

DUNDEE CITY COUNCIL

REPORT TO: Policy and Resources Committee - 11 March 2002

REPORT ON: Dundee Industrial Heritage Ltd

REPORT BY: Director of Leisure and Arts

REPORT NO: 187-2002

1.0 PURPOSE OF REPORT

1.1 To provide an update on the financial position in relation to Dundee Industrial Heritage Ltd, (DIH) and consider City Council Grant Support.

2.0 RECOMMENDATION

It is recommended that members:

2.1 Note the financial position regarding Dundee Industrial Heritage Ltd as outlined in this report.

2.2 Remit to the Director of Leisure and Arts to work with Dundee Industrial Heritage Ltd to further review operations and develop a case to the Scottish Executive for financial support.

2.3 Agree to provide a one-off additional grant of £25,000 in 2002/3 to Dundee Industrial Heritage as outlined in Section 6.6.

3.0 FINANCIAL IMPLICATIONS

3.1 The Leisure and Arts 2002/03 Revenue Budget includes a provision of £27,000 in respect of the grant to Dundee Industrial Heritage (DIH). The additional £25,000 can be met from the Common Good account.

4.0 LOCAL AGENDA 21 IMPLICATIONS

4.1 The organisation's principal activity is the provision of museum and heritage services for all the public, to encourage visitors to Dundee, and safeguard the city's rich industrial heritage.

5.0 EQUAL OPPORTUNITIES IMPLICATIONS

5.1 Dundee Industrial Heritage's facilities at Discovery Point and Verdant Works allow access to services which are not achieved at the expense of the environment and which are accessible to all. The Old Steeple presents access difficulties, which restrict access to the ground floor only for those with physical mobility difficulties.

6.0 BACKGROUND

6.1 Current Position

- 6.1.1 Dundee Industrial Heritage Ltd is responsible for the management and operations of two of Dundee's premier tourist attractions, Discovery Point and Verdant Works, as well as the Old Steeple. It is a charitable company being the trading subsidiary of Dundee Heritage Trust.
- 6.1.2 The organisation is heavily dependant upon earned income (90% of gross revenue) and is, therefore, particularly vulnerable to changing market conditions. DIH is operating within an increasingly competitive market (the last 3 years have seen the opening of Pictavia, DCA, Sensation and Dundee Ice Arena).
- 6.1.3 The Scottish market has been in general decline over the last 3 years due to factors including exchange rates, petrol prices and increased overseas competition. More recently the Foot and Mouth disease outbreak along with the effects of the September 11th terrorist attacks have exacerbated this situation. Foreign visitors account for 50% of visitors to Discovery Point. 85% of visitors come from outwith Dundee.
- 6.1.4 The financial crisis facing Verdant Works earlier in the year resulted in the funding appeal 'Keep Verdant Working' which raised £89,000 from a variety of public and private sources to save the facility from complete closure over the winter period. It is not thought practical or achievable to raise this level of funding in response to a crisis situation on an annual basis.
- 6.1.5 The effect of these factors has resulted in falling visitor numbers which have had and are continuing to have an acute impact on DIH's financial position. The out-turn for 2001/2002 indicates an annual deficit of £91,000 which will be offset by a contribution from the 'Keep Verdant Working' appeal.

6.2 Restructuring

- 6.2.1 Even to reach this anticipated position DIH has implemented restructuring which resulted in the reduction of staffing. The opening hours at Verdant Works have been reduced and the Old Steeple closed between November and March.

6.3 Draft Budget 2002/2003

- 6.3.1 For the period April 2002 - March 2003, Dundee Industrial Heritage will continue to maintain and upgrade its facilities, offering high quality exhibits combining both education and entertainment value. There will be further capital investment of £200,000 to improve displays at Discovery Point and RRS Discovery.
- 6.3.2 In addition DIH and the City Council reviewed the operation of car parking at Discovery Point during 2000 with the City Council now managing this on DIH behalf. It is anticipated this will provide DIH with an additional £30,000 income in 2001/2002 and this additional support will continue into 2002/2003.
- 6.3.3 DIH have also recently received confirmation of a successful European Regional Development Fund application specifically for Marketing. This continues support which DIH have received in recent years, although the new award is at an increased level with £64,999 available in 2002/03 and similar amounts over the next five years. This will support the employment of a new Marketing Officer.
- 6.3.4 Nonetheless the proposed budget for 2002/2003 projects a deficit of £79,262 across all functions. The budget does not include any income for the management of the Old Steeple. This was previously funded by lend Lease, the developers of the Overgate Centre. There is no provision in the Leisure and Arts Department's 2002/03 revenue budgets to replace that funding.

6.4 **Cash Reserves**

6.4.1 Dundee Heritage Trust currently holds reserves in the region of £150,000 although a substantial proportion of this is identified as capital contribution to planned improvements to the visitor facilities. While the application of some reserves to sustain the revenue operation of Dundee Industrial Heritage Ltd in the short-term (and particularly as part of a restructuring plan) is conceivable, DIH must reach a sustainable revenue position which does not year-on-year depend on (ever diminishing) reserves.

6.5 **Considerations**

6.5.1 DIH have identified that, even with the restructuring that has taken place to cut costs, additional secure revenue funding will be required from public sources to sustain the current level of operation. DIH are discussing this situation with Scottish Enterprise Tayside, the Scottish Executive as well as Dundee City Council.

6.5.2 A more detailed analysis of the operating budgets indicate that Discovery Point/RRS Discovery makes a profit based on current levels of income and expenditure whilst Verdant Works and the Old Steeple incur losses. DIH has indicated that the closure of Verdant Works and the Old Steeple in their entirety is an option that may have to be considered unless a more substantial revenue contribution from whatever source can be identified.

6.6 **Proposed Support**

The Leisure and Arts Committee will, in due course, give consideration to the provision of £27,000 annual grant support contained within the Leisure and Arts Department's 2002/03 revenue budget.

In addition to this it is proposed that additional support of £25,000 is provided in 2002/03 to Dundee Industrial Heritage Ltd subject to the following conditions:-

- Support is provided on a one off basis to assist restructuring
- A comprehensive review of DIH Ltd's operations is undertaken in conjunction with the Director of Leisure and Arts
- Identification of a sustainable revenue business plan which safeguards the future of DIH Ltd's attractions.

7.0 **CONSULTATION**

7.1 The Chief Executive, Director of Support Services, Director of Finance and Director of Corporate Planning have been consulted on this report and are in agreement with its content.

8.0 **BACKGROUND PAPERS**

8.1 Report No 365-2001.

Director of Leisure and Arts _____ Date _____

DUNDEE HERITAGE TRUST

Estimated Outturn and Budget Forecast

	2001/02 Estimated Outturn	2002/03 Budget
Visitor Numbers		
Discovery Point	72,000	68,000
Verdant Works	19,000	20,000
Old Steeple	3,154	2,500
Visitor Numbers	<u>94,154</u>	<u>90,500</u>
Average Ticket Price	3.33	3.54
Income		
Admissions	313,156	320,010
Letting/Catering Gross	233,920	240,300
Car Park Gross	80,000	87,700
Retail Income Gross	169,894	172,475
Corporate Support	6,600	15,000
Fundraising	6,315	16,200
Old Steeple Fee	<u>0</u>	<u>0</u>
Total Earned Income	<u>809,885</u>	<u>851,685</u>
Keep Verdant Working Appeal	89,000	0
Marketing Grant	28,500	64,999
DHT Salary Grant	0	10,000
Friends Contribution	0	2,000
DCC Grant	26,000	27,000
Old Steeple Revenue Grant	4,750	0
Misc Grant	<u>8,000</u>	<u>7,500</u>
Total Grant Income	<u>156,250</u>	<u>111,499</u>
Total Income	<u>966,135</u>	<u>963,184</u>
Expenditure		
Total Payroll	454,538	463,648
Total Running Costs	<u>513,712</u>	<u>578,798</u>
Total Expenditure	<u>968,250</u>	<u>1,042,446</u>
Surplus/(Deficit)	(2,115)	(79,262)

1. Increases in running costs are attributable to a combination of inflationary increases, increases in building maintenance, sewage and water costs, insurances and marketing costs.