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| Agenda Item | 7.(a) |
| Report No | RES/14/23 |

HIGHLAND COUNCIL

Committee: Corporate Resources Committee

Date: 8 June 2023

Report Title: Financial Assessment of Notice of Motion – Lets

Report By: Head of Finance

1. Purpose/Executive Summary

- 1.1 A Notice of Motion relating to lets was reported to the Council meeting of 11 May, along with an assessment by the Council's Section 95 Officer which identified that financial implications relating to the Notice of Motion were anticipated.
- 1.2 Per Council Standing Orders *"If financial implications have been identified, the proposal will be referred to the next meeting of the Corporate Resources Committee for a full assessment and referral back to the next Council."*
- 1.3 This report sets out the assessment of the Notice of Motion for consideration by Members.

2. Recommendations

- 2.1 Members are asked to:
 - i. consider the financial assessment of the Notice of Motion relating to lets;
 - ii. note the financial implications of the Notice of Motion which are assessed as in the region of £128,000 to £192,000 per annum;
 - iii. note the financial risks and implications as set out in the report, and that a clear and agreed funding solution would need identified for the Notice of Motion to progress; and
 - iv. note that the Notice of Motion and the financial assessment will be considered by Council on 29 June.

3. Implications

- 3.1 **Resource** – Prior to the savings approved by Council on 3rd March 2022 and detailed in section 5 of this report below, the lets activity was costing £250,000 more to deliver than it brought in through income generated from this non-statutory service provision. The savings implemented and detailed in section 5 below were intended to close this gap and to recover the full costs of the activity. It is estimated that the cost of implementing the Notice of Motion could be in the region of £128,000 to £192,000 per annum. To fund this would require identification of additional savings, or cessation of other current service activity, or an additional unplanned drawdown from Council reserves, all of which represent opportunity costs. Reserves would also not be a sustainable funding solution for a recurring cost pressure. The report to Council on 2nd March highlighted the financial and sustainability challenges facing the Council.
- 3.2 **Legal** – There is no legal impact from the implementation of the motion, other than that it would create the financial implications as described.
- 3.3 **Community** – It is recognised that there is a social value benefit to all of our communities from the lets activity being provided.
- 3.4 **Climate Change / Carbon Clever** – There are no Climate Change/Carbon Clever implications arising directly from this report.
- 3.5 **Risk** – If the motion is implemented then a clear and agreed funding solution would need be agreed and implemented.
- 3.6 **Gaelic** – there are no adverse Gaelic implications arising directly from the motion.

4. Background

- 4.1 The full text of the Notice of Motion reported to Council on 11 May is as set out below.
- 4.2 *It is well known that voluntary, charitable and youth organisations are struggling with the reduction in funding that they are all experiencing, and this is made significantly more difficult with the level of letting fees for council premises that are being levied on such organisations.*

Many of these organisations make a significant contribution to the mental welfare of our young people and this is particularly important in the wake of the Covid pandemic. In addition, other such organisations provide vital childcare and after school clubs and activities for the children of working parents.

The level of letting fees is threatening the very existence of such organisations and if they have to close and withdraw their services the knock-on effect for children's mental health and the ability for working parents to continue to work is considerable, with the added impact on the local economies that will ensue.

That being the case this Council will review the letting charges for all such organisations and introduce a reduction in letting fees of 50% for all charitable and voluntary organisations.

By doing this we will ensure that the invaluable services that they provide across Highland will continue to the benefit of all communities.

5. Current Position

- 5.1 Lets describes the activity where the Council rents out a range of facilities for a range of functions, including classrooms, other enclosed spaces, halls and theatres and sports pitches. There are costs that attach to the provision of staff to open, close, clean and manage and in connection with other costs of operation such as utilities costs and repairs and maintenance. The savings proposals previously agreed by the Council, summarised in 5.3 below and implemented, applied the principle of full cost recovery to lets as indeed was applied to many other Council services and activities and were designed to prevent the previous loss position from persisting in the context of the general financial pressures that the Council faces.
- 5.2 Traditionally this service ran at a considerable loss. In a typical pre covid year roughly 20,000 let events occurred of which approximately two thirds, in excess of 13,000 let events, were provided without any charge at all, even in a number of cases where funding was provided for those events to take place and/or where charges to attend were levied by event organisers. The consequence of providing the lets service in that way, with so many free charges, created a loss position to the responsible service (Property and Housing) and through them the Council itself of £250,000 per annum which is unsustainable for the service itself and the Council generally.
- 5.3 It was recognised that the position set out at 5.2 above was not sustainable. At the Council meeting to set the budget on 3rd March 2022 two savings proposals were approved that directly impacted on the lets activity and sought to address:

A. Full cost recovery (2022 budget papers, saving Corp/26, page 78)

“Full cost recovery is to ensure that all direct costs, plus indirect costs and overheads are recovered, whether that be from external grant or other funding streams that fund activity, or through the recharge of costs. In relation to indirect costs and overheads, these would typically include costs such as; management costs and support services, and including corporate support functions such as Finance, HR, Legal, ICT and Property Services.”

B. Lets (2022 budget papers, saving P&H 13, page 103)

“All Lets to Pay; no free lets or discounts to anyone– unless offset by a payment from ward discretionary budgets and excepting Community Councils.”

Uniformed groups and other third sector organisations, and HLH were not exempted.

- 5.4 The purpose behind the savings set out at 5.3 above was to ensure that the full cost of putting on an event was to be addressed by let arrangers, whoever they may be. The whole cost of events being put on is not only the cost of the event or activity itself, but the other attendant costs, such as utilities, cleaning, FM opening and closing, as appropriate. The motion as written would mean that lets were not operating on a full cost recovery principle.
- 5.5 The proposals narrated in 5.3 were applied irrespective of whether a let activity organiser receives/received funding sourced from elsewhere within THC, third parties, and/or where event organisers levy a charge on attendees. The underlying logic was that applying these charges was reasonable overall to prevent the loss to the Council from giving away so many free lets, and that it was particularly reasonable when event

organisers are or were approaching the Council for use of Council facilities and staff resource and/or where they are or were receiving funding and/or charging fees to attendees at events. The alternative would be to propose that events organisers levying a charge on attendees at their events were doing so to generate income to cover their own costs and business plan requirements, but that in not paying a lets fee to Property and Housing/The Council that they were effectively having their costs and income subsidised by the Council.

6. Assessment of Notice of Motion

- 6.1 The current let charging arrangements are not based upon the category of organisation booking (charitable, voluntary and youth) as per the wording in the Notice of Motion. As a result, information to analyse the volume and current income generated from these group categories is not readily available. Detailed analysis of all bookings would need be undertaken to fully assess the scale involved.
- 6.2 Whilst the details of lets relating to such groups are not available, the table below illustrates potential scenarios of the scale of financial impact that could arise were the 50% reduction in charges agreed and implemented. These scenarios are all based upon the current totality of let income budgeted for being £512,000.

| | Scenarios – proportion of income related to Charitable, Voluntary and Youth organisations | | | |
|--|---|------------------|------------------|------------------|
| | If 100% of Income | If 75% of Income | If 50% of Income | If 25% of Income |
| Current Budgeted Let Income levels | £512,000 | Not applicable | Not applicable | Not applicable |
| Scenario Income from Charitable, Voluntary and Youth organisations | £512,000 | £384,000 | £256,000 | £128,000 |
| Impact of a 50% reduction in charges for Charitable, Voluntary and Youth organisations | £256,000 | £192,000 | £128,000 | £64,000 |

- 6.3 It is known that there are pre-existing lettings for commercial activity, and per hour any commercial activity is charged at a higher rate than non-commercial activity. As a result, it is reasonable to conclude that the 100% scenario above would not reflect a likely scenario. Anecdotally the volume of let activity to the organisations in question is considered significant, and as a result it is considered unlikely that the 25% scenario will be reflective i.e. it is considered likely that more than 25% of letting income is likely to come from charitable, voluntary and youth organisations. As a result, based on the scenarios above, on a full-year basis, the likely financial impact of the Notice of Motion could therefore be expected to be in the range of **‘£128,000 to £192,000’**.

To progress this Notice of Motion would therefore either necessitate identification of additional savings, cessation of other current service activity, or an additional unplanned drawdown from Council reserves in the range of £128,000 to £192,000. Reserves are not a sustainable solution to the cost of a recurring budget pressure.

The budget report to Council on 2nd March 2023 highlighted a multi-year revenue budget forecast (appendix 10 of that report). That appendix highlighted the risk that by the end of 2025/26, general reserves could be wholly depleted.

Designation: Head of Finance

Date: 30/5/23

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