Fife Cultural Trust
Finance & Audit Committee Meeting
Tuesday 21st November 2017 @ 4pm
Meeting Room 2, Iona House

Present: Brian Lawrie, Chair (BL), David Caldwell (DC)
Nick Bennett, Managing Partner, Scott-Moncrieff
Lynne Lamont, Head of Charities, Brewin Dolphin

In Attendance: Kirsty Keay (KK), Director of Corporate & Commercial Development
Heather Stuart (HS), CEO
Peter Ward (PW), Head of Finance & Administration
Raymond Campbell (RC), Accountant
Anne Chalk, Company Secretary

1 Welcome and Apologies for Absence

- BL welcomed everyone to the meeting.
- BL explained the membership of the F&A Committee and at the present time reported that we have 2 vacancies.
- Round the table introductions were made for the benefit of our invited guests.
- Lynne Lamont reported that Alistair Ronald is leaving Brewin Dolphin at the end of the year and she would now take on responsibility for our Investment Portfolio.
- She is looking forward to working with us in the New Year.
- No apologies of absence were received.

2 Declarations of Interest

- There were no declarations of interest noted in relation to the business of the meeting.

3 Minutes of the Previous Meeting and Updates

- Minutes of the previous meeting were recorded as accurate.
- A number of items that require follow up discussion are already on the agenda.

VAT
- The potential VAT issue in relation to the Trust’s treatment of income related to programming income was raised at the last F&A Committee Meeting.
- KK was happy to report that after review and engaging the support of Scott Moncrieff the level of risk to the Trust was much lower than initially considered.
- However we must be aware of the potential exposure that we could have faced and remove the ambiguity going forward.
- The VAT issue was discussed at length with Scott-Moncrieff
and they advised that our arrangements regarding contract/deals are compliant but they are nowhere near as clear as they could be.

- Scott-Moncrieff advised that from this point forward we need to establish who is the principal agent and this needs to be laid out in the contact/agreement. They will be providing a form of words to be inserted into future contracts.
- This will establish who takes responsibility for the VAT implications.
- The terms of expenditure and nett settlement figures are robust enough.
- Scott-Moncrieff will prepare a summary of advice for FCT.
- This was a learning experience and we must take advantage of as much tax advice as possible to ensure that we are compliant.

**Apprenticeship Levy**

- KK was happy to report that Fife Council have paid the entire apprenticeship levy which has removed a budget pressure for FCT.
- Initially it was anticipated that we were going to have to pay this levy because the relief was only given to Fife Council.
- Good news on benefits from the levy – Fife College has made us aware that we can access £10k of training as an employer subject to the Levy.

**Budget Update**

- A timeline has been identified for setting the budget for next year.
- Managers have been asked to provide a forecast on their core and casual staffing needs.
- The budget for casual staffing is under review as a priority.
- Members of the Exec Team and the Board are meeting with representatives from Fife Council on Wednesday 29\textsuperscript{th} November to discuss the budget implications.
- At the present time no further update has been received from Fife Council on the budget but we can’t assume anything.
- The previously advised savings for next year are £490k and this is without anything else being taken into account.
- HS stressed that it was really important to have a meeting with elected members.
- There has been no decision from Derek Mackay, Cabinet Secretary on the NDR for ALEO’s.
- An update will be prepared and provided verbally to all Board Members after the meeting with the Council on the 29\textsuperscript{th} November.
- It was noted that Exec Team have undertaken work on scenario planning.

**Matters Arising / Action Points**

- The distribution of profits to FCT by way of gift aid donation was approved by the FCSTL for 2016/17 and 2017/18.
- The Committee agreed the gift aid donation on an annual basis.
The annual accounts were discussed in detail the last time but no narrative was included.

An Action Plan identified 2 audit observations that required attention – Assets Tagging and the development of an Investments Register.

The Group Audit Management Report has been issued to Scott Moncrieff and when agreed is to be circulated to the members of the F&A Committee for closure in relation to the points raised at the last meeting.

A wash up meeting with Scott Moncrieff has been arranged in December.

The Trust has recently completed the Audit process for 2016/17 and it did not go as smoothly as it could have done.

This can be attributed to a number of factors around changes in staff on both sides through the audit process and communication issues that arose as a consequence.

The highlights of the report were -

- Duplication of requests for information which created additional work for the Trust finance team.
- Difficulty in obtaining information required by the auditors from Fife Council.
- There was limited communication between the finance team and the audit team after completion of the fieldwork and the work being completed on the financial statements prepared.
- This meant that a lot of the work on the completion of the financial statement was done at the last minute as a result, including the pulling together of the narrative elements.
- The need to complete the work for the financial statements in a hurried fashion meant that there was a risk that they would not have been available to sign at the September Board Meeting.
- The group financial statements of the Trust were signed by the Board at its September meeting but at this time the FCSTL financial statements were in a final draft form and had not been signed.
- The fact that the FCSTL financial statements had not been signed meant that the overall group financial statements could not be signed by the auditors until the FCSTL accounts had been signed off.
- This delayed the auditor sign off for the group financial statements until the second seek in November.

It was agreed that communication between the Trust finance and the auditors needs to improve to present a recurrence of this issue in the 2017/18 audit.

The Trust and its auditors need to take a more structure approach to planning the audit and improve the quality of
The frequency of communication between both parties to ensure that expectations are clearly set out and met.

- The Head of Finance and Administration needs to engage the wider SLG and the Communications Team earlier in the process in relation to the narrative reporting requirements to ensure that contributions are completed in a timely manner and are aligned with the content of the Annual Review.

*The Board agreed to the recommendations outlined in the report.*

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<th>Performance Report – Paper 2</th>
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<td><strong>Finance</strong></td>
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<td>- The Finance Section is forecasting a £17k deficit situation at Quarter 2.</td>
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<td>- Programme income is lower than the phased budget as the most lucrative programming period for the Trust begins in October but we stretch the income equally over 12 months.</td>
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<td>- Within theatres there still remains an issue with the number of tickets available per show and the level of sales, with few bookings achieving above 50% attendance.</td>
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<td>- Future strategies for programming which will start to come into effect in Q4 involve booking acts on much more favourable “splits” not only to cover the cost of running a show but also work towards generating profit for FCT.</td>
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<td>- Additionally we are looking to drive increased ticket sales through a more comprehensive marketing strategy, improving our reach to customers in Fife and beyond where possible.</td>
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<td>- Potentially the next 6 months is going to be a bit of a bumpy ride as the new approach to Programming beds in and we still have an overlap with existing / older programming; but the new approach is presenting lots of opportunities for the Trust.</td>
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<td>- It was suggested that further information requires to be included for the full report to the Board to better explain deficit and projections to year end.</td>
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**Human Resources**

- During Q2 88 members of staff were absent for a total of 247 days, the majority of whom are on permanent contracts. | Info |
| - Sickness absence costs us money and is a big concern for the business. |  |
| - HR are continuing to provide much more in-depth information on sickness absence. |  |
| - However it has to be noted that people to get sick and we, as an organisation, have to be supportive. |  |
| - We also have a demographic issue – gender split and the age group of staff. |  |
| - FCT employ a number of individuals who by right would probably have left but are holding on for VSS. |  |
| - There are 50 individuals between the ages of 47-69 who want to go. |  |
| - Committee enquired whether our absence levels were above the “industry norm”. |  |
### Museums
- It was suggested that for Museums we need to look at the overall package that we have on offer because visitor numbers are up and down.
- We expect to have very healthy visitor figures over the remainder of the fiscal year and have two new exhibitions opening at the start of 2018 which will refresh the offer.
- It was felt that it was important to give visitors the opportunity to see exhibitions in different locations.
- We have had some really spectacular exhibitions and it is hoped that this will continue on a bi-annual basis.

### LIBRARIES
- The quarter two statistics show an increase in both issues and visitors for libraries. This will primarily be due to the reopening of DCL&G.
- The launch of the New Vision of libraries consultation has had a great response especially to the online version of the survey.
- PC bookings have decreased in the majority of facilities but there seems to be a general move to mobile and home devices and the use of Wi-Fi and this could be an increasing trend.
- RC has been looking at the system that the Education Service use for supply teachers. It was suggested that it might be financially better for FCT to employ 2 core members of staff who can cover a variety of positions in the event of sickness.
- It was suggested that a discussion needs to take place around performance measures and setting realistic performance targets for the future.
- BL reported that last Performance Report was well received by the Board.

### 6 Trading Subsidiary Update – Paper 3
- The Trading Subsidiary Update reports on the 3 main income streams – retail, catering and room hire.
- It was reported that retail sales are below target performance and £16k of stock was written off because it’s very old and we are no longer able to sell it.
- The Board agreed that the decision to write off old stock was a wise one.
- The catering sales and costs reflect the amounts which we have invoices to third parties for events involving catering and the resultant charges by the council for these services.
- There are timing differences caused by invoicing delays and the end result should be a break even position subject to the usual final reconciliation by the Council.
- From October onwards income and costs should be more indicative of the real level of catering activity as all income and costs will flow through FCST’s accounting records.
- Income from vending machines is not included in the report.
- Room rental income is £10k behind last year’s performance.
- The staff member at DCL&G who has been dealing with retail sales has returned to her substantive position.
- We will now recruit for a specific retail manager with tourist attraction experience to really push the retail sales.
- The investment appraisal on a new ledger system is ongoing. It would be really helpful if we could invest in systems that can speak to each other. An update report to be prepared for the FCSTL Meeting in December.
- We can’t move on EPOS until we go out to procurement.

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7 **Risk Management – Paper 4**

- This is a standing item on the F&A Committee agenda.
- The report provides information on the 4 current highest risks that relate to Finance and the mitigating actions that are being taken.
- The Barclay Report on NDR has recommended the removal of NDR relief for ALEOs and is looking at removing rate relief for charities that have a trading subsidiary.
- The meeting takes place on the 14th December and it is envisaged that recommendations will be available early 2018.
- At the present time there is nothing that we can do until the decision has been made
- However liability for payment of NDR sits with Fife Council due to how the reoccurring savings are realised.
- Costs for testing and maintaining theatre equipment in line with health & safety create an unmanageable budget pressure.
- FCT have been working with the Council to establish liability for costs via SLAs’ to minimise impact on FCT.
- The rigging in theatres needs to be assessed and £50k-£80k remedial work/actions need to be carried out within 30 days and a longer term plan developed.
- The Trust has negotiated with Fife Council that we will put some money into the remedial work because we have not carried out the necessary maintenance work.
- The rigging in theatres is our highest areas of risk – some work required in Rothes Halls and Adam Smith theatre but the biggest areas of risk are Carnegie Hall and Lochgelly Centre.
- It was agreed that if it is our liability it is our responsibility but we need something confirmed in writing from the Council.
- There is no risk in museums everything has checked out by the insurance company.
- The Trust has a large estate of building and requirement that have not benefitted from investment over the past 5 years, subsequently the Trust now faces a situation whereby a large investment is required to ensure buildings, and in particular theatre equipment, is safe and of a quality that support production and does not impact negatively on quality.
- When budgets are allocated to managers we must remind them of the associated risks.

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8 **Brewin Dolphin – Verbal Update**

- Lynne Lamont, Head of Charities, Brewin Dolphin attended

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the meeting to give an update/overview on our investment portfolio.

- She reported that the management of the FCT investment portfolio will now be handled by their Edinburgh office.
- Our Investment Objective is Capital Growth Return.
- Our risk profile is Risk Category 4, which is a low investment risk.
- The restrictions included in the portfolio are no tobacco or alcohol related stocks, gambling, or armaments. All investments required copies of the ethical policy of companies being invested in.
- The Board reported that if they were to choose they would be more comfortable investing in fossil fuels than alcohol, due to the possibility of an FOI request, but would prefer to avoid direct investment.
- As at 17 November 2017 the value stood at £521,150 and was generating an estimated annual income of £15,689, equivalent to a yield of 3%.
- It was noted that Bonds have gone up more than equities which is why our returns are better – the Bonds position was unusual.
- Investors can, for the first time in a number of years, reflect favourably on the summer, and be thankful for the modest level of market volatility. In the UK we have continued to see higher inflation, driven by rising import costs following sterling’s devaluation and the recovery in the oil price but we anticipate that this will soon stabilise.
- Recovery in the European region is encouraging and continues across the board.
- Japanese equities have continued to rise, given the significant upturn in economic activity.
- Across Asia markets look relatively attractive.
- Growth in America has picked up despite political turmoil, North Korean tensions, and intensifying Russian-related investigations.
- Brexit negotiations continue to move at a glacial pace with both sides refusing to give ground on the issue of the “divorce bill”.
- UK interest rates have finally risen in the first rate hike in a decade. The threat of higher inflation continues to hang over the Bank of England.
- As we draw to a close with 2017 we believe markets will continue to be highly sensitive.
- Company earning remains strong and Brewin Dolphin believe that income should hold up well on the back of this.
- Equities will continue to offer the best long-term value for patient investors.
- LL reported at the present time we are ok, now is a difficult time to take on more risk but it was suggested that a review meeting should take place in 6 months’ time once there is more certainty around our budgets.
- It was suggested that we should update our Investment Policy at the same meeting.
- The present signatories on the accounts were discussed and
it was agreed that this will be discussed and agreed at the AGM in December and a copy of the minutes of the meeting will be sent to Brewin Dolphin for their information.

- The Board suggested that it would make sense to have 3 signatories – 2 Trustees and a member of the Exec Team.
- The funds in the portfolio are well enough managed but there are opportunities.
- Reports on our Investment Portfolio will now be prepared in a different format and will include much more information.

*BL* thanked Lynne Lamont for her presentation, it was really helpful in relation to information previously received.

### 9 Accommodation Update – Verbal Update

- KK provided an update on the accommodation situation.
- Things have progressed since the last FCT Board Meeting.
- FCT have been working with Andy Maclellan to put together a feasibility study for Adam Smith Theatre.
- An architect has been agreed but a date hasn’t been confirmed for him to go out and look at the Beveridge Suite and the Auditorium.
- Background checks are ongoing to look at bookings for the Beveridge Suite and the potential loss of income and how we can mitigate against it.
- Fife Council are really positive about the potential move to the theatre and the opportunity to develop something that is in their own portfolio.
- It was suggested that the development could be beneficial to local area plans and the regeneration of the town centre.
- KK has managed to negotiate a two month period of notice for Iona House instead of the 40 days that is in place at the present time.
- Ronnie Hair has been keeping KK updated on every movement of the original company who were interested in Iona House but it was gone very quiet.
- Ronnie has intimated that if they do still want to rent the building it will be at least a 6 month timescale.
- There has been another company interested but not at the same level. They are only looking to rent one floor or a wing.
- Rental on that basis would secure the tenancy for us.
- Communities has confirmed that if we do have to move from Iona House they will pay for the associated removal costs and they are holding a space in New City House, as a fall-back position for a couple of months.
- It is a fluid position in relation to Iona House but if we are moving it was agreed that Adam Smith Theatre looks to be the best option. We would be in control of our own destiny.
- A longer lease for Iona House is not something that the Council will consider at the present time.
- KK will keep the Board updated on progress.

### 10 Meeting Dates 2018

- The proposed dates for the F&A Committee Meetings are

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*BL* thanked Lynne Lamont for her presentation, it was really helpful in relation to information previously received.
The proposed schedule of dates for all FCT Board and Committee Meetings has been reviewed. Once finalised an updated copy will be circulated to Board Members.

11 Chairs Business - Brian Lawrie
- There was no chair’s business to discuss.

12 AOCB
Meeting with Fife Council
- The meeting with Fife Council is scheduled to take place on 29th November.
- HS suggested that a written briefing should be prepared in advance.
- AC to schedule a teleconference call with HS, KK, DC & BL before the 29th.

13 Date of Next Meeting
- Tuesday 13th February 2018 @ 4pm