

EAST RENFREWSHIRE COUNCIL24 June 2020Report by Head of Accountancy (Chief Financial Officer)EAST RENFREWSHIRE CULTURE AND LEISURE TRUST – CONFIRMATION OF
FINANCIAL SUPPORT**PURPOSE OF REPORT**

1. The purpose of this report is to approve the issue of a letter to ERCLT confirming the Council's ongoing financial support for the Trust.

RECOMMENDATION

2. Council is invited to approve the issue of a letter to ERCLT confirming the Council's ongoing financial support for the Trust's activities.

BACKGROUND

3. ERCLT is an Arm's Length External Organisation (ALEO), reported within the Council's annual Group Accounts.

4. Under the terms of the Management Agreement between the Council and ERCLT, the Trust is obliged to provide culture and leisure services to the Council for the benefit of the public. The level of financial support to allow the Trust to do this is set out in the Council budget each year. The terms of the financial support can however be amended by agreement in terms of Clause 26.1 of the Agreement which states:

“Other than pursuant to Part 4 of the Schedule, the terms of this Agreement shall not be amended or altered except by mutual agreement in writing by the duly authorised representatives of the Council and the Company”.

5. As part of the external audit of ERCLT's accounts for 2019/20 the Council is required to confirm its ongoing financial support for the Trust as a going concern.

6. It is not unusual for auditors to seek such assurances from Councils and it is entirely reasonable for the Council to confirm its ongoing financial support for the Trust to continue to provide and develop services in line with existing plans in the coming year. In particular, the Council routinely confirms each year in its own annual accounts to guarantee any pension deficit of ERCLT.

7. ERCLT operated within budget from its establishment in July 2015 until 31 March 2017, however during 2017/18 an additional contribution of £225,000 was required from the Council. An independent review of the Trust's financial arrangements was carried out in 2018 with an agreed action plan being progressed. Performance has since improved and a surplus of £291,000 was reported for 2018/19.

REPORT

8. For 2019/20 ERCLT's draft accounts again show a surplus of £725k. Despite the satisfactory financial performance for 2019/20 however, a letter of comfort is still required by the Trust's external auditors as next year's budget is not yet certain. The situation is exacerbated by uncertainty as to the length of facility closures and related income loss during the current COVID-19 pandemic. As set out on another report on today's agenda, it is currently estimated that ERCLT may require additional support of around £2.5m in 2020/21 on the basis that premises do not reopen until September /October at the earliest.

9. The Head of Accountancy has delegated powers to issue a letter of comfort to the Trust each year, provided that the draft accounts for the previous year demonstrate a surplus. Given the unprecedented circumstances of the current pandemic and the potential additional support required by ERCLT in 2020/21 however, it was considered that approval to issue the required letter of comfort should be obtained from Council.

10. As in previous years, we will continue to monitor the Trust's financial position throughout the year.

11. The proposed letter (attached as Appendix 1) confirms the Council's ongoing support for planned activities whilst requiring the Trust to continue to take all possible actions to operate within budget. It also gives assurances that the Council will work together with the Trust to access available funds and will support ERCLT's ongoing sustainability. The letter requires to be issued to ERCLT in advance of their Finance and Risk Committee meeting on 4 August 2020 and therefore approval is being sought from the Council now.

FINANCE AND EFFICIENCY

12. The Council's budget plans for 2020/21 are under review as a consequence of the COVID-19 pandemic and the support required by ERCLT will form part of this review.

CONSULTATION

13. The Director of Education and the Chief Legal Officer have been consulted on this matter.

PARTNERSHIP WORKING

14. The Management Agreement sets out the arrangements for partnership working between the Council and ERCLT.

CONCLUSIONS

15. In view of the Trust's timescales for finalising the audit of the 2019/20 accounts it is necessary to obtain Council approval for the issue of a letter of support to ERCLT.

16. Letters of comfort will continue to be required in future years, even when the Trust is operating at a surplus.

RECOMMENDATION

17. Council is invited to approve the issue of a letter to ERCLT confirming the Council's ongoing financial support for the Trust's activities.

Cabinet contact: Councillor Tony Buchanan, Leader, ext 3108

Report Author: Margaret McCrossan, Head of Accountancy, ext 3035
Margaret.mccrossan@eastrenfrewshire.gov.uk

Key words: ERCLT, financial support, Management Agreement

BLANK PAGE

The Directors
East Renfrewshire Culture & Leisure Limited
St Johns Annex
18 Commercial Road
Barrhead
East Renfrewshire
G78 1AJ

25 June 2020

Dear Trustees

Funding Arrangements

The terms of the Management Agreement between the Council and East Renfrewshire Culture & Leisure Limited (ERCLL) state:

“26 General

Other than pursuant to Part 4 of the Schedule, the terms of this Agreement shall not be amended or altered except by mutual agreement in writing by the duly authorised representatives of the Council and the Company.”

So as to provide the required assurance that ERCLL is operating as a going concern, however, the Council confirms its commitment to the ongoing financial sustainability of ERCLL for the period to 31 August 2021 and beyond.

In these challenging times, it is essential that we work together to minimise any losses incurred and to access any available external funding to support losses as a result of closures, cancellations and downturn due to the crisis.

In response to the current COVID-19 pandemic the Scottish Government has announced a package of measures to support businesses, communities and the economy. Whilst we continue to work through these measures and understand the implications for the Council, please assure your Board that we will work together to access all such available funds and that East Renfrewshire Council will take the necessary steps to support ERCLL and to ensure your ongoing financial sustainability.

Specifically, in order to support the delivery of services by ERCLL in accordance with the standards set out in the Management Agreement entered into between East Renfrewshire Council and ERCLL and revised as required, we agree to provide such additional funding as ERCLL may require to support these trading activities. However, the Council expects and seeks assurance that ERCLL will take steps to minimise costs and limit the level of overspend wherever possible.

I trust that this provides the assurance that you require.

Yours faithfully

Margaret McCrossan
Head of Accountancy
East Renfrewshire Council