

Scrutiny And Performance Committee

24 April 2024

ARMS LENGTH EXTERNAL ORGANISATIONS: UPDATE ON FINANCIAL PERFORMANCE AND BUSINESS TRANSFORMATION

Report by Head of Culture & Community Services

(Report No. 24/127)

1. PURPOSE

- 1.1 This report summarises current live issues and risks for our three arms-length external organisations including an update on their current/projected year end 2023/24 financial positions. It also summarises work underway/planned by the ALEOs and the Council to manage these issues/risks, and future areas of focus for Scrutiny and Performance Committee in 2024/25.

2. RECOMMENDATIONS

- 2.1 It is recommended that the Committee:
- **Notes** the summary of key issues/risks for each ALEO and the mitigating actions to manage these which are planned/underway
 - **Notes** the current financial position for each ALEO based on latest management accounts.

3. STRUCTURE OF REPORT

- 3.1 This report is structured over the following sections:
- Section 4: Background
 - Section 5: Summary of current live issues and risks and financial summaries
 - Section 6: Conclusion
 - Appendices: Management accounts to end January 2024 (Culture Perth and Kinross) and February 2024 (Live Active Leisure, Perth Theatre and Concert Hall).

4. BACKGROUND

- 4.1 Since 2016 the Council has commissioned all culture services and all sport/leisure services (except school sport) from three ALEOs. These are Culture Perth and Kinross (libraries/archives/local studies and museums/galleries); Live Active Leisure (sport/physical activity) and Perth Theatre and Concert Hall (performing arts). The total contract value of these services in 2023/24 was £8.468M. In February 2024 Council approved total budget savings of £1.03M from the 2023/24 baseline contract fees to be delivered over the next 3 years.

- 4.2 ALEOs are contractually required to submit monthly management accounts to the Council. Key variances and any mitigating action required to address financial risk are reported quarterly to Finance and Resources Committee. As part of the 2023 ALEO Transformation Review Glasgow Audit recommended that Scrutiny and Performance Committee also maintains oversight of financial and wider performance monitoring on a quarterly basis.

5. CURRENT ISSUES, RISKS AND MITIGATION ACTIONS

Culture Perth and Kinross

- 5.1 On 30 March the Council and CPK opened Perth Museum as a major new cultural tourism project within the Tay Cities Region Deal, majority funded by the Council with £10M from UK Government via the Deal, and with a projected annual visitor target of 140-160,000 visits by year 3 (2026/27). Since opening Perth Museum has performed strongly; at the time of writing, it has attracted over 20,000 visits and significant international, UK and national media attention. A 6-month performance report on visitor numbers and income generation at Perth Museum, and wider considerations for CPK's future operating model in light of this data, will come to Scrutiny and Performance Committee later in 2024.
- 5.2 Due to the high level of expenditure required close to 2023/24-year end (aligned with the opening date of Perth Museum), Q4 management accounts are still being prepared. However, at end January 2024 CPK projected an end year deficit of £79,000. This is largely attributable to a backdated pay award approved by the Board in autumn 2023 to be funded through reserves for 2024/25.
- 5.3 CPK currently has £807,000 in restricted reserves and a forecasted year-end position of £183,000 in general reserves. During 2023/24 CPK has generated over £150,000 through fundraising for Perth Museum and more generally.

Live Active Leisure

- 5.4 LAL is currently focused on significant business transformation in light of several factors including ongoing plans for the PH20 redevelopment project, the redevelopment of Blair Recreation Centre which it will operate on behalf of the Council and plans to relocate services from Bell's Sports Centre to other venues in Perth following flooding at Bell's in October 2023. LAL is also responding to other factors including unplanned closures at Perth Leisure Pool largely attributable to the age of the building.
- 5.5 Further advice to Council will be provided in May 2024 and thereafter on Bell's Sports Centre including ongoing work to identify future viable options for the building. Council officers are working closely with LAL on these matters including works required at Dewars Centre to enable health and fitness facilities, which generate significant income for LAL, to re-start there by summer 2024. Engagement by LAL with affected user groups is also

underway. Council will also consider a revised scope for the PH20 project later this year.

- 5.6 LAL has a projected end year deficit of £334,000 which is an improvement against the original projection of £630,000. Customer generated income has performed well and above original expectations even allowing for service disruptions at Bell's and PLP. Utility costs and costs associated with Bell's have however contributed to the forecast deficit position.
- 5.7 LAL's reserves position is currently £5.3M of which £1.04M is general reserves, £1.7 is lifecycle/maintenance reserves and £2.5M is the insurance reserve. The remainder is held in a development reserve.

Perth Theatre and Concert Hall

- 5.8 Following the appointment of its new Chief Executive in autumn 2023 PTCH is continuing to review and refine its operating model and artistic vision with a clear focus on broadening community participation and representation within programmes, and a strengthened approach to using audience data to inform programming decisions. The current key priority is PTCH's next Multi-Year Funding application to Creative Scotland as the organisation's second core funder alongside the Council. If successful MYF will support core costs and cultural programmes for April 2025-March 2028. Outcomes will be known in October 2024. Meantime PTCH has been asked to model its 2025/26 financial position on a best/mid/worst case scenario depending on the outcome of its application.
- 5.9 PTCH is currently projecting a year end deficit of £211,000 largely attributable to implementation of a new pay award including implementation of Real Living Wage from 1 April 2024; £90,000 overspend on programme and a shortfall of £70,000 against net ticket income targets although ticket income continues to improve from previous years. Work is underway to reposition the Friends/regular donations scheme more strongly. The Perthshire Box Office initiative funded by the Council since February 2023 is now live and generating a small income and is successfully operating ticketing arrangements for the Stone of Destiny on behalf of CPK.
- 5.10 PTCH currently has £893,000 in reserves of which £396,000 is general reserves.

Common issues/risks & mitigation actions

- 5.11 As outlined above all three ALEOs are currently managing a range of issues all with ongoing strategic and delivery impact. All three will need to address significant financial pressures over the next 3 years arising from Council approved savings plus pay, property and energy costs. All three have prudent reserves strategies and provision in place but will still need to consider savings and efficiencies to ensure the services they deliver on behalf of the Council are financially sustainable and continue to adapt to changing circumstances and audience/customer needs.

- 5.12 In December 2023 Council approved all recommendations from a Transformation Review of the current ALEO delivery model. Report [23/347](#) refers. The recommendations are intended to help both the Council and the ALEOs address major financial pressures over the next 3 years and include a consolidation of corporate functions and a rationalisation of properties currently operated by the ALEOs.
- 5.13 Specific consideration of pay matters is a priority within the Transformation programme. Analysis of pay cost pressures is ongoing with the ALEOs, coordinated by the Council's HR team.
- 5.14 To inform and support transformation, the ALEOs have been asked to prepare revised business plans/transition plans for 2024/25 onwards setting out:
- Their approach to implementing savings/service reductions over the next 3 years
 - Opportunities for commercialisation of services where appropriate
 - Mitigating measures (e.g. co-location of services, partnering arrangements, community asset transfer of properties)
 - Public/stakeholder management and communications plans *and*
 - Indication of one-off costs of change including workforce management
- 5.15 Key Performance Indicators for the ALEO Service Level Agreements are also being revised to align more strongly with the Council's corporate priorities in respect of tackling poverty and inequality.
- 5.16 Alongside this work, the ALEOs are preparing their contributions to the Council's Annual Governance Statement. Key issues identified from the AGS should be used to inform the future focus of Scrutiny and Performance Committee in scrutinising the strategic risks in relation to the ALEOs. Alongside updates on implementation of the Transformation programme, these may include:
- Procurement policies & practice
 - Board governance and accountability
 - Cybersecurity policies & practice
 - Community engagement and use of customer/audience data to inform services and programmes.

6. CONCLUSIONS

- 6.1 This report outlines current live issues, risks, mitigating measures and the financial positions of our three ALEOs.

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Approved

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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	None
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

Corporate Plan

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

Corporate Plan Priority: Developing a resilient, stronger and greener local economy - Perth & Kinross Council (pkc.gov.uk)

Corporate Plan Priority: Tackling climate change and supporting sustainable places

Corporate Plan Priority: Enabling our children and young people to achieve their full potential

Corporate Plan Priority: Supporting and promoting physical and mental wellbeing

2. Resource Implications

Financial

2.1 There are no immediate financial implications to this report.

Workforce

2.2 There are no immediate workforce implications to this report.

Asset Management (land, property, IT)

2.3 The asset management implications are contained within the report.

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. Equalities Impact Assessments will be prepared for any consolidation/disinvestment recommendations if approved.

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 If approved the recommendations from this report will support the Council's discharging of its duties in relation to the Act.

Legal and Governance

- 3.6 There are no immediate legal and governance implications to this report.

Risk

- 3.7 Strategic risks in relation to the ALEOs are assessed and managed based on the Council's Annual Governance Statement.

4. Consultation

Internal

- 4.1 The Strategic Lead, Finance and Business Resources, Strategic Lead, Economy Planning & Place and Corporate HR Manager have been consulted in the preparation of this report.

External

- 4.2 Culture Perth and Kinross, Perth Theatre and Concert Hall and Live Active Leisure have been consulted in the preparation of this report.

5. Communication

- 5.1 Not applicable.

2. BACKGROUND PAPERS

- 2.1 Appendices: Management accounts to January/February 2024