



Northumberland

County Council

COUNCIL

2 May 2018

Active Northumberland Financial Position 2017-18

Report of Alison Elsdon Director of Finance

Cabinet Member: Councillor Nicholas Oliver – Portfolio Holder for Corporate Services and Cabinet Secretary

Purpose of Report

The purpose of this report is to provide Members with an overview of the 2017-18 financial position of Active Northumberland and its impact on the charity's financial position. The report is requesting that additional funding up to a maximum of £2.635 million is made available from Council balances to fund the 2017-18 projected deficit for Active Northumberland.

Recommendations

It is recommended that Members:

- 1. note the 2017-18 financial position of Active Northumberland; and,**
- 2. agree that the Council will provide additional funding to Active Northumberland up to a maximum of £2.635 million for the financial year 2017-18.**

Link to the Corporate Plan

This report is consistent with the priorities in the Corporate Plan 2018 to 2021 "A Council that works for everyone"; in particular 'we want to be efficient, open and work for everyone', 'we want you to feel safe, healthy, and cared for', 'we want you to love where you live' and 'we want you to have access to the things you need'.

Key Issues

It is recognised that after extensive analysis, the financial position of Active Northumberland is not consistent with an appropriate contracting arrangement and the organisation has insufficient funds to achieve financial balance in the financial year of 2017-18. It is acknowledged that here have been decisions made by the Council prior to May 2017 which have had a significant detrimental impact on the current financial position of Active Northumberland and which Active Northumberland could not control.

There has been no approved business plan in place since the creation of Active Northumberland and following an independent review there is evidence of weak governance which also has included financial governance.

BACKGROUND

1. Active Northumberland's 2017-18 Budget was prepared based on the 2016-17 base budget, adjusting for changes in salaries, inflation, pressures and expected savings which were determined by the Council. There were no changes made to the Management Fee by Northumberland County Council in relation to such adjustments with the exception of the savings which were increased and unrealistic in terms of Active Northumberland being able to deliver them.
2. In 2016-17 Active Northumberland received a Management Fee from Northumberland County Council totalling £4,718,460 together with a charitable donation from Arch of £1,000,000 making a total sum available to Active Northumberland of £5,718,460.
3. During 2017-18 changes were made to the Management Fee as a number of services were transferred back to Northumberland County Council from Active Northumberland (see following table). These changes took place for a number of reasons; some are lacking in clarity and some, since May 2017, have been to reflect the decision by the Council to return services to Northumberland County Council, as the rationale for them being in Active Northumberland was not clear. As a result of these changes the Management Fee has reduced accordingly and for 2017-18 based on managing leisure services only is £1,029,490. The following table explains the changes:

Change	Date	£
Baseline Management Fee		4,718,460
Libraries transferred to NCC	01.01.17	-761,950
Tourist Information Centres transferred to NCC	01.01.17	-129,220
Digital Resources & Leisure IT posts transferred to NCC	01.04.17	-83,810
Tourism transferred to NCC	01.04.17	-183,250
Hadrian's Wall transferred to NCC	01.04.17	-30,000

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Woodhorn Museum transferred to NCC	01.04.17	-1,114,350
Arts, Culture & Heritage transferred to NCC	01.04.17	-560,610
Vacant libraries & historic building budgets no longer required	01.04.17	-102,510
Savings target imposed by Council for 2017-18	01.04.17	-500,000
Culture, Leisure & Tourism Management transferred to NCC	01.05.17	-76,350
Culture Development Manager post transferred to NCC	01.07.17	-38,090
Tourism and Visitor Economy Manager post transferred to NCC	01.07.17	-33,480
Tourist Information Centres transferred to NCC	01.10.17	-61,480
Contract Administrator post transferred to NCC	01.11.17	-13,870
Revised Management Fee		1,029,490

4. The Council in its 2017-18 Budget document assumed savings of £500,000 would be made by Active Northumberland. The Council reduced the management fee payable to Active Northumberland anticipating that such savings would be achieved. This £500,000 imposed savings target has placed significant pressure on Active Northumberland's budget in the current year and the Council has been advised by the Active Northumberland Board that it is not deliverable at this time.
5. In previous years Active Northumberland (along with a number of other organisations) was granted 20% discretionary rate relief. The Council in its 2017-18 Budget document changed the Revenue and Rates Relief policy and as a result a decision was taken by Northumberland County Council to end the discretionary rate relief which a number of organisations, including Active Northumberland has benefitted from, on 31 March 2017. The increased cost to Active Northumberland as a result of this decision was £293,850k. The Board has advised that no notice of the decision to change the Council's Revenue and Rates Relief policy was communicated to them and consequently this has added an additional financial burden which they cannot currently resolve. A review of the Revenue and Rates Relief Policy by the Council has taken place during 2017-18 and the reversal of the decision regarding discretionary rate relief taken the previous year was agreed at Council on 21 February 2018.
6. There are a number of other financial pressures facing Active Northumberland's budget and although there were some compensating savings (mostly achieved from significant staff redundancies and reductions in services) they did not fully fund the pressures. Consequently the balance of the additional financial pressures was added to the unallocated savings, resulting in an increased additional pressure for Active Northumberland, details of which are shown in the table below:

£

Pressures:

Changes to salaries, including increments & apprenticeship levy	111,630
Estimate for Job Evaluation	103,430
Building & Insurance Inflation	32,420
New facility: Bedlington Sporting Club	36,830
New facility: Druridge Bay Fitness Centre	32,720
New service: Library Driver Service	30,610
Tourist Information Centres (reduction to materials for resale and income targets)	121,800
Library Service systems (deletion of posts offset by previous years unallocated saving)	41,110
Transfer of Library staff to Leisure Centres (additional posts)	33,380
GP Referral & Cardiac Rehabilitation funding change	3,050

Savings:

Realignment of Leisure budgets (increased income targets)	-180,970
Tourism restructure	-88,830
Closure of Bellingham & Amble Tourist Information Centre	-28,820
Leisure Management & Strategy savings	-89,570
Culture savings	-64,920

Total **93,870**

7. Based on the 2017-18 Budget, from the proposed level of Management Fee together with the agreed ongoing Arch donation there is a significant shortfall in the budget required to achieve financial balance for Active Northumberland of £888k. As many of these financial and service decisions were made without reference to the Active Northumberland Board, they could not accurately foresee how these required financial savings could be achieved. For accounting purposes an unallocated savings budget was created to facilitate this.
8. In addition to the shortfall above of £887,720, there are some additional pressures which were also agreed under the previous administration. These are as follows:
 - a) Job evaluation – the 2017-18 budget includes budgetary provision of £103,430 to fund the financial impact of job evaluation. However, this provision is woefully inadequate and the estimated cost of job evaluation presented to the Active Northumberland Board, including retrospective pay to 1 April 2016 is approximately £1 million. This is an estimated figure provided by the Executive

Director of HR/OD. There are some complex calculations needed to facilitate the retrospective back pay to 1 April 2016.

- b) An external company was contracted to provide Contact Centre services to Active Northumberland at an estimated cost of £490,000 for 2017-18. The Board has confirmed that they were not consulted with regard to this decision and has confirmed that Active Northumberland has no means of paying the contractor concerned. The decision to commission this service did not receive Board approval.
- c) An external company was also contracted to provide marketing services at an estimated cost of £186,000 for 2017-18. Again, the Board was not consulted with regard to this decision and has confirmed that Active Northumberland has no means of paying the contractor concerned. In recent weeks it has become apparent that an agreed commitment of £30,000 which is included in this figure will now not be paid, therefore the cost will be reduced to a maximum of £156,000. Again, the decision to commission this service did not receive Board approval.

The marketing initiative which was commissioned from the external company commenced in January 2017, following a significant reduction in membership numbers and drop in income as a result of a new pricing policy which was introduced on 1 November 2016.

The scheme 'join for a coin' was introduced in January 2017 and this had the effect of increasing the number of members and the level of income.

- d) An additional cost of £200,000 is estimated for holiday pay based on the Bear vs Scotland legal judgement. This is required to remedy the entitlement to holiday pay for Active Northumberland staff who have regularly worked additional hours; and, therefore in line with ongoing case law staff are entitled to a proportionate element of holiday pay to be paid to them subject to establishing a local agreement. Given the large scale amount of casual contracts this is expected to be significant in terms of cost; however, recently it has been established that many of the casual and contractual staff have been in receipt of holiday pay which will reduce the potential impact of recurrent costs. This will likely be remedied by the harmonisation of terms and conditions which is currently taking place together with a review of staffing levels to ensure that contractual arrangements are appropriate.
9. Following feedback from a recent and ongoing review of Active Northumberland a letter was sent by the Council's Chief Executive, Daljit Lally on 4 December 2017 to the Chair of the Active Northumberland Board requesting that the Board advise the Council of the financial forecast for the year ended 31 March 2018.
10. The Active Northumberland Board responded to this request on 29 December 2017, advising of the projected deficit of £2.665 million made up as follows:

	£000
Unallocated Savings	889
Contact Centre	490
Marketing	186
Job Evaluation	900
Holiday Pay	200
Total	2,665

Due to the revised slight adjustment for marketing it is likely that the £2.665 million required will decrease as follows:

	£000
Board Estimate of Deficit	2,665
Less: Marketing revised cost	-30
Total	2,635

The maximum deficit for Active Northumberland for 2017-18 is £2.635 million.

11. The Active Northumberland Board provided a commitment to the Chief Executive of Northumberland County Council that they would take all reasonable steps to seek to reduce the potential deficit by continuing to review budgets in order to identify savings and additional income on a monthly basis.
12. Given the current financial position, and without assistance from the Council Active Northumberland cannot be regarded as a going concern.
13. The Council has recently advised the Active Northumberland Board in writing that it is decommissioning a number of services. With effect from 1 April 2018 Active Northumberland's remit is solely to provide Leisure Services within Northumberland.

IMPLICATIONS ARISING OUT OF THE REPORT

Policy:	In line with the Council's policy and objectives outlined in the corporate plan.
Finance and value for money:	A request has been made to the Council by Active Northumberland for a maximum of £2.635 million for 2017-18. The report is outlining the position of Active Northumberland and requesting financial assistance from the Council. This sum would need to be financed from the Council's general reserve.
Legal:	
Human Resources:	Active Northumberland is a significant employer within Northumberland and the Council wishes to retain staff and deliver its services.
Property:	Not applicable.
Equalities:	The services provided by Active Northumberland are available to all residents and visitors.
Risk Assessment:	Not applicable.
Carbon Reduction:	Not applicable.
Customer Considerations:	The services provided by Active Northumberland are available to all residents and visitors. Without financial assistance Active Northumberland will not be regarded as a going concern and there is the possibility that leisure services within Northumberland would suffer.
Consultation:	Portfolio Holder for Corporate Services.
Wards:	All wards in Northumberland.

BACKGROUND PAPERS

Strategic Review of Active Northumberland: Final Summary Report presented to County Council 21 February 2018

Report sign off:

Finance	Alan Mason
Monitoring Officer/Legal	Liam Henry
Human Resources	Kelly Angus
Procurement	Teresa Palmer
IT	Not applicable
Chief Executive	Daljit Lally
Portfolio Holder	Nick Oliver

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