

Policy and Sustainability Committee

10.00am, Tuesday, 9 January 2024

Edinburgh Leisure and the Real Living Wage

Executive/routine
Wards

Routine
All

1. Recommendations

- 1.1 It is recommended the Policy and Sustainability Committee notes:
 - 1.1.1 That for Edinburgh Leisure to implement Real Living Wage will increase their costs by £0.473m in 2023/24 and £0.8m in 2024/25;
 - 1.1.2 Edinburgh Leisure has budgeted for a deficit of £0.736m (before including Real Living Wage costs) in 2023/24 and is currently forecasting a budget deficit of £3.6m (including Real Living Wage) for 2024/25; and
 - 1.1.3 Edinburgh Leisure is reviewing options and costs to mitigate budget deficits in 2023/24 and 2024/25.

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Edinburgh Leisure and the Real Living Wage

2. Executive Summary

- 2.1 Edinburgh Leisure aspires to pay its employees the Real Living Wage and previously did so in 2021/22 and 2022/23. This report details the significant financial challenges for Edinburgh Leisure over the next 18 months, the measures implemented to date and options under consideration to improve their fiscal position. Council officers will continue to work with Edinburgh Leisure senior managers to review their financial position and forecasts.

3. Background

- 3.1 At its meeting on 31 August 2023, Council [agreed](#) a motion by Councillor Campbell on Edinburgh Leisure and the Real Living Wage.
- 3.2 A report on Edinburgh Leisure and the Real Living Wage was [presented](#) to this Committee on 24 October 2023 with the following recommendation agreed:
- 3.2.1 That the Executive Director of Place reviews the funding agreement in discussion with the Chief Executive of Edinburgh Leisure to understand the financial and operational implications of paying the real living wage, with a report on the findings to Committee on 9 January 2024.
- 3.3 As captured in the report to Committee on 24 October 2023, Edinburgh Leisure is a private company limited by guarantee, with charitable status. Edinburgh Leisure does not have any shareholders and as a result the Council holds no shareholder power to instruct Edinburgh Leisure to pay the Real Living Wage.
- 3.4 The Council's relationship with Edinburgh Leisure is managed through an annual Services and Funding Agreement. The Agreement states that the Recipient (Edinburgh Leisure) should, to the extent reasonably possible, comply with the Funder's policy on the Living Wage.

4. Main report

- 4.1 Edinburgh Leisure aspire to pay the Real Living Wage and previously did so in 2021/22 and 2022/23.
- 4.2 For 2023/24, Edinburgh Leisure made a 4% pay award with a resultant deficit budget of £0.736m. The cost of the pay award was £0.742m. The cost of delivering the Real Living Wage would be an additional £0.473m. Edinburgh Leisure's Board agreed the financial risk of increasing the deficit budget to over £1m was too great. However, it was agreed that if the organisation was performing significantly better than the deficit position (for review after six months) then funds could potentially be directed to paying the Real Living Wage.

Financial Position

- 4.3 The financial climate for Edinburgh Leisure remains challenging. Gas and electricity charges for 2023/24 are approximately £2m higher than pre-pandemic expenditure and forecast to be around £2.75m higher in 2024/25. Inflation continues to affect Edinburgh Leisure's cost base and customers level of disposable income, which poses ongoing uncertainty around usage levels.
- 4.4 Edinburgh Leisure's financial position for 2023/24 at the end of October 2023 is £0.067m ahead of the budgeted deficit of £0.736m. This is not forecast to significantly change or improve by the financial year end and Edinburgh Leisure continues to explore all avenues to increase usage and income to address the budget deficit. Additional measures Edinburgh Leisure are taking to de-risk the financial position and manage cash flow include pausing of non-essential maintenance, leasing rather than purchasing equipment and additional governance steps for approval of recruitment.
- 4.5 In order to pay the Real Living Wage in 2023/24, the use of reserves and price increases beyond the 10% rise implemented in April 2023 have also been considered. The deficit budget for 2023/24 will reduce cash reserves to around zero. For 2024/25, increases in the National Living Wage and the introduction of the Real Living Wage is estimated to increase employee costs by £2.2m. This figure has been factored into Edinburgh Leisure's high-level budget for 2024/25 which is showing a deficit of £3.6m.
- 4.6 The table below provides further detail of Edinburgh Leisure's high-level financial position for 2024/25:

2024/25	£'m	
Deficit Budget 2023/24	0.736	
Forecast – October 2023	-0.067	
Reduction in CEC COVID funding	1.000	Reduces from £2m to £1m
Energy	0.727	Electricity £0.258m, Gas £0.469m
NDR and Water Rates	0.239	Non-Domestic Rates £0.135m (minimum), Water £0.104m
National Living Wage	1.400	
Real Living Wage	0.800	

Price increase	-1.300	Between 5 and 8% (with some at 0%)
Budget Pressure 2024/25	3.535	

Options Under Consideration to Support Real Living Wage Payment

- 4.7 Edinburgh Leisure's Board and Strategic Leadership Team are developing options to address the significant financial challenges in 2024/25. Areas under consideration include:
- 4.7.1 Increased charges;
 - 4.7.2 Reduced opening hours and / or closure of venues;
 - 4.7.3 A review of corporate / central services costs;
 - 4.7.4 Recovery of corporate / central service costs from Edinburgh Leisure's management of community access to secondary school sports facilities; and
 - 4.7.5 Lothian Pension Fund employer contributions following the 2023 Actuarial Valuation.
- 4.8 **Increased Charges:** Current proposals for increasing charges for 2024/25 range from 5% to 8%. These have been developed on a product-by-product basis informed by analysis of usage, trends, benchmarking data and inflation, particularly with regard to consumers disposable income. As with previous years, no increases are proposed for the products supporting those experiencing poverty and health inequalities. The estimated income from the increase would be in the region of £1.3m. This has already been accounted for in the high-level budget estimate for 2024/25.
- 4.9 **Reduced Opening Hours/ Closure of Venues:** Reduction of opening hours and / or closure of venues is complex. The resultant net benefit to Edinburgh Leisure and the Council is uncertain. Switching venues to 'peak' hours only would reduce employee costs but energy usage would likely remain the same. There is a risk that reduced income could offset savings and result in the same net position as remaining open through 'off-peak' periods.
- 4.10 Usage varies throughout the day with peak periods typically early morning, lunchtime and 3.30pm onward. The less busy 'off-peak' periods are used to deliver activities and projects to support those experiencing poverty and health inequalities. Opening hours based on usage could therefore see venues open, close and re-open, creating fragmented employee working hours resulting in recruitment challenges. Significant reductions to opening hours (e.g., evenings only) would result in a significant downturn in usage and income. Further analysis would be required to estimate net impact.
- 4.11 Venue closure net benefits to Edinburgh Leisure and the Council are not certain. The net position for each venue varies. Whilst closure would remove this pressure, new financial burdens would include staff redundancy costs, non-domestic rate charges, security, and disposal expenses. As an example, to realise a saving in the

region of £1m would require the closure of approximately six wet / dry sport centres. The £1m saving is before any direct costs connected with closing a venue (as detailed earlier) are considered.

- 4.12 **Review of Central Services/ Support Costs:** Edinburgh Leisure have carried out (where possible) benchmarking on central support costs (e.g., HR / IT / Finance). This has not identified any over resourcing. An initial review by Edinburgh Leisure has, however shown some savings may be possible, and this is being progressed as part of the preparation for the 2024/25 budget.
- 4.13 **Recovery of Central Services / Support Costs:** this would be achieved from the adoption of a management fee for sports lets in secondary schools.
- 4.14 **Review of Lothian Pension Fund employer contributions:** the outcome of the Lothian Pension Fund Actuarial Valuation for 2023 is being reviewed. Any change in employer contributions will not impact on employees' pension benefits, nor employee contribution rates, which are set by legislation.

5. Next Steps

- 5.1 Council officers will continue to work with Edinburgh Leisure senior managers to review their financial position and forecasts.

6. Financial impact

- 6.1 To continue to trade through and after the Covid-19 Pandemic, the Council provided Edinburgh Leisure with additional financial support:

Year	£'m
2020/21	3.0
2021/22	5.0
2022/23	3.0
2023/24	2.0
2024/25 (planned)	1.0

- 6.2 The Council's annual service payment to Edinburgh Leisure for 2023/24 was £6.7m with an additional annual payment of £0.165m for Capital Upgrading Works.
- 6.3 The cost to Edinburgh Leisure of a 4% pay award for 2023/24 was £0.742m, resulting in a budget deficit of £0.736m for 2023/24. This budget deficit will reduce cash reserves to around zero.
- 6.4 The cost of Real Living Wage in 2023/24 is £0.473m. Edinburgh Leisure considered the financial risk of increasing the deficit budget to over £1m was too great and consequently has not paid the Real Living Wage. The Board agreed that if actual financial performance was significantly better than the forecast deficit budget, funds could potentially be directed to paying Real Living Wage. The current forecast of

financial performance for 2023/24 is not significantly different from the budgeted deficit of £0.736m.

- 6.5 For 2024/25, the National Living Wage and the Real Living Wage is estimated to increase employee costs by £2.2m. This figure has been included in Edinburgh Leisure's high-level budget for 2024/25. A deficit of £3.6m is currently forecast for 2024/25. This deficit is stated after inclusion of increases in charges of between 5% and 8%.
- 6.6 Although a separate programme, the Real Living Wage would add £0.171m to the cost of the Community Access to Secondary School Sports Facilities project, creating an increased pressure on income targets in Children, Education and Justice Services.
- 6.7 Whilst providing additional financial support to Edinburgh Leisure, the adoption of a management fee for sports lets in secondary schools would also create an additional pressure on income targets in Children, Education and Justice Services.

7. Equality and Poverty Impact

- 7.1 The Council's commitment to the Real Living Wage is a key component of ending poverty in the city. Implementing the Real Living Wage in Edinburgh was an action of the Edinburgh Poverty Commission's report in 2020.

8. Climate and Nature Emergency Implications

- 8.1 Not applicable.

9. Risk, policy, compliance, governance and community impact

- 9.1 The Council is undertaking a review of its ALEOs and the governance documentation supporting them.

10. Background reading/external references

- 10.1 Edinburgh Leisure Memorandum and Articles of Association
- 10.2 [Companies Act 2006](#)
- 10.3 [Act of Council no 18 of 31 August 2023](#)

11. Appendices

None.