outlined in this report are subject of approval through other reports on the Agenda of this meeting and have been reflected in the net expenditure summary and Council Tax calculation. Approval of the Management Fee proposal will however allow ANGUSalve to be financially better placed to get through the recovery phase when that eventually happens.
- 9.3 The financial implications from approval of the review of charges sit directly with ANGUSalve rather than the Council.

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

List of Annexes:

Annex 1: Charging and Pricing Structure Review report to the ANGUSalve Finance & Audit Sub-Committee