

ITEM No ...10.....

REPORT TO: CITY GOVERNANCE COMMITTEE – 19 AUGUST 2024

REPORT ON: INTERNAL AUDIT REPORT - LEISURE AND CULTURE DUNDEE (LACD) FINANCIAL SUSTAINABILITY

REPORT BY: CHIEF EXECUTIVE

REPORT NO: 210 - 2024

1. PURPOSE OF REPORT

1.1 To review the summary of the Internal Audit Report on Leisure and Culture Dundee – Financial Sustainability referred from the Scrutiny Committee of 26 June 2024 and agree the recommendations in this report.

2. RECOMMENDATIONS

2.1 It is recommended that members:

- (i) note the summary (Appendix 1) considered by Scrutiny Committee on 26 June 2024; and
- (ii) consider the additional context set out in this report and working with Leisure and Culture Dundee remit the Chief Executive to undertake a fuller review of agreements, priorities, funding and options for Leisure and Culture Dundee.

3. FINANCIAL IMPLICATIONS

3.1 There are no financial implications as a result of this report. Any cost incurred in undertaking the review will be met by the Transformation Change Fund.

4. MAIN TEXT

4.1 Following consideration of report 171-2024 at the meeting on 26 June 2024 of the Scrutiny Committee, the Convener agreed to refer the executive summary of the internal audit report on LACD Financial Sustainability (within report 171-2024) to the City Governance Committee for review by all elected members.

4.2 The summary attached as Appendix 1 notes that:

- i) LACD remains in a period of transition following the Covid-19 pandemic. Services and facilities have reopened; however, visitor numbers are still stabilising, and their distribution across services and facilities has changed. This altered profile of demand is still developing, meaning that the services required, and their mode of delivery may differ now.
- ii) The current economic landscape that the Council and LACD are operating in impacts what services can be delivered for the available budget. Since the period of the pandemic the Council have provided LACD an additional £4.236m of Covid support mainly to address income shortfalls.

4.3 The audit set the Assurance level as – Limited. A range of recommendations and actions to address this were agreed by both the Council and LACD.

5.0 ADDITIONAL CONTEXT

5.1 City Governance Committee on 19 February 2024 considered the annual LACD – Performance and Impact report for 2022/23 (Report 51-2024), this highlighted:

- There was increased attendance to facilities operated, but this was still much lower than pre-pandemic levels, an average of 28% lower.

- Fuller details on the financial agreements for 2022/23 totalling £ 18,224,735, being the annual management fee of £8,476,000, additional support (re COVID recovery) of £1,298,974, further fees for a range of services provided of £1,149,761 and £7.3m support for support property and buildings maintenance, IT and support costs, and loan charges in relation to facilities managed by Leisure & Culture Dundee
- Local Government Benchmarking data comparing costs per visit for museums, leisure, and libraries. Although varying at times they have shown that our costs have been consistently higher than the family group average over a number of years, in particular for libraries and leisure services.

- 5.2 Report 202-2024, Revenue Monitoring 2024/25, sets out pressures of circa £5m within the 2024/25 budget and that Executive Directors are developing financial recovery plans to bring expenditure within budget. It also notes that the additional support that was provided to LACD since 2020 ended on 30 June 2024 and any additional support in the future would have to be met from reserves.
- 5.3 City Governance Committee on 29 February 2024, Report 71-2024 – Consultation Process: Leisure and Culture Dundee, was agreed setting out actions based on proposals made by the Board of LACD as follows and to be reported back to future committees:
- Consultation to take place regarding the future of Caird Park golf course, Mills Observatory and Broughty Ferry Castle.
 - A review of library services by LACD to identify ways of ensuring the service delivers a sustainable model across the City for the longer term.
- 5.4 It is also recognised that unless there is substantial change realising recurring savings and/or more revenue generated, additional financial support from the Council would be required. This would potentially mean further savings or changes to Council run services being required to continue to deliver balanced budgets.
- 5.5 Having considered all of the work underway and context set out in this report, it is proposed that a fuller review of agreements, priorities, funding and options for Leisure and Culture takes place to ensure that sustainable services can be maintained for our citizens in the longer term. External support to undertake this review would be sought and reported back to Committee.

6. POLICY IMPLICATIONS

- 6.1 This report has been subject to the Pre-IIA Screening Tool and does not make any recommendations for change to strategy, policy, procedures, services, or funding, so has not been subject to an Integrated Impact Assessment. An appropriate senior manager has reviewed and agreed with this assessment.

7. CONSULTATIONS

- 7.1 The Council Management Team was consulted in the preparation of this report.

8. BACKGROUND PAPERS

- 8.1 None.

INTERNAL AUDIT REPORT 2022/04

Client	Leisure and Culture Dundee
Subject	Financial Sustainability

Executive Summary

Conclusion

Limited Assurance

At the time of the audit in 2023 significant weaknesses or gaps existed in the system of control, resulting in areas of unmanaged risk. In the period since the initial audit testing ended there has been activity that goes some way to address these, including progress with a review of the specification for the services to be provided by LACD in exchange for the management fee and public consultation on cost saving measures proposed during the setting of the 2024/25 budget.

The Council's budget for 2024/25 assumes that £0.620m of their general fund reserves should be utilised to support LACD income over and above the management fee depending on the outcome of the consultation exercise. It is recognised that unless there is substantial change realising recurring savings, more income or a change to the services provided additional financial support from the Council may continue to be required in future.

The Service Agreement update requires to be completed and reflect the current services the Council wants to be delivered and the financial envelope available. Along with the revised Agreement, a new performance monitoring regime should be implemented by the Council. Both would support LACD with the prioritisation of services and to develop operational plans and make resource allocation decisions in response to ongoing financial pressures faced by the public sector in the wake of Covid-19 and the Cost-of-Living crisis.

Introduction

Leisure and Culture Dundee (LACD) is an arm's length external organisation (ALEO) of Dundee City Council (the Council), established as Scottish Charitable Incorporated Organisation (SCIO). Its stated purpose is "To deliver, for the citizens of Dundee, and those who visit the City, high quality Leisure, Sporting, Cultural and Learning Experiences which contribute to their quality of life."

LACD is funded primarily through a combination of the management fee paid by the Council and income generated by charging for the provision of services and the operation of leisure and cultural facilities. The organisation produced a Business Plan for the period 2019-24 which aimed to achieve a budgeted income of £15.283m in 2021/22, of which £7.168m (46.9%) consisted of the management fee.

However, in March 2020, LACD was obliged to close all services and furlough the majority of its staff as a consequence of the lockdown introduced across the country in response to the Covid-19 Pandemic. This, along with the fall in attendance as services reopened has adversely impacted LACD's ability to generate income, and accordingly, its budgetary position. The budgeted and actual expenditure and income figures for 2021/22 and 2022/23 are provided in the table below:

Year	Budgeted Expenditure £ million	Actual Expenditure £ million	Budgeted Income £ million	Actual Income £ Million
2021/22	16.523	14.711	16.523	14.953
2022/23	16.428	15.616	16.428	15.658

The figures in the table above include additional financial assistance of £4.236m agreed with Dundee City Council as a result of the impact of the Covid-19 pandemic.

In order to ensure the ongoing financial sustainability of Leisure and Culture Dundee, it is essential that financial plans, budgets, and service delivery plans are revised to take account of this new operating environment.

In the year since the audit fieldwork was completed in early 2023 the financial pressures on both the Council and LACD have continued. Report 71-2024 to the City Governance Committee in February recommended consultation on a range of savings options proposed by LACD to address the shortfall and this process started in May 2024. The outcome from the actions agreed in report 71-2024 are likely to impact on the actions recommended by this audit. As part of the Council's budget setting process, a total of £0.620m was made available from general reserves to provide additional management fee to LACD in 2024/25 depending on the outcome of the above consultation exercise. The recurring impact of this would require to be considered as part of the Council's 2025/26 budget process.

The term Service Level Agreements (SLAs) is used in practice to refer to services being provided by and to LACD. In this report, to distinguish between these, Service Agreement is used to refer to the document that articulates the services that LACD should provide for the Council, and Service Level Agreements (SLAs) is used to refer to services provided to LACD by the Council.

Scope

Review of the arrangements for the continued financial sustainability of Leisure and Culture Dundee following the COVID-19 pandemic.

Draft reports were first issued for this audit in May 2023. The delay in completion is partially due to the report addressing issues that apply to both the Council and LACD. Additional audit evidence was provided following the issue of the draft report and reduced resource within the Internal Audit service impacted on the timing for that to be reviewed. The issues raised in the report have however been progressing where possible in the period whilst the report was being finalised.

Objectives

		Action Priority			
		C	H	M	L
Review the effectiveness of the process to negotiate and agree the Service Agreement and the management fee with Dundee City Council	Limited Assurance	2	2	-	-
Determine the extent to which service plans, operational objectives, and KPIs have been reviewed and revised, based on realistic assumptions	No Assurance	1	2	-	-
Confirm that LACD has assessed the financial impact of the Covid 19 pandemic	Substantial Assurance	-	-	-	-
Confirm that financial plans and budgets have been reviewed and updated in the light of this assessment	Substantial Assurance	-	-	1	-
TOTAL		3	4	1	-

Key Findings

LACD remains in a period of transition following the Covid-19 pandemic. Services and facilities have reopened; however, visitor numbers are still stabilising, and their distribution across services and facilities has changed. This altered profile of demand is still developing, meaning that LACD is required to revise its services and their mode of delivery as these changes emerge.

The current economic landscape that the Council and LACD are operating in impacts what services can be delivered for the available budget. Since the period of the pandemic the Council have provided LACD an additional £4.236m of Covid support mainly to address income shortfalls. As part of the budget setting process for 2024/25 a public consultation regarding closure or alternative means of operation was agreed for several venues operated by LACD on the Council's behalf. It is recognised that unless there is substantial change realising recurring savings or more income, additional financial support from the Council may continue to be required in future. This makes the need to finalise good arrangements to agree and monitor the Service Agreement and the management fee critical.

The agreement that specifies the functions that LACD is expected to perform in exchange for the management fee is out of date.

The scope of the performance monitoring arrangements which are in place currently encompass only a small part of the overall activity of LACD, being primarily concerned with attendance at facilities as opposed to the efficiency and effectiveness of the services being provided. Accordingly, they provide only limited assurance as to LACD performance, the value for money obtained in exchange for the management fee, and how LACD activity contributes to achievement of the Council's priorities and objectives.

This report reiterates and elaborates upon elements of an outstanding action agreed to address the recommendations arising from the 2020/21 Internal Audit report *Leisure & Culture Dundee*

Governance Arrangements. We propose to close the existing open action as it is superseded by the following findings and recommendations made to Dundee City Council in this report:

- Work has been ongoing during 2024 to update the 2011 Service Agreement to reflect current activity and what is required from the arrangement in future. We have recommended that this review should consider and address how the services and outcomes expected in exchange for the management fee are defined. This could be at a higher, less operational, level, relating to the Council's own priorities and objectives. This would allow LACD freedom to develop operational plans which support its ability to demonstrate fulfilment of the requirements of the specification.
- The revised Service Agreement should include a formal performance monitoring regime which is clearly linked to the services and outcomes that LACD is expected to deliver for the Council. The performance monitoring should be meaningful with both parties clear about the services and standards expected.
- In conjunction with the review of the Service Agreement, the Council has also begun a review to determine whether the support services' SLAs agreed in 2011 reflect current practice and remain appropriate and fit for purpose.
- Over time for practical reasons the way in which the management fee is agreed has evolved to fit in with the Council's budget setting timetable and the Scottish Government's timetable and arrangements for local government funding. This no longer follows the arrangements laid out in the Service Agreement and therefore the Agreement requires to be updated.

In the course of reviewing the arrangements within LACD to ensure its financial sustainability, we have identified the following areas for improvement:

- LACD developed a high-level business plan for the period 2019-24, however the development of detailed operational plans for the delivery of services was interrupted by the Covid 19 pandemic. The absence of a meaningful service specification or detailed plans for service delivery means that it is difficult to determine the intended objective or outcome of specific activities undertaken by LACD, and in particular whether this activity is in fulfilment of the Service Agreement, other arrangements such as the Active Schools agreement, or in pursuit of LACD's own objectives and charitable purpose. LACD has implemented a new strategy and is in the course of developing updated operational plans which set out the services it aims to deliver in terms of their purpose and objectives, and the resources required to deliver them. . These should be reviewed once a revised Service Agreement is in place.
- We have recommended that Dundee City Council, as part of the update of the Service Agreement, clarify how LACD can make proposals to be included in the Council's capital plan. While LACD maintains a list of desirable capital projects, it is not able to easily prioritise these or construct business cases in terms of their impact on service delivery. LACD should update its list of proposed capital projects in line with its revised business plan. The review should consider the consistency of the objectives of the proposals with the business plan and select options to be discussed with the Council.
- Internal financial reporting to the LACD Board and Finance & Performance Committee offers only limited detail on financial performance, as financial variances cannot be analysed in terms of their impact on the organisation's ability to deliver its plans and objectives. Financial reporting should be revised to better support decision making.

Impact on risk register

We have raised Critical findings which relates to LACD's ability to set operational objectives, develop plans to deliver on those objectives, and demonstrate that delivery to Dundee City Council which provides a significant proportion of LACD's funding. Setting clearly articulated objectives are fundamental to effective risk management, as it entails identifying threats to the delivery of those objectives

Definitions of Levels of Assurance

Comprehensive Assurance	The system of controls is essentially sound and supports the achievement of objectives and management of risk. Controls are consistently applied. Some improvement in relatively minor areas may be identified.
Substantial Assurance	Systems of control are generally sound, however there are instances in which controls can be strengthened, or where controls have not been effectively applied giving rise to increased risk.
Limited Assurance	Some satisfactory elements of control are present; however, weaknesses exist in the system of control, and/or their application, which give rise to significant risk.
No Assurance	Minimal or no satisfactory elements of control are present. Major weaknesses or gaps exist in the system of control, and/or the implementation of established controls, resulting in areas of unmanaged risk.

Definitions of Action Priorities

Critical	Very High-risk exposure to potentially major negative impact on resources, security, records, compliance, or reputation from absence of or failure of a fundamental control. Immediate attention is required.
High	High risk exposure to potentially significant negative impact on resources, security, records, compliance, or reputation from absence of or non-compliance with a key control. Prompt attention is required.
Medium	Moderate risk exposure to potentially medium negative impact on resources, security, records, compliance or reputation from absence or non-compliance with an important supporting control, or isolated non-compliance with a key control. Attention is required within a reasonable timescale.
Low	Low risk exposure to potentially minor negative impact on resources, security, records, compliance, or reputation from absence of or non-compliance with a lower-level control, or areas without risk exposure but which are inefficient, or inconsistent with best practice. Attention is required within a reasonable timescale.

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