

Finance and Budget Committee

10am, Thursday, 6 June 2013

Loan to Edinburgh Leisure in relation to the Edinburgh International Climbing Arena (EICA), at Ratho

Item number	7.2
Report number	
Wards	Pentland Hills (EICA); All

Links

Coalition pledges	P42
Council outcomes	C020
Single Outcome Agreement	SO2

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Executive summary

Loan to Edinburgh Leisure in relation to the Edinburgh International Climbing Arena (EICA), at Ratho

Summary

At its meeting on 21st March 2013, the Finance and Budget Committee was recommended to agree the write-off of a £230,000 loan advanced to Edinburgh Leisure for the operation of the Edinburgh International Climbing Arena.

The Committee's decision was to request more information to be provided.

Edinburgh Leisure incurred a deficit of £427,000 in 2011/12 after achieving an operating surplus of £315,000 in 2010/11. At this stage, it is anticipated that Edinburgh Leisure will achieve a surplus of £3,000 in 2012/13.

The Board of Edinburgh Leisure has agreed an objective of a minimum year-end balance of reserves of £1.2m, based on one month's payroll cost. At the start of 2013/14, Edinburgh Leisure has a financial gap of approximately £187,000, in order to achieve this balance. Edinburgh Leisure has identified a range of budget savings to meet this gap in 2013/14 and ensure the reserves are at the level agreed by the Board.

Based on a range of operating assumptions, Edinburgh Leisure is forecasting a reserve balance of £0.7m at the end of 2014/15; £0.5m below the approved level of reserve. At current service levels, forward projections would see reserves exhausted within two years. Edinburgh Leisure is therefore reviewing options to build a plan that will protect reserves. Savings options are being identified for future years. Edinburgh Leisure proposes to work in partnership with the Council to review levels of service provision in the medium and longer term.

Given the current financial projections and the measures being implemented to achieve budget savings, Edinburgh Leisure is not in a position to repay the loan of £230,000 from EICA's operational income or from other Edinburgh Leisure resources, without further significant changes to services.

The proposal to write-off the loan should be set in the context of the challenging original business case assumptions that the EICA would operate at a profit, the financial impact of this not being achievable and the consequent cumulative losses of £3m absorbed by Edinburgh Leisure without additional service payment from the Council.

Recommendations

It is recommended that the Committee agrees to the write-off of the loan of £230,000 advanced to Edinburgh Leisure in respect of the operation of the Edinburgh International Climbing Arena at Ratho.

Measures of success

Removal of a debt burden on Edinburgh Leisure.

Financial impact

The proposed write-off of a £230,000 loan to Edinburgh Leisure is set against an existing provision made by the Council for that amount, and will thus have a neutral effect on the Council's budgeted position.

Equalities impact

This recommendation will have no negative impact for any of the groups with protected characteristics under the Equality Act 2010 and meets the public sector equality duty in so far as the reduction of this financial burden on Edinburgh Leisure will protect its services to the community.

Sustainability impact

The impacts of this report in relation to the three elements of the Climate Change (Scotland) Act 2009 Public Bodies Duties have been considered. The recommendation will have no negative impact on carbon emissions; is not relevant to climate change; and will help achieve a sustainable Edinburgh by supporting a body which promotes health and well-being through its services.

Consultation and engagement

Not applicable.

Background reading / external references

Report to Council on 27 June 2007 ["Edinburgh International Climbing Arena, Ratho"](#)

Report to Culture and Sport Committee, 12 March 2013 ['Independent Review of Edinburgh International Climbing Arena at Ratho'](#)

Report to Finance and Budget Committee, 21 March 2013 ['Loan to Edinburgh Leisure in relation to the Edinburgh International Climbing Arena \(EICA\), at Ratho'](#)

Loan to Edinburgh Leisure in relation to the Edinburgh International Climbing Arena (EICA), at Ratho

1. Background

- 1.1 At its meeting on 21st March 2013, the Finance and Budget Committee was recommended to agree the write-off of a £230,000 loan advanced to Edinburgh Leisure for the operation of the Edinburgh International Climbing Arena.

The Committee's decision was to request more information to be provided.

This report provides further information on Edinburgh Leisure's recent financial performance and future projections, in support of the recommendation to write-off the loan.

2. Main Report

- 2.1 The Edinburgh International Climbing Arena (EICA) at Ratho was acquired by the Council in 2005. Considerable building works were required to complete the facility and make it fit for purpose. Edinburgh Leisure was asked to manage EICA. A lease for 44 years was granted, expiring in 2051. The facility opened fully in May 2007.
- 2.2 The Council make an annual payment to Edinburgh Leisure for management of sport and leisure facilities. This payment can be increased when new facilities are added to the portfolio which Edinburgh Leisure manages.
- 2.3 As the original business plan for EICA showed that EICA would operate at a profit, the Council decided not to increase the service payment to Edinburgh Leisure for EICA.
- 2.4 During its first year of managing the EICA, Edinburgh Leisure, in partnership with the Council, reviewed the original business case and concluded that the venue would operate at a loss of at least £380,000 in the first year and beyond, with little prospect of this being recovered for at least five years.
- 2.5 To help Edinburgh Leisure deal with the anticipated negative impact on its cash flow, the Council agreed to advance Edinburgh Leisure £150,000. This was subsequently increased by £230,000 to a total of £380,000. This was agreed by Council on the 28 June 2007 on the terms that the loan would be repaid once the venue was in surplus, with a termination date of five years.

- 2.6 Usage of the venue has increased markedly over the past five years, although it continues to operate at a deficit of approximately £400,000 per annum. Edinburgh Leisure's current view is that it is highly unlikely that the EICA will achieve a surplus in the foreseeable future. This has been verified by an independent assessment and was reported to the Culture and Sport Committee on 12 March 2013, where approval was given to continue with the current management arrangements. The independent assessment noted that EICA generates a significant economic impact for the City contributing £2.1m to the Edinburgh economy when climbing events occur.
- 2.7 The original loan of £150,000 has been settled. However, the continuing operating deficits made it impossible for Edinburgh Leisure to repay the remaining £230,000 loan by the due date of 3 July 2012 from the revenues of EICA. Due to other pressures on its finances, Edinburgh Leisure could not repay the loan from other resources.
- 2.8 Edinburgh Leisure incurred a deficit of £427,000 in 2011/12 after achieving an operating surplus of £315,000 in 2010/11. A key reason for the movement in the variance was due to the cost of re-opening the Royal Commonwealth Pool in 2011/12. The financial statements for 2012/13 are in the process of being prepared. At this stage, it is anticipated that Edinburgh Leisure will achieve a surplus of £3,000 in 2012/13.
- 2.9 The Board of Edinburgh Leisure has agreed an objective of a minimum year-end balance of reserves of £1.2m. This balance is based on one month's payroll cost. At the start of 2013/14, Edinburgh Leisure has a financial gap of approximately £187,000 to achieve this balance. This has largely resulted from a reduction in golf income in 2012, due to the poor summer weather and higher than expected utility costs at the Royal Commonwealth Pool. Edinburgh Leisure has identified a range of budget savings to meet this gap in 2013/14 and ensure the reserves are at the level agreed by the Board.
- 2.10 Over recent years, Edinburgh Leisure has implemented a range of operational savings in both front line and support areas. These savings include procurement efficiencies, support function reviews and establishment reductions - the Craggs Sports Centre and Queensferry Recreation Centre. Reductions in opening hours have been implemented at Kirkliston Leisure Centre and EICA.
- 2.11 Edinburgh Leisure continues to seek additional income generation opportunities and monitors market competition. A number of new flexible membership products aimed at increasing usage and market penetration have recently been launched.
- 2.12 Based on a range of operating assumptions, Edinburgh Leisure is forecasting a reserve balance of £0.7m at the end of 2014/15; £0.5m below the approved level of reserve. At current service levels, forward projections would see reserves exhausted within two years. Edinburgh Leisure is therefore reviewing options to build a plan that will protect reserves.

- 2.13 The Council's service payment in 2013/14 has not increased from 2012/13. This represents a reduction in real terms when the effect of price inflation is taken into account. A reduction in Council service payment is anticipated in 2015/16 due to the cessation of additional three-year funding given by the Council in 2012/13 for the introduction of specific targeted programmes and budget inflationary pressures.
- 2.14 Edinburgh Leisure is planning savings options for future years and proposes to work in partnership with the Council to review levels of service provision in the medium and longer term. The Council's review of all Council owned sports facilities over the coming 18 months will influence future levels of service provision, and there may be a move towards targeting available resources to areas of the city where Edinburgh Leisure can make the biggest positive difference in line with the Council's pledges and Single Outcome Agreement, whilst maintaining access for all.
- 2.15 Edinburgh Leisure's overall operating model will be reviewed to reduce the cost base. Edinburgh Leisure is reviewing current service operations to match demand more efficiently and effectively and may consider and implement future adaptation of opening hours of facilities as well as continuing to explore alternative models of service delivery, in partnership with the Council. There may be the opportunity for both the Council and Edinburgh Leisure to achieve efficiencies in future management arrangements for school sports facilities.
- 2.16 Given the current financial projections detailed at paragraph 2.12 and the measures being implemented to achieve budget savings, Edinburgh Leisure is not in a position to repay the loan of £230,000 from EICA's operational income or from other Edinburgh Leisure resources, without further significant changes to services.
- 2.17 Previous discussions with Edinburgh Leisure during 2011 indicated that the loan could not be repaid as scheduled. Provision was made for the potential non-payment in the Council's 2011-12 accounts and this provision remains in the accounts.
- 2.18 Measures are being taken to ensure a balanced budget going forward but this does not include provision for repayment of the loan.
- 2.19 It is therefore proposed that the loan be written off by the Council, thus relieving Edinburgh Leisure of this liability. As provision has already been made in the Council's accounts, the proposal will have no implications for the current year's revenue account.
- 2.20 The proposal to write-off the loan should be set in the context of:
- The challenging original business case assumptions that the EICA would operate at a profit and the consequent financial impact to Edinburgh Leisure of this not being achievable;

- Edinburgh Leisure’s service payment from the Council reducing from 50% of operating costs in 1998 to the current level of 33%;
- cumulative losses of £3m incurred by EICA and absorbed by Edinburgh Leisure without any additional payment from the Council;
- visits to Edinburgh Leisure managed facilities increased by 35% since 1998.

Recommendations

- 3.1 It is recommended that the Committee agrees to the write-off of the loan of £230,000 advanced to Edinburgh Leisure in respect of the operation of the Edinburgh International Climbing Arena at Ratho.

Alastair D Maclean

Director of Corporate Governance

Links

Coalition pledges	P42 - Continue to support and invest in our sporting infrastructure
Council outcomes	C020 - Culture, sport and major events – Edinburgh continues to be a leading cultural city where culture and sport play a central part in the lives and futures of citizens
Single Outcome Agreement	SO2 - Edinburgh’s citizens experience improved health and wellbeing, with reduced inequalities in health