

ANGUS COUNCIL

SPECIAL ANGUS COUNCIL – 29 FEBRUARY 2024

ANGUSalive CHARGES REVIEW AND BUDGET SETTLEMENT 2024/25

JOINT REPORT BY DIRECTOR OF FINANCE AND DIRECTOR OF LEGAL, GOVERNANCE AND CHANGE

1. ABSTRACT

- 1.1 This report presents the proposed 2024/25 budget settlement between the Council and ANGUSalive, along with the review of ANGUSalive charges for services and their 2024/25 to 2026/27 Business Plan.

2. ALIGNMENT TO THE COMMUNITY PLAN

2.1 Caring for our Economy

- Support Angus to achieve inclusive and sustainable economic growth, with a particular focus on the long-term potential of private and public investment opportunities in offshore renewable energy
- Encourage and invest in fair work opportunities for those that live, work and study in Angus

2.2 Caring for our People

- Reduce inequalities in all our communities
- Provide the best start in life for children
- Create more opportunities for people to live well and achieve their personal goals
- Improve physical, mental health and wellbeing

2.3 Caring for our Place

- Protect and enhance our natural and built environment
- Enable inclusive, empowered, resilient and safe communities across Angus
- Make our local services accessible

3. RECOMMENDATIONS

- 3.1 It is recommended that the Council:

- (i) Notes and approves the contents of this report as part of Angus Council's 2024/25 revenue and capital budget setting process including the review of charges proposals set out in **Annex 1**, along with ANGUSalive's Business Plan covering 2024/25 to 2026/27 set out in **Annex 2**, which proposals are subject always to the change control process established in the agreements between ANGUSalive and Angus Council being followed;
- (ii) Approves the four Change Notices submitted to the Council by ANGUSalive on various dates in 2023, for the removal of the following venues from the ANGUSalive Service Specification: - Arbroath Community Centre; Brechin Town House Museum; Inglis Memorial Hall; and Kirriemuir Gateway to the Glens Museum and thereafter delegates authority to the Director of Legal, Governance & Change, or her representative, to notify ANGUSalive;
- (iii) Notes the need, as set out in the financial implications at section 10 of this report, for Council and ANGUSalive to work together to implement a shared funding approach to any Early Retirement / Voluntary Redundancy (ER/VR) costs that result from any changes to the Services Specification resulting from the proposed Management Fee reductions and Business Plan proposals; and
- (iv) Delegates authority to the Director of Finance to pay the Council's share of any ER/VR costs up to a maximum total of £250,000 during the period 2024/25 to 2026/27 from the provision for severance costs set aside in the Council's General Reserve Balance (paragraph 10.6 refers).

4. BACKGROUND

- 4.1 Whilst the responsibility for ensuring there is provision of culture, sport and leisure and face-to-face ACCESS services remains with the Council, the delivery of these services transferred from the Council to the ANGUSalve Charitable Trust on 1 December 2015. ANGUSalve 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 ANGUSalve Board has 5 Independent Directors and 4 Angus Council appointed Directors who are elected members.
- 4.2 In normal course, ANGUSalve 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 ANGUSalve to deliver services on behalf of the Council which are covered by a Service Agreement.
- 4.3 The Director of Legal, Governance and Change is responsible for managing the Council's day-to-day relationship with ANGUSalve and for ensuring the Management Fee element of the budget is appropriately managed.
- 4.4 Preparing a budget for ANGUSalve therefore requires a partnership approach. Decisions must be made by the Council in relation to the Management Fee and services it wants ANGUSalve to provide in return, and by the ANGUSalve 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 Company which has charitable status.
- 4.5 With respect to the level of fees and charges to be levied, whilst ANGUSalve prepares and considers proposals for those fees and charges, the Service Agreement with ANGUSalve stipulates that it is for the Council to approve the levels proposed.
- 4.6 The charges proposals attached to this report (**Annex 1**) were considered and approved from an ANGUSalve business and operational perspective at the ANGUSalve Finance & Audit Sub-Committee on 2 February 2024 and thereafter at the full Board meeting on 16 February 2024.
- 4.7 A draft version of the Management Fee proposal in this report was considered and noted by ANGUSalve at its Finance & Audit Sub-Committee meeting (2 February 2024) and an update on the final version of the Management Fee proposal in this report was provided to ANGUSalve at its full Board meeting (16 February 2024).
- 4.8 The generation of income from fees and charges forms a significant element of ANGUSalve's income streams. While these income streams continue to be affected by the cost-of-living crisis which impacts levels of disposable income available for discretionary spend within local communities and the visitor economy, ANGUSalve has seen a significant increase in fees and charges income over the last 12 months or so. This is due in part to investment in new fitness equipment and new pricing structures for bACTIVE memberships.
- 4.9 It is also highlighted that a key component of the annual budget settlement process is for ANGUSalve and the Council to discuss and develop a Business Plan for the forthcoming financial year. The Business Plan provided to the Council as part of the budget papers in March 2023 covered 3 financial years including 2024/25. That version of the Business Plan is still current and is provided again as **Annex 2** to this report as the 2024/25 detail is still relevant. Discussions between ANGUSalve and Council officers take place on a regular basis regarding progress with implementing the Business Plan. The ANGUSalve Board is also updated with progress on a regular basis, most recently at their meeting on 16 February 2024.

5. 2023/24 APPROVED BUDGET AND PROJECTED OUTTURN

- 5.1 ANGUSalve's approved revenue budget for 2023/24 shows a breakeven position. This includes Management Fee income from Angus Council of £4.950 million.
- 5.2 Uplifts to the Management Fee during 2023/24 have been made in respect of:
 - Consolidation of the Scottish Living Wage into core pay scales
 - Prior years - £0.258 million (temporary uplift)
 - 2023/24 - £0.136 million (permanent uplift)
 - The 2023/24 pay awards - £0.527 million (permanent uplift)
 - 2023/24 additional annual leave day - £0.025 million (temporary uplift)

These adjustments are reflected in the figures detailed above and in the table below.

- 5.3 The latest outturn position for ANGUSalve is based on actual income received / expenditure incurred up to 31 December 2023 and projects a year end net income of circa £0.374 million. A high-level budget summary along with a high-level projected year-end position is shown in the following table.

2023/24	Budget £ million	Projected Outturn £ million	Projected Variance £ million
Income			
• Management Fee	4.950	4.950	0.000
• All Other Income	4.468	4.609	0.141
Total Gross Income	9.418	9.559	0.141
Gross Expenditure	9.418	9.185	0.233
Net (Expenditure) / Income	0	0.374	0.374

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

- Exceptional expenditure budget adjustments were made to mitigate the reduction in base management fee. This was mainly the inclusion of a temporary reduction in the staffing budget of £0.400 million, although several other cost saving adjustments were also made wherever possible.
 - In addition, ongoing proactive management of the staffing position along with robust and careful control of all other expenditure elements has allowed ANGUSalve to perform better than breakeven in the current financial year.
 - Based on the projected outturn position and subject to Board of Directors approval, contributions to the ER/VR reserve and Investment Fund will be made this year.
 - ANGUSalve faces a challenging future financially given the indicative level of savings that will need to be delivered from the Management Fee over the next 3 financial years.
 - Although increased revenue opportunities and cost efficiencies have been identified to hopefully achieve a balanced budget position for 2024/25, it will be challenging to deliver. Consequently, it will be difficult to maintain a net income position moving into 2024/25 and beyond for the reasons outlined at section 8 below.
- 5.4 At this stage, it is not intended to drawdown the £0.265 million lost income funding received from the Scottish Government for ANGUSalve (see also paragraph 6.4 below) and held in Angus Council's reserves given the currently projected year-end position. Should the ultimate year-end outcome be a net expenditure position then this intention would be revisited.
- 5.5 Notwithstanding the challenges continuing to be faced in 2023/24 and the challenges predicted for future financial years, the achievement of future net income positions will continue to be a vital goal for 2 main reasons:
1. to maintain a sufficient level of unrestricted reserves as recommended by the Office of the Scottish Charity Regulator (OSCR) – the policy level determined by the ANGUSalve Board at its development day on 22 October 2021, is £1.6 million which is approximately 3 months of staff costs; and
 2. to allow contributions to be made into the Investment Fund for investment in the provision of fitness equipment and other improvements to 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.

5.6 It can be noted that ANGUSalve Group reserves on 31 March 2023 were:

ANGUSalve Group Reserves	31 Mar 2023 Actual £ million
Restricted Reserves	0.148
Designated Funds – Investment Fund	1.915
Designated Funds – Health & Wellbeing Partner Project Match Funding	0.125
Designated Funds – Early Retirement / Voluntary Redundancy (ER/VR)	0.150
Unrestricted Reserves	1.601
Total Reserves (Excluding Pension Reserve)	3.939

5.7 Of the reserves detailed above, the Restricted Reserves are not freely available for use and the designated funds for the Health & Wellbeing project are now fully committed. The other Designated Funds have been set aside to fund investment plans and provide contingency match funding for any ER/VR costs that may arise.

5.8 Consequently, only the Unrestricted Reserves are available on an uncommitted contingency basis unless a decision to release funds from the Designated Funds was made. As noted at paragraph 5.5 above, these reserves are required to be held to address the requirement of OSCR for the charity to hold a reasonable level of reserves.

6. ANGUS COUNCIL SUPPORT MEASURES

6.1 Report 231/23 presented to the Policy & Resources Committee on 29 August 2023 approved that availability of 2 specific support measures be extended to 31 March 2025 to ensure that the ANGUSalve 2022/23 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 2023/24 and 2024/25 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 2023/24 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 2024 to September 2025 inclusive.

Several factors will play a part in that assessment. The Council support measures already agreed by members are a critical component of that assessment as they are available during the first 6 months of the assessment period.

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

6.3 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 2024/25. This would be used to top up the 2024/25 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. Should it be necessary to draw on this support measure, members would though be updated at the earliest opportunity. This approval covers the period to 31 March 2025.

6.4 Loss of income funding

- This relates to specific support for loss of income provided by the Scottish Government as part their COVID-19 support measures. The ANGUSalve element of the Council's allocation of this support is £0.265 million and this is set aside in the Council's Reserves 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. As indicated at paragraph 5.4, ANGUSalve do not currently intend to drawdown this support this financial year given the currently projected outturn for the year.

6.5 Service Agreement/ Specification

- Report 364/22 considered by Council at its meeting on 3 November 2022, provided a new baseline position for ANGUSalve to progress its operations. That report highlighted that the ongoing

development and delivery of ANGUSalve's Transformation Programme proposals would be an intrinsic element of ANGUSalve's annual Business Plan which is to be submitted to the Council each year. The Business Plan covering 2024/25 to 2026/27 is included in **Annex 2**.

- A full update of the Service Agreement is currently being undertaken to reflect the changes agreed in relation to ANGUSalve's Transformation Programme to date, along with the proposals included in the Business Plan for 2024/25.
- It is also planned that in future years, ANGUSalve's annual Business Plan process, aligned with the Council budget setting process, will provide the principal mechanism for Council consideration / approval of proposed changes to the Service Agreement, albeit there may be exceptions to consider from time to time.
- This approach will support the ANGUSalve Board to undertake its independent leadership role of developing the organisation in a way that provides autonomy for operational decision making and business planning, while being dovetailed with the Council's strategic planning and budget setting process.

7. DETERMINING THE 2024/25 MANAGEMENT FEE AND INDICATIONS FOR 2025/26 & 2026/27

- 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.
- 7.2 To date £2.733m of management fee savings have already been achieved by ANGUSalve from 2015/16 to 2023/24. For an organisation whose expenditure budgets are dominated by employee costs (c. 80%) this is a significant achievement. This figure excludes savings realised by Angus Council in setting up the charity and excludes savings in Non-Domestic Rates realised over the same period – which total £9.6 million.
- 7.3 The £0.500 million saving requirement in 2023/24 has been achieved on a one-off basis in year but cannot be delivered on a recurring basis for future years until ongoing service reviews conclude through the Managing Workforce Change process. This work is well progressed and no issues are anticipated in making the savings from permanent cost reductions.
- 7.4 It should be noted that at the Council's budget-setting meeting last year, Council approved the recommendations in Report 53/23 relating to ANGUSalve Charges Review & Budget Settlement 2023/24, with the following additional wording "*subject to ANGUSalve adhering to the change process already agreed*". Reference to the Change Process related to the proposal by ANGUSalve to remove Arbroath Community Centre, Brechin Town House Museum, Inglis Memorial Hall, Kirriemuir Gateway to the Glens Museum and Montrose Basin Local Nature Reserve from their Service Specification. The Change Process to remove these 5 Services from the ANGUSalve Specification has not formally been concluded. In relation to the first four properties, feasibility studies have been ongoing with community groups, but these have not yet been finalised (expected by the end of March 2024). ANGUSalve have indicated that they will not be in a position to provide services at these four facilities from 1 April 2024, primarily due to staff moves, and have requested that the Council confirm its acceptance of the four Change Notices by the end of March 2024. Given that circa £105k of the 2023/24 savings achieved by ANGUSalve are contingent upon ANGUSalve coming out of the 4 properties, it is proposed that Council today formally approve the four Change Notices.
- 7.5 It is unlikely that alternative arrangements will be in place, whether with community groups or otherwise, for the operation of these facilities from 1 April 2024 and therefore it is likely that there will be a period where no alternative is in place. In relation to both museums, which are due to re-open for the season in April, it is likely that there will be a delay in opening until later in the year, or a risk that they are unable to open this year. As regards Inglis Memorial Hall, community access arrangements will be made so bookings can still be made, and access will still be available. As regards Arbroath Community Centre, this has been closed since before the pandemic, having been used as a vaccination centre by the NHS.
- 7.6 As the wildfowling season is about to end and does not start again until the autumn, it is proposed that the Change Notice for Montrose Basin Local Nature Reserve is not approved by the Council at this time but is reported to Committee at a future date to determine future provision of this service, prior to commencement later in the year.

- 7.7 The budget proposals being presented today once again include, as part of the Council's Change Programme, indications of Management Fee savings requirements in each of the next 3 financial years and these are summarised below. These reflect the Council's financial challenges which have grown significantly and which were reported to Council via the Medium-Term Budget Strategy (MTBS). ANGUSalve officers and Board members have been kept apprised of these indicative savings requirements through officer level discussions and Board reports.

Indicative Savings Requirements	£ million
2024/25	0.500
2025/26	0.500
2026/27	0.250
Total Indicative Savings Requirement (3 years)	1.250

- 7.8 The £500,000 savings target for 2024/25 has been used within the calculation of the proposed 2024/25 Management Fee at paragraph 7.9 below.

2024/25 Proposed Management Fee and 2025/26 & 2026/27 Indicative Management Fees

- 7.9 Based on the above, the proposed budget settlement (Management Fee payable) for ANGUSalve for 2024/25 and the indicative Management Fees for 2025/26 and 2026/27 would be as follows:

	2024/25 £ million (proposed)	2025/26 £ million (indicative)	2026/27 £ million (Indicative)
Base Management Fee (2023/24 level)	4.950		
Less: 2023/24 temporary uplifts (per para 5.2 above)	(0.283)		
Adjusted Base Management Fee (2023/24 level)	4.667		
Indicative future base management fees		4.387	4.037
Add: Staff costs uplifts (estimates)	0.220	0.150	0.155
Less: Saving requirements (per change programme)	(0.500)	(0.500)	(0.250)
Indicative Management Fees (estimates)	4.387	4.037	3.942
Net Management Fee Reduction (estimates)	(0.280)	(0.350)	(0.095)

Note: The staff cost uplift estimates assume potential pay awards in each year across all staff groups, averaging 3%, 2% and 2% respectively in line with the assumptions elsewhere in the Council's budget.

- 7.10 The above position represents cash reductions in each of the 3 years, totalling £0.725 million over the period. Whilst this is the net cash movement for ANGUSalve, the reality is that the staff cost uplifts simply mirrors the equivalent rise in staff costs incurred.
- 7.11 A real saving of £1.250 million in total (£0.500 million in 2024/25 and 2025/26 and £0.250 million in 2026/27) must still be made for ANGUSalve to balance their budget.
- 7.12 This represents a 27% saving over 3 years which will be a significant challenge to deliver.

8. IMPLICATIONS AND CHALLENGES AHEAD

- 8.1 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 will be extremely challenging to achieve and cannot be delivered along with delivery of the full current service specification. As noted earlier, the process to update the Services Agreement is in progress.
- 8.2 The savings target for financial year 2024/25 is expected to be achieved from a combination of additional income by taking opportunities to increase revenue streams and from reviews currently underway which will maximise cost efficiencies. Accordingly, no significant changes to service delivery are anticipated to be required for 2024/25. Delivery of the savings targets for financial years 2025/26 and 2026/27 are however expected to require more significant changes and in this regard, members are asked to note the following:
- Whilst no significant changes to services delivered are anticipated during 2024/25, the scale of the challenge in the 2 following years means that to be financially sustainable within the 3-year revised funding level, cuts will inevitably be required to the services provided in the future years.
 - With staff costs comprising some 80% of ANGUSalve costs, such cuts to services will inevitably impact staffing levels.

- Additionally, reductions in management fee and increasing levels of income generated both have a negative impact on the ability of ANGUSalve to recover VAT on their business costs – this means that a consequential additional cost results which effectively increases the savings that need to be made to accommodate that reduced VAT recovery.
- Ongoing interim changes to the Service Agreement and service specification may be required over the next 3 years to deliver services within the finances available.
- Changes will come forward as proposals via the Transformation Programme and an overview of those currently proposed are contained within the ANGUSalve Business Plan.
- The Transformation Programme 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 changes to the Service Agreement.

9. 2024/25 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 and approved a report at its meeting of 2 February 2024 which set out detailed proposals for the charges to be levied by ANGUSalve in the 2024/25 financial year.
- 9.3 The report to that Sub-Committee is attached as **Annex 1** to this report.
- 9.4 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 business planning for 2024/25 and beyond.
- 10.3 The proposed Management Fee reductions will require changes to allow ANGUSalve to be financially sustainable within the revised funding envelope indicated at paragraph 7.9 above. Where staffing reductions result from these changes, every effort will be made to deliver these through natural staff turnover.
- 10.4 It is however likely that to fully deliver on the scale of the changes that will be necessary, at least some staff reductions will be required via early retirement or voluntary redundancy (ER/VR) and the Council and ANGUSalve will need to work together to implement a shared funding approach to any Early Retirement / Voluntary Redundancy (ER/VR) costs.
- 10.5 This shared approach would be in line with that adopted previously and would recognise that many staff were originally part of the Council prior to transfer to ANGUSalve and would ensure that any ER/VR costs would not of themselves jeopardise the financial sustainability of ANGUSalve. The full implications for both the Council and ANGUSalve would be set out as part of future reports but are likely to require a call on ANGUSalve overall reserves to fund their share.
- 10.6 Should ER/VR costs be incurred, members are asked to approve a delegation to the Director of Finance to pay the Council's share of ER/VR costs up to a maximum total of £250,000 during the period 2024/25 to 2026/27. ANGUSalve will need to make provision for the same amount. Should the Council share of any ER/VR costs go beyond this level, a report will be brought to committee for members' consideration / approval. The Council's share of ER/VR costs would be met from the provision for severance costs set aside in the Council's General Reserve Balance which is proposed to be £3.5 million per the Council's latest Reserves Strategy (Report 65/24).
- 10.7 The financial implications from approval of the review of charges sit directly with ANGUSalve rather than the Council.

11. ENVIRONMENTAL IMPLICATIONS

- 11.1 There are no direct environmental implications arising from the recommendations of this report.
- 11.2 Should there be any environmental implications that arise from implementing any future proposals to amend the service specification, these would be detailed in the committee reporting associated with considering and approving such changes.

12. EQUALITY IMPACT ASSESSMENT, HUMAN RIGHTS AND FAIRER SCOTLAND DUTY

- 12.1 An Equality Impact Assessment has been carried out and is attached – see **Annex 3**.

13. CONSULTATION

- 13.1 The Senior Management Team of ANGUSalve has been consulted in the preparation of this report. ANGUSalve have also provided the information which has been included in the Annexes and the EIA for this report.

REPORT AUTHOR: Kevin Lumsden, Manager (Finance)

EMAIL DETAILS: Finance@angus.gov.uk

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 2024/25 to 2026/27
- Annex 3: Equality Impact Assessment