

## CULTURE, TOURISM, EUROPE AND EXTERNAL AFFAIRS COMMITTEE

### INQUIRY ON THE IMPACT OF COVID-19 ON SCOTLAND'S CULTURE AND TOURISM SECTORS

#### SUBMISSION FROM COMMUNITY LEISURE UK

##### **Introduction**

Community Leisure UK is responding on behalf of our members who deliver public leisure, sport and culture services across the UK. In Scotland, we currently have 27 members, which are all registered charities (with a public benefit asset lock), often working in partnership with local authorities. 16 of our 27 members deliver some form of public culture within their local communities, including libraries, museums, galleries, theatres and community halls.

Our response highlights some of the particular risks faced by our members delivering public culture services.

##### **1. Immediate Impact**

1.1 The Covid-19 impact and response can be split into three phases:

- the immediate (from the beginning of lockdown) - closedown of facilities and services and protecting jobs;
- now - preparing for reopening; and
- medium / longer term - recovery and resilience.

1.2 Although largely closed, our members are feeling the immediate and continuing impact of managing ongoing costs (including utilities, significant pension contributions, building maintenance and safety, costs of non-furloughed staff), with zero income being received (losing on average £1.1m of income receipts from customers per month[1]).

1.3 Most members are seeking alternative ways to engage with their communities, through digital offerings (including expanded ebook availability, online music tuition, virtual tours of museums and galleries), and also seeking to support those who may not have access to technology, for example, delivering books and DVDs to identified vulnerable families. These services are being offered free of charge in the main, however, there is currently no trading activity of ancillary services able to take place and any income generation opportunities are severely constrained.

##### **2. Financial risk**

2.1 Our insight survey, which concluded on 18 May 2020, evidenced that 27% of members in Scotland will be non-viable or insecure over the next one to six months. This insecurity increases to 36% over 9 – 12 months; and from 12 months onwards, none of our members feel that they will be secure. This is based on an assumption of phased re-opening of facilities and spaces with social distancing measures in place.

2.2 To manage this current situation, members are using all levers available. Including using a significant proportion of, or, their entire reserves, applying for high street bank loans and overdrafts, and requesting advanced payments on their management fees where possible. This is a high risk, unsustainable solution, which has significant consequences. For example, even an advance of management fee into a prior period will increase the VAT liability for that period in due course, so none of these actions come at no cost immediately or in the longer term.

2.3 Whilst we appreciate that both the UK and Scottish Governments have been seeking to support organisations affected by Covid-19, our members in Scotland are falling through the gaps in funding. 55% are not eligible for Government led support, with 10% being declined. Significantly, 60% of members are not eligible for either Business Support Grants or Grants from National Agencies e.g Creative Scotland. The key pillar of support is the Coronavirus Job Retention Scheme, and it is crucial that this is able to support members as long as social distancing remains in place. Only those Trusts with any trading activity are eligible for applications for the Pivotal Enterprise Resilience Fund, but given the package of services being delivered, the case for this funding is particularly challenging to make.

2.4 There is a significant threat to cultural services being delivered through charitable trusts as services may be missing out on support and facing increased financial challenges simply as a result of the model of delivery. There is an urgent need for care and ownership of cultural services and facilities at a political level, seeking to protect and support these services regardless of the delivery model.

2.5 Furthermore, since their establishment by local authorities, arms-length charitable trusts have been encouraged to become increasingly self-sufficient against a backdrop of increasing local authority financial pressures and ever decreasing budgets. The result of this is that these charitable trusts are now victims of their own success, with a far greater reliance on income through trading, which has now entirely stopped since the closure of facilities. The resulting gap between income and expenditure is therefore increased, with additional support urgently needed to close this gap and ensure these organisations are able to remain solvent.

2.6 It should be noted that, in the context of cultural services, it is the large scale events, activities and live events and performances, which have income generation potential associated with them, then re-invested into sustaining free of charge public services. It is unlikely that any such activities will now be happening, particularly in relation to theatres, given viability constraints, until spring of next year. Moreover, once theatres are able to reopen, there will be little in the way of available product for performing arts venues as groups (touring theatre, dance, music and community groups) will not have been unable to rehearse or develop new productions. The financial pressure is therefore immediate and significant. There are real fears that the theatre and events offer in particular, alongside hospitality and tourism benefits delivered, will not survive this crisis without specific support. Theatres across the UK are already closing their doors on a permanent basis as a result.

2.7 The lack of understanding of how the charitable trust model works is at the root of some of the financial risks and gaps in funding support. There is a perception that charitable trusts are cash rich, with significant cash reserves and local authority support. However, the reality is that for most trusts, their reserves are largely restricted, and tied to specific projects or programmes, thus are not available to use them to support the costs of the organisation and do not contribute to the bottom line financial sustainability of the organisation.

2.8 Local authorities are key partners for charitable trusts and pay a management fee to support the delivery of services. Our members have indicated that they are receiving positive communication and support, predominantly in the form of advances on management payments where these are paid in instalments throughout the year. However, this is again a short-term solution, as the significant risk for our members is during the recovery period (12-18 months) as they reopen and seek to rebuild their businesses, when they will have potentially exhausted their full year's management fee leaving a significant financial gap to be filled to ensure long term sustainability at a time when public health measures could impact detrimentally most, if not all, income generating activities. Undoubtedly, therefore, this will result in a reduction in the scope and nature of services delivered and venues operated, in order to address this gap and ensure sustainability of services and the trusts themselves. The fact that these trusts are companies and charities with boards of directors with very real legal and financial duties and responsibilities to the organisations will mean that these are issues which must be resolved in order to avoid potential wrongful trading situations in relation to technical insolvency for the directors and trustees involved.

2.9 There is no doubt that local authorities will be heavily burdened by the costs of Covid-19 and it is essential that they are adequately resourced and supported by Scottish Government in order to function effectively and to be able to support their delivery partners. There will also be increased costs for cultural venues once able to reopen in order to comply with the new health and safety requirements (PPE, additional cleaning, building adaptations etc.). We strongly recommend that there is ring fenced funding available to local authorities specifically for the delivery of cultural services, in recognition of the specific challenges set out in this submission.

2.10 The impact of Covid-19 has pressurised charitable trusts financially but also, importantly, in terms of their ability to deliver impact as per their governing documents. Their ability to deliver impact is supported by the founding financial principle behind the trust model - cross-subsidy. They utilise and reinvest the profit from those services e.g. box office income, bar, catering, and retail profits, to cross subsidise non-profit generating activities; and to reinvest the profit to enable subsidised or free access for communities in most need of opportunities for engagement.

### **3. Long-term impact**

3.1 In terms of the long-term impacts, a concrete response is unknown. Our members are working through models, scenarios, income forecasts. This mainly focuses on the length of closure, social distancing measures in place, and importantly, customers' appetite to return to facilities and services.

3.2 We are actively working with members on a recovery support programme, trying to help them make the best decisions possible. This includes helpful contributions from, and collaborations with, partners across the UK.

3.3 Most cultural facilities will not reopen until phase 3 or 4 in Scotland's route map, and many facilities, notably theatres, may not be able to reopen safely and in a financially viable way whilst social distancing remains in place. These facilities need to be supported, particularly as current support through the Job Retention Scheme is scheduled to end at the end of October, when many facilities will continue to be impacted by reduced services and customer income, with many not open at all.

3.4 If our members are unable to remain solvent, there will be an insurmountable loss of civil society run facilities and services, which will never return. These losses will include:

- theatres, which provide professional productions through to community productions;
- libraries, which are community hubs where dementia groups meet, enable internet access for those who need it;
- Museums and galleries – where local and national heritage is celebrated and transformational cultural experiences occur – these places in particular will be critical in future as we make sense as a nation of the post covid-19 world
- places and services that offer lifelines for isolated and potentially lonely individuals, providing safe places to meet and engage in their community.

Yet the loss will extend far beyond the loss of facilities and services. Culture trusts offer multiple opportunities for artists and creative practitioners, from staff working in theatres or arts centres, delivering workshops, as well as commissions for individual artists and specialist advice and support for artists, arts organisations and community groups in local areas. Culture trusts also work in partnership with national bodies to open up opportunities for artists and communities in their areas.

### **4. Key support requests**

4.1 While the deferral of VAT payments has been welcomed, this will not provide any real support for members in the long-term as it will still be required to be paid. With an anticipated recovery period of 18-24 months, this is simply pushing the issue further down the line, at a time when organisations will still be financially vulnerable. A temporary removal of VAT payments would relieve this burden off of members' shoulder in the short and medium term. This is particularly important given that it constrains the financial sustainability option of advances of management fee by increasing the VAT liability if advances are drawn into financial periods where management fee has already been drawn down. This could be crippling for Trusts in either scenario.

4.2 As reopening services post Covid-19 will see a redesign of services in many areas, a deferral of capping of NDR payments would enable discussions around rationalisation and co-location of services to take place without being constrained by a fear of unintentionally increasing NDR, or not being able to access NDR in order to reshape local services in a way which is most cost efficient, effective and best meets local needs including increased co-location and integration of public services. This is a particular issue as a result of the legislation introduced after the Barclay review, with further relief benefit offset to councils to mitigate against future ALEO relief expansion where every local authority now has a cap on NDR. Equally, the potential for local authorities to release some assets from their portfolio in order to develop others is likely to be significantly constrained for some time given the economic impact of covid-19 on future development and financial confidence and availability of investment capacity. This means that it will be extremely difficult to manage the NDR cap in a way which will allow the right decisions to be made for local communities in relation to the location and nature of services provided.

4.3 As mentioned, many cultural services will begin reopening during phase 3 and phase 4, thus the likelihood is that many of those facilities and services will not be open when the current Coronavirus Job Retention Scheme ends in October. This will significantly impact on the viability of these services and their staff, putting numerous jobs at immediate risk where it is not possible to return to work. We request the Government's continued support through the CJRS whilst social distancing measures are in place. This will help ensure that once cultural

facilities and services re-open, they are financially supported whilst revenue levels rebuild. It should be noted that many trusts, even where they have accessed the CJRS support, are, in order to keep trade unions on side, topping up to 100% of earnings, and the full superannuation contributions, given that most if not all staff in trusts have TUPE transferred across from local authorities. The guidance from COSLA which means that casual staff are also continuing to get paid despite venues not being open based on an average of previous earnings, has also brought an additional and unanticipated financial pressure.

4.4 It feels that charities, societies and CICs are not being given equal opportunities for support; more financial support has gone to profit-distributing organisations e.g. 100% business rate relief (whereas charities already receive rate relief), grant support from local authorities etc.

4.5 There needs to be a commitment to properly financing and resourcing cultural services to enable them to both survive and thrive. Communities will need access to these services and experiences more than ever before, in order to make sense of the unprecedented experience that we have had and continue to have with the pandemic, and also to access key community level advice and support with the practical challenges post lockdown as well, particularly those most vulnerable. With the development of the Scottish Government's cultural strategy, there has been recognition of the importance of culture across a range of portfolio areas and there must be consideration of how to fully embrace this and work to protect and future-proof the sector to ensure that its value and contribution in Scotland are not lost.

4.6 It is rightly recognised that the culture sector will evolve and never return to the same as before the current pandemic. New and innovative approaches, largely embracing digital technology, have been implemented to engage customers whilst services are closed and trusts continue to be bold and ambitious in re-imagining these services for the future. However, though digital offers an alternative events such as live performances, it is not a replacement for the experience of physically attending and sharing in a collective experience. There is a need for support around digital skills and training for the sector, but equally resources and funding to provide hardware for organisations to use. However, digital poverty must also be recognised and solutions identified to ensure no one is left behind in the development of new approaches. .

4.7 As we progress towards reopening and recovery, instilling public confidence in returning to using services is vital, but equally managing expectations around the speed of reopening is essential, as is understanding that cultural services are not homogenous and include key public services such as libraries and all that they deliver, through to museums, galleries, theatres and live events and performances, all of which will require to be delivered in fundamentally different ways for the foreseeable future. We request engagement with the sector to coordinate messaging and to avoid any potential backlash or mixed messaging, which would damage the sector as a whole.

As Community Leisure UK we would welcome the opportunity to provide any further information to the committee which would be useful as part of this important enquiry, and also to facilitate wider communication across those member trusts delivering cultural services.

**End.**

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**Notes - our membership base**

Community Leisure UK is a members' association representing registered charities, societies or community interest companies (with a public benefit asset lock) delivering public leisure, sport and/or culture services for communities across the UK. All members in Scotland are registered charities. Members provide physical activity, cultural engagement and social opportunities and are significant partners within their local communities. In Scotland, we have a total of 26 members, operating over 1200 facilities that received over 77m customer visits last year, with over 18,000 staff and over 12,000 volunteers.

Our members have a key role in supporting the physical, mental and social health and wellbeing of their local communities, and will be equally, if not more so, required as communities emerge from the current crisis. If our members are unable to remain solvent and reopen their doors, there will be an insurmountable loss of charity run facilities and services, which are likely never to return. These losses will include local swimming pools, libraries, programmes to support people with long-term conditions and older people, among others.