

EAST RENFREWSHIRE COUNCIL26 June 2019Report by Chief Financial OfficerEAST 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:-
- a. the issue of a letter to ERCLT confirming the Council's ongoing financial support for the Trust's activities; and
  - b. that the Head of Accountancy issue such letters each year in future, subject to the ERCLT accounts showing a surplus for the year in question.

**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".

**REPORT**

5. As part of the external audit of ERCLT's accounts for 2018/19 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 action plan agreed and implemented. Performance has since improved.

8. For 2018/19 ERCLT's draft accounts show a surplus of £291,000. Despite the satisfactory financial performance for 2018/19 however, a letter of comfort is still required by the Trust's external auditors as next year's budget is not yet certain. This issue is likely to recur in future years even if annual financial performance remains positive.

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

10. 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. The letter requires to be issued to ERCLT in advance of their Finance and Risk Committee meeting on 6 August 2019 and therefore approval is being sought from the Council rather than through the normal Cabinet route.

11. As this issue is expected to recur annually, it is proposed that Council now approve that the Head of Accountancy issues such an annual letter of comfort to ERCLT in future years, subject to their accounts showing a financial surplus for the audit year in question. Should ERCLT's accounts forecast a deficit for the year, a report will be brought back to Cabinet in advance, seeking approval to issue such a letter.

## **FINANCE AND EFFICIENCY**

14. The issue of the letter does not change the Council's budget plans for 2019/20 or beyond.

## **CONSULTATION**

15. The Director of Education, the Chief Legal Officer have been consulted on this matter.

## **PARTNERSHIP WORKING**

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

## **CONCLUSIONS**

17. In view of the Trust's timescales for finalising the audit of the 2018/19 accounts it is necessary to obtain Council approval for the issue of a letter of support to ERCLT.

18. This situation is likely to recur in future years

## **RECOMMENDATION/...**

**RECOMMENDATION**

19. Council is invited to approve:-

- a. the issue of a letter to ERCLT confirming the Council's ongoing financial support for the Trust's activities; and
- b. that the Head of Accountancy issue such letters each year in future, subject to the ERCLT accounts showing a surplus for the year in question.

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The Directors  
East Renfrewshire Culture & Leisure Limited  
St Johns Annex  
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East Renfrewshire  
G78 1AJ

[Date to be inserted]

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 ongoing financial support for ERCLL’s activities for the period to 31 August 2020. 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, 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 maintain its expenditure within budgeted levels wherever possible.

I trust that this provides the assurance that you require.

Yours faithfully

Margaret McCrossan  
Head of Accountancy  
East Renfrewshire Council

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