

EXECUTIVE – 2 DECEMBER 2003

Minute Item No 35

35 Dynamic Earth – Funding (Agenda item number 36)

The Executive had approved the extension of the Council's guarantee of the £400,000 overdraft for Dynamic Earth subject to a formal request being made to the Scottish Executive that it assume at least part of the financial risk being borne by the Council.

The funding package from the Scottish Executive consisted of a £500,000 grant to Dynamic Earth to be paid in three instalments, conditional on the Council continuing its overdraft guarantee of £400,000 and on Dynamic Earth obtaining funding from Scottish Enterprise Edinburgh and Lothians and the Millennium Commission for the O-Zone.

Decision

- 1) To approve the continuation of the Council's guarantee of £400,000 against Dynamic Earth's overdraft for one year.
- 2) To instruct the Chief Executive to advise Dynamic Earth Enterprises Ltd formally of the Council's expectation that a commercial loan would be in place to replace the overdraft guarantee in one year's time.

(References – Executive 12 August 2003 (item ...); report no E/340/03-04/CE by the Chief Executive, submitted)

Note: The above item was called in to the Resource Management and Audit Scrutiny Panel of 15 January 2004.

Dynamic Earth – Funding

Executive of the Council

2 December 2003

1 Purpose of report

To update the Executive further on the financial position of Dynamic Earth and to seek approval for the continuation of Council support.

2 Summary

- 2.1 At its meeting on 12 August 2003, the Executive approved the extension of the Council's guarantee of the £400,000 overdraft for Dynamic Earth, subject *inter alia* to a formal request being made to the Scottish Executive that it assume at least part of the financial risk being borne by the Council. This report provides information on the present position of Dynamic Earth and progress made to date.

3 Main report

- 3.1 In terms of the decision of the Executive, I wrote to the Scottish Executive, setting out the position in detail and formally seeking financial support to reduce the Council's exposure to risk.
- 3.2 A response was subsequently received from the Department of Enterprise, Transport and Lifelong Learning indicating that Ministers wished to respond positively to the funding requirement but that time was required to allow the preparation of a formal funding package. Following receipt of this letter, and recognising that the funding requirement for Dynamic Earth had increased as a result of the withdrawal by its bank of the overdraft facility of £80,000, the Director of Finance consulted me on his proposal to authorise, under Standing Order 88(6), an increase in the Council's guarantee from £400,000 to £500,000, for a very limited period. The Council Leader and Executive Member for Finance supported this course of action, which allowed Dynamic Earth to continue to trade. The guarantee was subsequently brought back to the previously approved level of £400,000, after the receipt by Dynamic Earth of an offer of Scottish Executive funding.
- 3.3 The funding package from the Scottish Executive consists of a £500,000 grant to Dynamic Earth, which will be paid in three instalments. It is conditional on the Council continuing its overdraft guarantee of £400,000 and on Dynamic Earth obtaining funding from SEE&L and the Millennium Commission for the O-zone. In a Written Answer to the Scottish Parliament on 18 November, Jim Wallace MSP, Minister for Enterprise and Lifelong Learning, announced that Ministers had agreed to commission a study to consider options for the possible

future support of science centres in Scotland and noted that Dynamic Earth had accepted the offer of grant.

- 3.4 As I have previously reported, Dynamic Earth continues to suffer from a loss of corporate income as a result of the restriction on its late night liquor licence to the effect that no live or recorded music can be played in the Stratosphere after 11.00 p.m. Funding has now been approved for the construction of the O-zone, the acoustic shell which should prevent noise leakage and allow consideration to be given to the removal of the prohibition. Construction is due to begin in January 2004 and it is anticipated that the facility will be fully operational by May 2004. Close contact is being maintained between Dynamic Earth and officers from Environmental and Consumer Services who will be required to report to the Licensing Board on the effectiveness of the acoustic shell and, depending on when noise testing can be undertaken, it might be possible for an application to be considered by the Licensing Board at its meeting on 29 March 2004. If this date cannot be met, the next quarterly meeting of the Board is scheduled for 28 June 2004.
- 3.5 While it appears that the Council's exposure to financial risk will be mitigated, at least partially, by the involvement of the Scottish Executive, I do not anticipate that the Council will wish to provide long term funding to Dynamic Earth. This position accords with the decision taken in 1997 in respect of the capital grant of £5.8 million, when the Council agreed that revenue funding for the facility would not be forthcoming. The Council has, however, indicated that it does not wish to see the closure of Dynamic Earth as a consequence of the short term problems being faced both in terms of the licence restriction and the continued closure of Horse Wynd, which prevents tour buses stopping outside the attraction. It is anticipated that the opening of the Scottish Parliament will attract visitors to the area and lead to increased visitor numbers for Dynamic Earth, particularly once Horse Wynd is re-opened to vehicular traffic. (The Temporary Traffic Regulation Order is due to expire on 31 January 2004 and no request has been made, to date, for its extension.) It is also expected that corporate income will be restored, if the acoustic shell operates as expected and the restriction on the licence is removed.
- 3.6 Dynamic Earth's management has advised that it is looking at alternative revenue sources, including Tax and Gift Aid, and might also examine the possibility of a commercial loan being made to the company, which could allow the current £400,000 overdraft to be converted into long term debt, thus allowing the Council to withdraw its guarantee this time next year. The company and the Council will review the position in light of Dynamic Earth's business plan.

4 Conclusion

- 4.1 The positive response from the Scottish Executive is to be welcomed and should ensure a better financial future for Dynamic Earth. Having provided a guarantee against the overdraft since December 2002, I consider that the Council should continue its support for a further year. This support will be reviewed once the intentions of Scottish Ministers are known but the Council's exposure to risk should be significantly reduced as a result.

5 Recommendations

5.1 It is recommended that the Executive:

- (i) approves the continuation of the Council's guarantee of £400,000 against Dynamic Earth's overdraft for one year; and
- (ii) instructs me to advise Dynamic Earth Enterprises Ltd formally of the Council's expectation that a commercial loan will be in place to replace the overdraft guarantee in one year's time.



Tom Aitchison
Chief Executive

20/11/03

Appendices	None
Contact/tel	Tom Aitchison – 469 3002/Deirdre Wynn – 469 3011
Wards affected	
Background Papers	Letter from Chief Executive of Dynamic Earth Charitable Trust, dated 12 December 2002 Reports to Executive of the Council of 17 December 2002 and 12 August 2003 Letter of 19 September 2003 to the Scottish Executive Letter of 30 September 2003 from the Scottish Executive