

REPORT TO: POLICY AND RESOURCES COMMITTEE – 24 AUGUST 2020

REPORT ON: LEISURE & CULTURE DUNDEE COVID 19 FINANCIAL OVERVIEW

REPORT BY: CHIEF EXECUTIVE & ACTING MANAGING DIRECTOR OF LEISURE AND CULTURE DUNDEE

REPORT NO: 194-2020

1.0 PURPOSE OF REPORT

The purpose of this report is to provide the Policy and Resources Committee with an overview of the financial consequences for Leisure and Culture Dundee due to Covid 19 and actions taken and those being considered to address the financial position by the Board and Senior Management Team of Leisure and Culture Dundee

2.0 RECOMMENDATIONS

It is recommended that the Committee:-

- 2.1 Note the content of the report including the action being taken by Leisure and Culture Dundee to respond to the financial challenges of the COVID-19 pandemic
- 2.2 Note the financial risks associated with the projected expenditure profile and the deficit position being projected by Leisure and Culture Dundee. This deficit is included in the Council's COVID-19 report which is being considered by Policy and Resources Committee.
- 2.3 Note that all external funding streams available to Leisure and Culture Dundee will be explored and where applicable an application submitted.
- 2.4 Note the funding which has been provided to Leisure and Culture Dundee from the UK Government Job Retention Scheme.
- 2.5 Note that LACD has made a request for advance payment of the Q4 management fee in order to assist with the cashflow position.
- 2.6 Instruct the Chief Executive and Acting Managing Director of Leisure and Culture Dundee to bring forward a further update to Policy and Resources Committee once funding streams are clarified by Scottish and UK Governments.

3.0 FINANCIAL IMPLICATIONS

- 3.1 The anticipated shortfall in income and increased costs associated with COVID-19 on Leisure and Culture Dundee (LACD) is £5.4m for financial year 2020/21.
- 3.2 Funding from the UK Government Job Retention Scheme for the period 20/21 is estimated to be £2.1m. Discretionary expenditure has been reduced by £200k.
- 3.3 The net effect of actions taken to date result in a deficit position of £3m. This deficit position is reflected in the Council's COVID-19 financial implications paper.

4.0 MAIN TEXT

4.1 The financial performance of LACD for the three months April to June 2020 is as follows:

Expenditure		
Staff Costs	£	2,982,781
Property Costs	£	6,800
Supplies & Services	£	89,591
Transport Costs	£	2,864
Third Party Payments	£	0
Gross Expenditure	£	3,082,036
Income Received	£	(83,200)
Net Expenditure before Mgmt Fee & JRS	£	2,998,836
Q1 Management Fee	£	(1,831,750)
JRS Claims – April (received)	£	(477,435)
May (received)	£	(489,884)
June (claimed)	£	(456,576)
Net Expenditure after Mgmt Fee & JRS	£	(256,609)

Taking account of income from Job Retention Scheme still to be received for June claim, the financial position for the first quarter of the financial year 2020/21 is £256k net income.

Staff costs lower than budgeted due to no overtime, reduction in casual staff costs as a result of no holiday programmes or classes and no requirement to cover holidays, sickness or vacancies, no freelance costs and other costs that result in income generation.

Property costs relate to annual maintenance contracts at Olympia

Supplies and Services expenditure relates to costs associated with Wildlife Centre, monthly greenkeeping charges for Golf (only one month paid to date), chemicals for Olympia, Box Office website and annual contract charges for Library services.

Income includes Golf memberships, bank interest following recall of fixed rate deposits, Exhibition Tax Credit for 2018/19 and charge for let of Marryat Hall to NHS.

4.2 PROJECTED FINANCIAL POSITION BY EXPENDITURE CATEGORY

4.2.1 Staff Costs

Anticipated full year expenditure of £12,560,000, a reduction of £255k on the projected position as reported in June.

The reduction is based on expenditure to date and revised anticipated costs from each service area based on the current proposed re-opening schedule and taking account of current vacancies.

To achieve the projected final year position, all vacancies will require to be held until the end of the financial year and any additional costs incurred as a result of re-opening of facilities and services kept to an absolute minimum.

4.2.2 Property Costs

Small increase from June projected figure to £142,775. This is in respect of anticipated increase in rates charges for Caird Hall and Ice Arena

4.2.3 Supplies and Services

No change in projected costs for Supplies and Services from June position.

June position already reflected reduction in discretionary expenditure based on re-opening of facilities and services from August onwards and this is still in line with the latest proposed re-openings.

Further reduction in costs could be achieved by reducing the level of discretionary expenditure further, however this may impact on the delivery of services and the levels of income generated.

4.2.4 Transport Costs

Increase in costs to £145,500 due to anticipated skip hire costs being omitted previously.

4.2.5 Third Party Payments

Major Music grants to be suspended for 2020/21 and reinstated in 2021/22 resulting in a reduction of £22,500.

4.2.6 Income

Anticipated total income, including management fee, increased to £9,049,642, an increase of £82,600 which relates to use of DISC by Morgan Academy.

Confirmation has been received that Leisure & Culture Dundee will receive the full annual charge amount of £182,600; previously an amount of £100,000 was factored in due to uncertainty around the opening dates for schools

The projected income includes the assumption that Leisure Active memberships will resume from 1 October 2020 with an initial six week charge for the first month. This will be contingent on the opening of gyms as soon as restrictions are lifted.

Should there be a delay in the re-opening of gyms as soon as is possible, there is a serious risk of a significant reduction in the projected income from memberships, not only for this financial year but ongoing due to loss of members.

4.2.7 UK Government Job Retention Scheme

Claim values for the months April to June updated for actual claim values. July and August figures estimated based on current reopening schedule. September and October figures relate to Cultural Services staff that are currently not scheduled to be brought back to work until the end of the Job Retentions Scheme.

These figures will be updated once information on staffing requirements for re-opening and return dates of staff is received from the other service areas (currently in progress base on revised re-opening dates).

The introduction of the Job Retention Bonus by the UK Government will allow Leisure & Culture Dundee to claim an additional £1000 per employee who has been on furlough as long as they are still employed by the organisation on 31 January 2021 and have been paid at least £520 per month for the months of November, December and January.

On this basis, Leisure & Culture Dundee will be eligible to apply for this bonus in respect of approximately 290 staff, giving an additional £290k of income through the scheme. This has been included in the updated projected financial position – Appendix 1.

This payment would not be received until February 2021.

4.2.8 Projected Deficit 20/21

Taking all of the above into account, the updated projected deficit for the financial 2020/21 based on the current information and reopening schedule is £3.081m.

Utilisation of the balance of unrestricted reserves of £1m results in an estimated shortfall in funding of £2.081m

4.2.9 Scottish Government/Uk Government Funding

A £1.57bn emergency support package for the culture and arts sector was announced by the UK Government at the beginning of the month which will result in £97m being allocated to the Scottish Government.

As yet, there are no details of how this support will be distributed, or the criteria/ eligibility to receive or apply for part of the funding. However, it is hoped that Leisure & Culture Dundee will be able to access funding from the package to assist with costs.

4.2.10 Other Available Actions to Reduce the Projected Deficit

The only other avenue open to Leisure & Culture Dundee to reduce the projected deficit is to reduce the anticipated level of expenditure.

Over 85% of the projected 2020/21 expenditure relates to staff costs and this is the only area where a reduction would have a significant impact on the projected financial position of the organisation.

4.2.11 Cashflow

Based on current projections, Leisure & Culture Dundee will have enough cash to operate until at least the end of November. This takes account of all cash balances less current balances held for restricted funds and ticket sales.

Actions to assist with the cashflow of the organisation may be to approach Dundee City Council and explore the possibility of the Q4 management fee being paid in advance of January 2021.

This will only help the organisation if additional funding or financial assistance has been identified, or clear agreed actions being implemented to reduce expenditure in order to reduce the projected shortfall in funding for the financial year.

Cash balances held in respect of restricted funds and ticket sales could be used as long as additional funding/ financial assistance has been identified and agreed but not received.

As detailed in 4.6, the Job Retention Bonus will be paid in January 2021, however, this will only be received if the organisation continues to be able to trade sustainably.

The cashflow is updated on a weekly basis with actual income and expenditure and the position will continue to be reported to the Finance Committee and the Leisure & Culture Dundee Board.

5.0 **BEYOND FINANCIAL YEAR 2020/21**

5.1 At this point in time, we have no idea how long it will take for the world to return to a sustained 'new' normal after COVID-19. The time taken will depend on whether or not there

is a second wave of the virus in the coming months.

5.2 Even without this information, the current situation will have an impact on the finances of Leisure & Culture Dundee for at least financial year 2021/22 and possibly 2022/23.

5.3 It is, therefore, almost certain that additional funding, further significant savings, or both will be required for the financial sustainability of the organisation for the next one or two financial years, especially since there will be no unrestricted reserves available to call upon after 2020/21

5.4 A review on the reliance on income generation as part of the financial structure of Leisure & Culture Dundee should be undertaken as part of the organisational review which is about to commence.

5.5 Leisure and Culture Dundee, in partnership with the Council, are undertaking a review of the property portfolio to look at opportunities which may help to assist with the medium and long-term financial recovery.

6.0 **POLICY IMPLICATIONS**

This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management. There are no major issues.

7.0 **CONSULTATIONS**

The Council Management Team were consulted in the preparation of this report.

8.0 **BACKGROUND PAPERS**

None.

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CHIEF EXECUTIVE

2 AUGUST 2020

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OF LEISURE AND CULTURE DUNDEE

2 AUGUST 2020

