

PERTH AND KINROSS COUNCIL

6 December 2023

TRANSFORMATION REVIEW OF ARMS LENGTH EXTERNAL ORGANISATIONS

Head of Culture & Communities Services

(Report No. 23/347)

1. PURPOSE

- 1.1 A Transformation Review of our three arms-length external organisations (ALEOs) has been carried out, as part of the Council's wider Transformation Programme approved by Council in June 2022. This report summarises the Review findings and recommends next steps to secure the longer-term financial sustainability of our culture and sport offer. The report also makes wider improvement recommendations to our ALEO oversight arrangements.

2. RECOMMENDATIONS

- 2.1 It is recommended that Council:
- notes the Review findings set out in section 6
 - approves the recommendations set out in sections 6 and 7.
 - approves the proposed next steps set out in section 8 *and*
 - requests officers to bring a further progress update to Council in mid-2024.

3. STRUCTURE OF REPORT

- 3.1 This report is structured over the following sections:
- Section 4: Background/drivers for the Review
 - Section 5: Summary of Review scope/methodology
 - Section 6: Review findings
 - Section 7: Summary of recommendations
 - Section 8: Proposed next steps
 - Section 10: Conclusions

4. BACKGROUND

- 4.1 The Office for the Scottish Charities Regulator (OSCR) defines an ALEO as a *body which is formally separate from a local authority, but subject to its control and influence*. This makes them different from charities in some key respects, but ALEOs are delivery models used by many Councils because they:
- have a public persona/'brand' distinct from the Council and are independently governed by Boards who bring a wider range of skills and experience to the table.
 - qualify for business rates relief on the properties they occupy up to a maximum total level for the local authority area. This has been a

significant rationale for the ALEO model as it helps councils mitigate cuts to front-line services and staff.

- can attract major philanthropic and corporate support for which councils are not eligible; and can also be eligible as lead/partner applicant for other public funding streams.

4.2 ALEO Board and Trustees have legal responsibilities regulated by OSCR. Councils also have statutory duties regarding ALEOs. They must:

- be able to show that an ALEO remains the best model for delivering services which contribute to the Council's wider priorities (Best Value)
- review the model regularly in light of external/internal change (Best Value)
- maintain clear oversight and accountability of ALEOs' financial and wider performance, in order to manage strategic risk to the Council (Following the Public Pound)

4.3 Our ALEOs are Live Active Leisure (est 1965), Perth Theatre and Concert Hall (PTCH) (est 2004) and Culture Perth and Kinross (est 2016). Our ALEO contracts have a total value of £8.7M (2023/24) and combined annual expenditure of over £18M, making them our biggest collective commissioning arrangement.

4.4 In summary our ALEOs deliver:

- all sports services (except school PE) including extra-curricular school sport and community sports development for local voluntary clubs.
- all library/archive/local studies and museum/gallery services, and related reader development and creative learning programmes
- all performing arts services and related creative learning programmes
- operational management of 35 venues owned by the Council/LAL.

4.5 **Appendix 1** is the independent report by Glasgow Audit to support this Review and includes detailed analysis of the services delivered by the 3 ALEOs and their current financial/wider resource base. There are currently no shared services between the ALEOs for delivering corporate support functions, or regular collaborative arrangements for customer-facing activities, such as family or learning programmes.

Change drivers

4.6 In 2024/25, the ALEOs face significant internal recurring revenue pressures plus provisionally approved Council recurring revenue savings. These total at least £2.5M. The most significant revenue pressure is pay, followed by rising energy and running costs of buildings. In addition, the capital spend requirements over the next 5 years for the 35 properties operated by ALEOs is estimated at around £20M.

- 4.7 There are changes to customer/audience needs and expectations for culture and sport. These present both opportunities and risks and include:
- changes in customer behaviour due to post-Covid lifestyle changes (home working etc) and reduced household incomes due to cost-of-living pressures
 - wider range of providers, for example budget gyms and free/low-cost subscription online culture and sport content
- 4.8 Our current governance and monitoring arrangements for ALEOS contain some single person dependencies which need to be addressed as the Council continues to go through significant organisational change. Alongside this, the new Charities (Regulation and Administration) Act 2023 increases OSCR's regulatory powers to strengthen transparency and accountability in charities, including the individual accountability of Trustees and senior staff.

5. REVIEW SCOPE AND METHODOLOGY

- 5.1 The Review scope was approved by the Transformation Board in June 2023. The purpose is to *review our ALEOs for culture and leisure and recommend structural/wider changes required to maximise Council investment in these services.*
- 5.2 The Review Team comprised the three current ALEO Chief Executives, the Council's ALEO senior monitoring officer plus Glasgow Audit, and met from August-November 2023. Engagement with the ALEO Chairs and CEOs took place prior to and throughout the Review. The CEOs provided their own proposals for change and improvement which were considered within the Review.
- 5.3 Glasgow Audit were commissioned to provide supporting analytical advice focused on:
- what the ALEOs deliver in return for the contract fee
 - corporate support functions – current delivery and opportunities for efficiency savings
 - income streams and current/future sustainability
 - being a 'critical friend' in developing options for change
- 5.4 Burness Paul provided independent legal advice on pay and governance considerations to inform the Review. **There may be employment issues arising from the current sole trust model that will need to be re-considered and reviewed as part of any potential changes to the existing models for the three ALEOs. A full risk assessment to quantify these will require to be undertaken depending on the decision of Council.**

- 5.5 There are interdependencies between this Transformation Review and:
- the Strategic Commissioning and Procurement Review
 - the Leisure Assets Review, which will be submitted to Council in January 2024 alongside other corporate asset management matters
 - a review of Library Services completed in early 2023.

6. REVIEW FINDINGS

6.1 This section sets out key Review findings in respect of:

- the future service offer
- property related issues and risks
- wider improvement recommendations from Glasgow Audit
- external funding considerations including the suitability of the ALEO model for maximising external funding support.

The future service offer

6.2 The key customers/audiences for services delivered by ALEOs are:

- local communities. The largest user group served by all 3 ALEOs is people living within 30 minutes travel distance of ALEO venues.
- the schools' population.
- the wider Tayside population including those who travel to work or study in Perth and Kinross
- Scottish, UK and international tourism visitors
- business tourism (conferences etc)

6.3 The Review Team agreed these key principles for where future Council funding should focus. It was recognised that wider activities are, or can potentially be, funded externally, and that Council funding should focus on provision which cannot be met from other funding sources or providers.

- **Provision for the local population.**
- **Protecting free universal services** in line with national/local policy, e.g., public library services, entrance to museum permanent collections, Active Schools and community sports development.
- **Targeted activities** which help address poverty and inequality, in line with our wider corporate priorities.
- **Capital spend** on compliance, energy efficiency of buildings and enhancing our leisure and business tourism offer.

Integrating the offer/enhancing the customer experience

6.4 As stated, the ALEO CEOs were asked to develop proposals to integrate delivery, in ways which make our culture and sport offer as seamless as possible for customers/audiences to access. This identified:

- business tourism and Perth city centre destination marketing
- technical support for events and conferences
- some aspects of facilities management e.g. booking systems, ticketing, alarm callouts
- some public programmes e.g., summer holiday programmes and targeted initiatives such as Mental Health Awareness Week
- staff recruitment, training and development
- corporate policies e.g., H&S, HR
- data analysis and market research
- procurement

Property issues: business rates relief and capital spend

6.5 The ALEOs currently operate 35 properties of which all but 3 (Perth Leisure Pool, Dewars Centre and Bell's Sports Centre, owned by LAL) are owned by the Council. After pay, energy costs are the next major cost pressure faced by the ALEOs. The Leisure Assets Review has considered the capital spend and energy efficiency of current ALEO buildings. Both it, and an earlier review of library services, have also examined usage, noting changes in customer demand and need including declining use of some buildings.

6.6 As evidenced in the Outline Business Case for the PH20 leisure project and elsewhere, there are challenges in relation to the future affordability of maintaining three major sports venues in Perth. The combined operating deficits of Perth Leisure Pool, Dewars Centre and Bell's is currently £1.6M pa, projected to rise in coming years. These properties are all over 30 years old and increasingly at risk of unplanned failures, including increased flood risk as at PLP and Bell's in 2020 and 2023.

6.7 In a 'do nothing' scenario, we would need to spend an estimated £20M capital over the next 5 years to maintain all 35 current properties, renew key infrastructure, such as technical equipment at Perth Concert Hall, and implement energy efficiency measures for buildings which account for significant carbon emissions including Perth Leisure Pool.

6.8 An important rationale for the ALEO model is business rates relief on properties as ALEOs do not pay rates on the buildings they occupy, whether they own them or not. Scottish Government sets a maximum threshold for councils on how much business rates relief ALEOs can generate: for PKC this is £1.747M in 2023/24.

6.9 Continuing to maximise rates relief from ALEO properties is key to the future financial sustainability of our culture and sport offer. However, taking the factors outlined above into account, the current ALEO property portfolio is unaffordable, based on current and likely future financial resources versus cost pressures and changing customer/audience needs. Ongoing work within the Council on streamlining and maximising use of our wider estate is demonstrating new ways to deliver services effectively with, and for, communities. This includes the Pitlochry Campus initiative which aims to co-locate library, sport, and other local services on the High School site; co-location of library services at the Strathearn Hub, and the Smarter Working initiative which is investigating shared storage facilities for CPK and potentially PTCH at Pullar House.

Wider improvement recommendations

6.10 As stated, Glasgow Audit conducted independent financial analysis of the ALEOs' current financial positions and operating models for this Review. It also provided wider advice on Council governance and oversight of ALEOs in respect of what services the Council expects in return for its contract fee, and what corporate support services ALEOs get from the Council (the latter differs across the ALEOs as a whole). Glasgow Audit also facilitated work between the 3 ALEO CEOs for the Review, summarised in para 6.4.

6.11 Glasgow Audit identified some wider areas for improvement:

- a more consistent and cost-effective approach to corporate support functions across the ALEO model. For example, there are currently 3 different payroll arrangements in place when one ALEO could provide this as a shared service.
- regardless of future structures, streamlining and consolidating the Council's governance approach is recommended. This will enable a clearer overall picture of the outcomes/services delivered by the ALEOs in return for the contract fee plus overall risk across all services delivered by ALEOs as a 'family group'.
- as part of these streamlined governance arrangements, introducing a single internal control system which enables a clearer overall picture of relative financial risks across the services and enables financial management information reports to be generated more efficiently and transparently. This can be achieved by consolidating the finance function across the ALEOs.
- establishing an internal audit function which does not currently exist within the 3 ALEOs.
- ensuring procurement expertise is provided on key procurement matters; again this does not currently exist within the ALEOs.
- reducing key person dependency risks within the Council in relation to detailed contract monitoring/compliance. There is currently only one Council post responsible for this work.
- re-introducing quarterly Scrutiny focus on ALEO financial and wider performance in order to meet the Council's Best Value and Following the Public Pound duties.

External funding

- 6.12 All three ALEOs raise external funding to deliver specific parts of the culture and leisure offer. For example, the Gannochy Trust funds parts of the PTCH programme and supports LAL/CPK to deliver targeted heritage and sports activities. PTCH receives multi-year funding from Creative Scotland and is currently re-applying for this to continue from 2025/26 onwards. Core funding from the Council is important assurance for other funders that the ALEO is financially stable.
- 6.13 The potential impact of this Review on PTCH's application for future multi-year funding (MYF) was discussed with Creative Scotland, which is implementing new MYF arrangements from 2025/26 onwards in light of various factors, including national budget pressures. Creative Scotland indicated it is content with the rationale for consolidating corporate functions across ALEOS on the basis this helps to protect frontline cultural programmes, whilst preserving the public-facing side of PTCH. Beyond this, PTCH's application will be assessed on merit and alignment with the wider criteria set for applicants. Stage 2 of the MYF application process will start in April 2024. This will enable PTCH to set out within its application how outcomes of this Review will be implemented and taken forward in partnership with the Council, as its primary public funder and owner of the buildings PTCH occupies.
- 6.14 The Review Team identified two further issues not in scope of the Review but where further work is recommended from 2024/25 onwards:
- consolidation of city centre destination marketing and events bidding/management functions which are currently dispersed across the Council, ALEOs and other partners, to maximise efficiencies and ensure events bidding and management are well tailored to market opportunity.
 - potential for future joint commissioning and wider shared service arrangements between the ALEOs and other relevant culture, heritage and sport partners funded by the Council.

Summary of key findings

- 6.15 The key messages from the Review are as follows:

1.	The culture and sport 'offer' could be better integrated, so it is accessible and easy to navigate for customers/audiences
2.	The current ALEO property portfolio is unaffordable and parts of it are, or will be, not fit for purpose in the future.
3.	Business rates relief remains a major benefit of the ALEO model, but property rationalisation is also needed to maximise this benefit.
4.	The current Council governance and monitoring framework does not allow sufficient oversight of risk across the 'family group' of services delivered by ALEOs.
5.	There is wider potential to integrate ALEO and Council functions on Perth city events and destination marketing, and to extend shared service arrangements with wider funded partners.

7. SUMMARY OF RECOMMENDATIONS

7.1 The following 12 recommendations are aligned with key findings above:

	Issue	Recommendation
1.	People: Corporate functions	Starting from 2024/25, corporate functions across the 3 current ALEOs should be consolidated, prioritising: -Finance -Business conferencing -Facilities Management -HR (policy and transactional services e.g. payroll)
2.	People: Senior leadership	Senior management structures should be reviewed in light of the consolidation of corporate functions.
3.	People: Employment	A review of Employment issues should be undertaken to assess any potential risks
4.	Property: Affordability	The current ALEO property portfolio should be rationalised to ensure it is affordable and sustainable. This will also enable business rates relief, which helps protect front-line services, to be maximised.
5.	Property: Sport	Consolidation of the Perth city sports offer onto one site should be considered. This recommendation is based on evidence from the Leisure Assets Review about affordability of maintaining 3 major sites in the city centre, alongside rising cost pressures, operating deficits, and changing customers/markets.
6.	Property: Libraries	Consolidate key library provision to Community Campuses and the AK Bell Library Trial the Open Library model at Scone Co-locate other rural library services where possible within the wider Council/public estate. This recommendation is based on evidence and recommendations from a review of libraries carried out by CPK on behalf of the Council which identified changing usage and rising cost pressures.
7.	Property: Storage	Consolidate CPK and potentially PTCH storage facilities as part of the Smarter Working programme. This recommendation would enable storage for the CPK museum and archive collections plus storage of some PTCH resources at Pullar House, if Council takes a decision to retain the building next year.

8.	Property: Community Halls	Expand support for the Community Asset Transfer (CAT) programme for Community Halls operated by LAL. This recommendation is based on wider corporate asset management work to support CAT where feasible. The Leisure Assets Review recommends that additional support to communities is designated from 2024/25 onwards to enable this.
9.	Property: Other	Consider disposal of the Fergusson Gallery and Willam Soutar House. The Fergusson Collection is now displayed at Perth Art Gallery following investment in the latter and various attempts to operate the William Soutar House as an events space have not proved sustainable over the years. Disposal of these assets will create capital receipts for reinvesting in services.
10.	Governance: Single internal control system	Establish a shared finance function for ALEOs based on the same financial system. This will allow the Council more effective oversight of financial risks across the ALEO 'family group' of services, enable more complete management information reports to be generated and support wider efficiencies in financial management, reporting and monitoring.
11.	Governance: Contract Monitoring	Move the ALEO contract monitoring/compliance post to the corporate Strategic Commissioning and Procurement Team. This will address a key person dependency risk and enable ALEO contract monitoring to benefit from wider improvements underway to Council procurement practice; and align the ALEO contract monitoring closely with Legal teams involved in the preparation of ALEO contracts.
12.	Governance: Scrutiny	Reinstate quarterly monitoring of ALEO by Scrutiny and Performance Committee. This is in line with Glasgow Audit recommendations for the Council to ensure it is clear about what the ALEOs deliver in return for the contract fee (Best Value and Following the Public Pound). It is also important given the significant financial pressures and risks relating to ALEOs in the coming years.

8. NEXT STEPS

8.1 In order to manage the issues/risks identified by the Review, the following priority actions are required from January 2024 onwards:

- fully risk assess the Equal Pay issues identified by this Review and determine what further structural change, is required to appropriately manage this risk, including the case for a wider Pay and Grading Review
- prepare a Communications and Stakeholder Mgt Plan including ALEO Board, staff, TU and funder engagement
- prepare a costed Consolidation Plan for key corporate functions, starting with Finance, for implementation April 2024 onwards.
- develop options for a new operating model including a revised senior management structure dependent on the extent of consolidation/merger which is judged appropriate to deal with pay pressures and risks
- start to deliver the Property Rationalisation Plan

8.2 Implementing the Review findings constitute a major longer-term change programme across a large group of key services. A Project Initiation Document will be prepared with an outline implementation plan for April 2024 onwards.

9. CONCLUSION

9.1 A Transformation Review of ALEOs has been completed in light of significant current/future financial pressures and wider change drivers. The Review has identified significant issues and risks for the Council in relation to pay, affordability of property and other factors. The Review sets out 12 recommendations to address the findings with preparatory work required from January 2024, moving to full implementation from April 2024.

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APPENDICES

- Appendix 1: Report and recommendations from Glasgow Audit

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1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

Strategic Implications	Yes / None
Local Outcomes Improvement Plan	Yes
Corporate Plan	Yes
Resource Implications	
Financial	Yes
Workforce	None
Asset Management (land, property, IST)	None
Assessments	
Equality Impact Assessment	None
Strategic Environmental Assessment	None
Sustainability (community, economic, environmental)	None
Legal and Governance	None
Risk	Yes
Consultation	
Internal	None
External	None
Communication	
Communications Plan	Yes

1. Strategic Implications

Local Outcomes Improvement Plan

1.1 This Review impacts on the following aspects of the Local Outcomes Improvement Plan

- (i) Poverty and cost of living
- (ii) Mental and physical wellbeing
- (iii) Skills, learning and development

Corporate Plan

1.2 This Review impacts on the following priorities within the Council's Corporate Plan:

- Tackling poverty and inequality
- Developing responsible, educated citizens
- Enabling people to live healthy independent lives
- Promoting a prosperous, inclusive and sustainable economy.

2. Resource Implications

Financial

- 2.1 There are financial implications to this report set out in the findings and recommendations.

Workforce

- 2.2 There are workforce implications to this report set out in the findings and recommendations, and further staff and TU engagement/consultation will be factored into the implementation timeline from January 2024.

Asset Management (land, property, IT)

- 2.3 There are asset management implications to this report arising from business rates relief attracted by ALEOs and other matters. These are set out in the findings and recommendations.

3. Assessments

- 3.1 The report has been considered under the Corporate Equalities Impact Assessment process (EqIA) with the following outcome:

- (i) Assessed as **not relevant** for the purposes of EqIA.

Strategic Environmental Assessment

- 3.2 The Environmental Assessment (Scotland) Act 2005 places a duty on the Council to identify and assess the environmental consequences of its proposals.
- 3.3 The report has been considered under the Act and, no action is required as the Act does not apply to the matters presented in this report. This is because the Committee are requested to note the contents of the report only and the Committee are not being requested to approve, adopt or agree to an action or to set the framework for future decisions.

Sustainability

- 3.4 Under the provisions of the Local Government in Scotland Act 2003 the Council has to discharge its duties in a way which contributes to the achievement of sustainable development. Under the Climate Change (Scotland) Act 2009 the Council also has a duty relating to climate change and, in exercising its functions must act:
- in the way best calculated to delivery of the Act's emissions reduction targets;
 - in the way best calculated to deliver any statutory adaptation programmes; and

- in a way that it considers most sustainable.

3.5 The report does not contain any proposals that will impact on the Council's Principles for Sustainable Development.

Legal and Governance

3.6 There are legal and governance implications to this report set out in the findings and recommendations.

Risk

3.7 A risk profile for the change programme will be prepared as part of the Project Initiation Document.

4. Consultation

Internal

4.1 Transformation Board, the Strategic Lead Economy and Place, Strategic Lead Governance and Legal Services, Senior Service Manager HR and Strategic Lead, Finance have been consulted in the preparation of this report.

External

4.2 The Boards of the ALEOs and officials from Creative Scotland have been consulted in the preparation of this report.

5. Communication

5.1 A Communications Plan will be prepared to support implementation of the proposed change programme.

2. BACKGROUND PAPERS

2.1 Appendices.