

ANGUS COUNCIL

ANGUS COUNCIL – 3 MARCH 2022

ANGUSalive CHARGES REVIEW AND BUDGET SETTLEMENT 2022/23

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

This report presents the proposed 2022/23 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 2022/23 revenue and capital budget setting process, including the review of charges proposals set out in **Annex 1**, along with ANGUSalive's Business Plan for 2022/23 set out in **Annex 2**.

2. ALIGNMENT TO THE COMMUNITY 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 a charitable company set up in perpetuity and which 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. The services to be delivered are reviewed periodically, most recently by Council on 10 February 2022 (report 38/22 refers).
- 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 must 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 28 January 2022 and thereafter at the full Board meeting on 18 February 2022.
- 3.7 A draft version of the Management Fee proposals in this report were considered and noted by ANGUSalve at its Finance & Audit Sub-Committee meeting (28 January 2022) and the final version of the Management Fee proposal in this report were considered and noted by ANGUSalve at its full Board meeting (18 February 2022).
- 3.8 COVID-19 impacted and restricted ANGUSalve's operations and activities throughout the whole of 2020/21 and April 2021. Although restrictions began easing from 26 April 2021, various restrictions have continued to operate throughout 2021/22 and these along with a slow return to facility visits / usage, continue to result in a significant reduction in fees and charges income compared to pre COVID-19 levels.
- 3.9 The implications from COVID-19 are expected to continue to have a considerable impact on the generation of income from fees and charges throughout 2022/23.
- 3.10 It is also highlighted that a key component of the annual budget settlement is for ANGUSalve to provide the Council with a Business Plan for the forthcoming financial year. While the process to agree the Business Plan has not been fully implemented this year, ANGUSalve Board have authorised a draft business plan for submission to the Council. This has been included in **Annex 2**.

4. 2021/22 APPROVED BUDGET AND PROJECTED OUTTURN

- 4.1 ANGUSalve's approved revenue budget for 2021/22 was set at a net expenditure of £0.352 million. This was a change from previous budgets which were set at a net income of £0.200 million to provide for a base level of contributions to the Renewal & Repair (R&R) Fund.
- 4.2 The move to a net expenditure budget reflected the challenges of recovering from the COVID-19 impacts, with income levels expected to recover much more slowly than expenditure levels would rise.
- 4.3 The 2021/22 revenue budget includes Management Fee income from Angus Council of £3.901 million (unchanged from 2020/21). The level of services provided for that same Management Fee have however had to be reduced to manage costs given the level of income from fees and charges has been much lower than pre-pandemic levels.
- 4.4 No adjustments to the Management Fee level have so far been necessary during 2021/22, although an uplift to cover the cost of the 2021/22 pay award will be applied prior to the end of the financial year.
- 4.5 The latest outturn position for ANGUSalve is based on actual income received / expenditure incurred up to 31 December 2021 and projects a year end net income of circa £0.175 million. A high-level budget summary along with a high-level projected year-end position is shown in the following table.

2021/22	Budget £ million	Projected Outturn £ million	Projected Variance £ million
Income			
• Management Fee	3.901	3.901	0
• All Other Income	3.294	3.091	(0.203)
• COVID-19 Government Support	0.280	0.297	0.017
Total Gross Income	7.475	7.289	(0.186)
Gross Expenditure	7.827	7.114	0.713
Net (Expenditure) / Income	(0.352)	0.175	0.527

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

- The budgets for most fees and charges income elements were set at 60% of pre-COVID levels, however only bACTIVE membership income is achieving that level.
- Without the impact of COVID – the normal income budget position would have had no “COVID-19 Government Support” budget and the “All Other Income” budget would have been £5.012 million. The normal income budget would thus have been £8.913 million – with the projected “All Other Income” outturn above being £1.921 million short of that position.
- Exceptional expenditure budget adjustments were also made to help mitigate the impact of COVID on the income position. This was mainly the inclusion of a staff vacancy budget of £0.745 million, although several other cost saving adjustments were also made wherever possible. For example, further staff budget reductions of £0.094 million were applied where services could not be provided in full and goods for resales purchases were reduced by £0.026 million to reflect

facility opening restrictions. Without making these adjustments, the expenditure budget would have been £8.713 million

- Without the impact of COVID therefore, the overall budget position would have been net income of £0.200 million – the starting budget position above is therefore £0.552 million worse than would usually be the case.
- These exceptional adjustments were however only possible with the continued agreement of the Council to the continuation of interim changes to the Service Agreement (i.e. reduced levels of service availability) most recently agreed by members at the Council meeting on 10 February 2022.
- In addition to the budget setting adjustments, proactive management of the staffing position along with robust and careful control of all other expenditure elements has allowed ANGUSalve to fully offset the overall income shortfall in the current financial year.
- Whilst availability of government support for furlough was very welcome, it ended on 30 September 2021 and fell well short of fully offsetting the income shortfall from activities and facility admissions.
- Based on the projected outturn position, a reduced contribution to the R&R Fund would be made this year.
- ANGUSalve faces a challenging future financially and it will be difficult to maintain a net income position moving into 2022/23 for the reasons outlined at section 8 below.

4.6 At this stage, it is intended to drawdown the £0.265 million lost income funding (see also paragraph 6.6 below) held in Angus Council’s reserves given the slower than expected recovery of income levels. This is not reflected in the projections above but would allow a contribution to be made to the R&R Fund in line with previous years.

4.7 Notwithstanding the challenges faced in 2021/22 and the challenges predicted for future financial years, the achievement of future net income positions will continue to be vital goal 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.

Maintaining and growing the ANGUSalve customer base is essential to the financial position of ANGUSalve. Regular equipment and technology refresh / replacement is essential to that maintenance and growth of the 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.

4.8 It can be noted that ANGUSalve Group reserves on 31 March 2021 were:

ANGUSalve Group Reserves – 31 March 2021	£ million
Restricted Reserves	0.143
Designated Funds – R&R Funds	0.600
Designated Funds – Health & Wellbeing Partner Project Match Funding	0.125
Unrestricted Reserves	1.780
Total Reserves (Excluding Pension Reserve)	2.648

5. IMPACT OF COVID-19

5.1 Reports have been presented regularly to Council meetings since September 2020 (most recently on 10 February 2022, report 38/22 refers) providing members with information regarding ANGUSalve in light of the most recent COVID-19 Government restrictions and the need to transform the business model via the Transformation Project agreed by members. The issues highlighted and information contained therein remain relevant to consideration of this report and the setting of the ANGUSalve Management Fee for 2022/23.

5.2 These reports have detailed significant impacts on ANGUSalve operations and activities but have crucially also highlighted some significant risks regarding the way forward.

5.3 The most significant risk at this time last year related to the availability of Government support (in

particular the furlough scheme) and the uncertainty of when facilities would be able to fully reopen and activities fully restart in order to once again generate income from fees and charges. In this regard, the following can be noted:

- Most facilities were able to reopen at some level from 26 April 2021.
- Restarting of some activities was only allowed on a partial / phased basis.
- Restrictions on larger events meant the Webster Theatre, Arbroath was not able to reopen until later in the year, with the curtain being raised on the first performance on 1 October 2021.
- The furlough scheme ended on 30 September 2021.
- Recently, further limited restrictions have impacted activities from 26 December 2021 to 23 January 2022 – particularly at the Webster Theatre – in response to the impact of the Omicron variant.
- Income generation has not recovered at the rate expected, with membership income remaining at around 60% of pre-COVID levels and all other income elements at between 10% and 40% of pre-COVID levels.

5.4 By adopting a prudent and cautious approach, ANGUSalve has achieved the relatively positive financial position currently indicated in section 4 above, however it remains the expectation of the ANGUSalve Board and senior management that 2022/23 will continue to present substantial operational and financial challenges – particularly around recovery of income levels. 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 2022/23 as noted below.

6. ANGUS COUNCIL SUPPORT MEASURES

6.1 Report 283/21 presented to Council on 9 September 2021 was considered at the meeting's reconvened session on 17 September 2021. This report approved several support measures be extended to 31 March 2023 to ensure that the ANGUSalve 2020/21 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 2021/22 and 2022/23 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 2021/22 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 2022 to September 2023 inclusive.

Several factors will play a part in that assessment. The Council support measures already agreed by members (report 283/21 to Council on 9 September 2021 refers) are a critical component of that assessment as they are available during the first 6 months of the assessment period. 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.

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 2021/22. 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 set aside

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 2022/23. This would be used to top up the 2022/23 Management Fee if required. The Director of Finance has delegated authority to implement this measure should the need arise and to ensure it can be implemented quickly (report 283/21 to Council on 9 September 2021 refers). Should it be necessary to draw on this support measure, members would though be updated at the earliest opportunity.

6.5 Flexibility on the timing of Management Fee payments

The Director of Finance has delegated authority to alter the normal quarterly schedule of Management Fee payments, where this is required to support ANGUSalve's cashflow requirements. This approval covers both 2021/22 and 2022/23 (report 283/21 to Council on 9 September 2021 refers).

6.6 Loss of income funding

This relates to specific support for loss of income provided by the Scottish Government. The ANGUSalve element of the Council's allocation of this support is £0.265 million and this is set aside in the Council's COVID-19 Contingency Reserve for ANGUSalve to draw on when required.

This would be the first support measure to be drawn on and the Director of Finance has delegated authority to pay this support (report 283/21 to Council on 9 September 2021 refers). As indicated at paragraph 4.6, ANGUSalve intend to drawdown this support before the end of the current financial year considering the evident significant income shortfall.

6.7 Flexibility in meeting Service Agreement/ Specification

ANGUSalve's recovery plans during 2021/22 have continued to be affected by the pandemic and in particular the financial challenge faced. During the recovery period, ANGUSalve have been unable to meet the full scope of the Service Agreement and have required flexibility to make interim operational changes to adhere to government restrictions and manage costs relative to income, while still being in receipt of the full Management Fee.

The expectation that ANGUSalve's recovery will continue to face significant challenges during 2022/23 means that ongoing flexibility through interim changes to the Service Agreement will be required during this period. Details of this flexibility in terms of operating arrangements for 2022/23 were included in Report 38/22 which was considered and agreed by members at the Council meeting on 10 February 2022. Members will though be kept informed on any changes to this position as part of future update reports, along with any proposals emerging from the transformation project that propose permanent changes.

7. DETERMINING THE 2022/23 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 savings targets applied in each year, which ANGUSalve have always delivered on time and in full. It was though agreed as part of the 2021/22 budget setting process to delay the Management Fee saving planned for 2021/22 by 1 year as part of the measures to ensure the financial sustainability of ANGUSalve through the COVID-19 pandemic. No further delay is possible due to the significant budget pressures emerging for the Council overall.

7.2 The budget proposals being presented today therefore once again include as part of the change programme, indications of Management Fee savings requirements in each of the next 3 financial years and these are summarised below.

Indicative Savings Requirements	£ million
2022/23	0.285
2023/24	0.210
2024/25	0.500
Total Indicative Savings Requirement (3 years)	0.995

7.3 The £285,000 for 2022/23 has been utilised within the calculation of the indicative 2022/23 Management Fee at paragraph 7.4 below.

2022/23 Proposed Management Fee

7.4 Based on the above, the indicative budget settlement (Management Fee payable) for ANGUSalve for 2022/23 would be as follows:

	£ million
Base Management Fee (2021/22 level)	3.901
Add: 2021/22 Staff costs uplift (estimate)	0.222
2021/22 Updated Management Fee (estimate)	4.123
Add: 2022/23 Staff costs uplift (estimate)	0.285
Less: Saving requirement (per change programme)	0.285
2022/23 Management Fee (estimate)	4.123

Note: The 2022/23 staff cost uplift estimate assumes a potential pay award averaging 1.5% across all staff groups in line with the assumptions elsewhere in the Council's budget. The estimated impact of the additional 1.25% employers National Insurance contributions for the Health and Social Care Levy is also built into the staff cost uplift estimate.

7.5 The above position represents no change in the Management Fee cash position in 2022/23. Whilst this might seem like a cash flat settlement for ANGUSalve, the reality is that with the staff cost uplift simply mirroring the equivalent rise in staff costs, a real saving of £0.285 million must still be made for ANGUSalve to balance their budget.

8. CHALLENGES AHEAD

8.1 Financial year 2022/23 will continue to be challenging for ANGUSalve and it is considered that the proposed Management Fee shown above will not be sufficient to fully maintain services and enable a sustainable position for the Trust. Agreement to continued flexibility throughout 2022/23 in terms of operating arrangements (Report 38/22 to Council on 10 February 2022 refers) does however provide ANGUSalve with a steady platform during 2022/23 to forward plan as part of the Transformation Project development.

8.2 Whilst the delivery of savings is required to assist with the Council's overall financial position and delivery of a balanced budget, the levels of savings indicated over the next 3 years cannot be delivered and at the same time return to delivery of the full original service specification agreed by the Council when ANGUSalve was established in December 2015.

8.3 In this regard, members are asked to note the following:

- Income levels are projected to continue to be very slow to recover – indeed they may never return fully to pre-COVID levels. Forward planning assumptions have been agreed which aim to return to 90% of pre-COVID income levels over the next 3 years, targeting a 10% rise each year. This equates to targeting a 70% income level in 2022/23, 80% in 2023/24 and 90% in 2024/25.
- Even without the Management Fee reductions, ANGUSalve would face a challenge from the ongoing reduced income levels – with the Management Fee reductions, the challenge is increased.
- No further government support measures are anticipated based on information available at this time.
- ANGUSalve are likely to have to set a net expenditure budget for 2022/23.
- ANGUSalve will thus be reliant on the support measures per section 6 of this report to maintain their going concern position and to allow them to continue to trade legally.
- Ongoing interim changes to the Service Agreement and service specification will be required throughout 2022/23 to deliver services within the finances available. This was agreed by Council at its meeting of 10 February 2022 (report 38/22 refers).
- A number of these changes may need to become permanent for ANGUSalve to remain a sustainable organisation and this will come forward as proposals via the Transformation Project in due course.
- The Transformation Project will not just focus on cost savings but will also focus on opportunities to increase income generation to address the impact of future Management Fee reductions as sustainably as possible.
- Further reports to Council or appropriate Committees will be provided for any proposed interim or permanent changes to the Service Agreement.

9. 2022/23 REVIEW OF CHARGES

9.1 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.

9.2 To this end, the Finance & Audit Sub-Committee of ANGUSalve considered a report by the ANGUSalve Chief Executive at its meeting of 28 January 2022 which set out detailed proposals for the charges to be levied by ANGUSalve in the 2022/23 financial year.

9.3 The report to that Sub-Committee is attached as **Annex 1** to this report.

9.4 The Sub-Committee and thereafter full Board at its meeting on 18 February 2022 approved the proposals from an ANGUSalve business and operational perspective.

9.5 As required by the Service Agreement, Members are now asked to approve the charges proposals attached.

10. FINANCIAL IMPLICATIONS

10.1 There are no immediate financial implications arising from the recommendations of this report.

- 10.2 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 finalise their budgets and plans towards recovery during 2022/23.
- 10.3 The financial implications from approval of the review of charges sit directly with ANGUSalve rather than the Council.

11. EQUALITY IMPACT ASSESSMENT

- 11.1 An Equality Impact Assessment has been completed for this report – see Annex 3.

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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
Annex 2: ANGUSalve Business Plan for 2022/23
Annex 3: Equality Impact Assessment