

ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF HOUSING AND WELLBEING SERVICES COMMITTEE ON 17 MARCH 2022

SUBJECT: LEISURE OPERATING CONTRACT UPDATE REPORT

REPORT AUTHOR: Robin Wickham, Group Head of Community Wellbeing
DATE: January 2022
EXTN: 01903 737835
AREA: Community Wellbeing, Services Directorate

EXECUTIVE SUMMARY:

Arun District Council has provided support to mitigate the impact of the COVID-19 pandemic on its leisure operating contract. This report provides an update on the financial year 2021/22.

RECOMMENDATIONS:

It is recommended that Housing and Wellbeing Committee agree that:

- a) £289,127 of COVID-19 contingency budget used to offset the anticipated income shortfall for 2021/22 from the Leisure Operating contract, subject to approval by the Policy and Finance Committee;
- b) The Council contribution be subject to Freedom Leisure paying the remaining balance of £432,090 due for 2021/22 as per the contract;
- c) From 2022/23, invoicing reverts to the arrangements in place before restrictions due to the pandemic were introduced; and
- d) The Policy and Finance Committee be requested to approve a virement of £289,127 from the COVID-19 contingency budget for 2021/22.

1. BACKGROUND:

- 1.1 The restrictions imposed by HM Government to contain the spread of COVID-19 has had a significant impact of the Council's leisure operating contract. From the end of March 2020 the leisure centres have been hampered by periods of closure and Covid-19 restrictions which have affected the pace of recovery (Appendix 1).
- 1.2 The Council has provided support to the leisure operating contract and sought HM Government grants to minimise the financial impact of the closures. Detailed

background information on the support provide may be found in the reports submitted to Full Council on 15 July 2020 and Cabinet meetings on 21 September 2020 and 14 December 2020.

- 1.3 In current financial year (2021/22) recovery has been stronger than forecast and Council has not been required to provide any financial support for operational losses as a consequence of the pandemic.
- 1.4 Freedom Leisure has made significant efforts to recover its business. Throughput at the leisure centres is steadily increasing and is now approximately 80% of the pre-pandemic total. This reflects the national picture whereby throughput averages 73.9% across all local authority leisure facilities (Sport England, November 2021). In Arun there has been strong performance in Learn to Swim programmes with registered numbers exceeding 100% of previous totals. Membership numbers have been slower to build and are approximately 79% compared to 2019/20.
- 1.5 The budgeted income from the leisure operating contract in 2021/22 is £864,180 (Operating Fee). Table 1 below sets out the financial implications in respect of the Council's treatment of the Leisure Operating Fee in 2021/22.

Table 1. Leisure Contract Financial Implications 2021/22

Period		Operating Fee Due	MHC & LG Compensation	COVID-19 Contingency	Operating Fee Payable
Q1	April to June	216,045	142,963	73,082	0
Q2	July to Sept	216,045	0	216,045	0
Q3	Oct to Dec	216,045	0	0	216,045
Q4	Jan to March	216,045	0	0	216,045
Total		864,180	142,963	289,127	432,090
Percentage			17%	33%	50%

- 1.6 In Quarter 1 the Council was able to offset its loss through the HM Government Income Compensation scheme. This scheme permitted the Council to claim back approximately 70% of the budgeted income from the leisure operating contract amounting to £142,963. It is proposed that £73,082 of the Council's COVID-19 contingency budget is used to meet the balance of the operating fee due in Quarter 1.
- 1.7 It is also proposed that the COVID-19 contingency budget is used to offset the Operating fee due in Quarter 2.
- 1.8 Freedom Leisure has achieved operating surpluses in the months to November to fully meet the leisure operating fee due in Quarter 3. The forecast for the remainder of 2021/22 is that the recovery will continue and that Freedom Leisure will also meet its contractual obligation in Quarter 4.
- 1.9 With Freedom Leisure achieving operating surpluses it is anticipated that normal contractual payments will resume in 2022/23. However, the impact of rising utility prices and cost of living increases, which are outside both Freedom Leisure and the Council's control may pose future risks to the contract. These cannot be quantified at present.

1.10 Members will be aware of the significance of the revenue generated by the leisure operating contract. Between 2016 and 2020 the contract generated payments to the Council of £2,671,500. The remaining four years of the original term (2022 to 2026) the sums due to the Council will exceed £4,000,000.

1.11 In conclusion, Arun District Council took a decisive decision at the start of the pandemic to support its leisure operating contract. The contract is commercially beneficial to the Council and the operator has a track record in delivery. Like many authorities, Arun has provided financial support to cover the net operating costs of its facilities during the worst of the pandemic but it did not waive its contractual losses. The proposal to utilise COVID-19 contingency budget to mitigate some of the irreconcilable losses incurred will allow Freedom Leisure to continue to rebuild its customer base without compromising service levels.

2. PROPOSAL(S):

2.1 It is proposed that the Housing and Wellbeing Services Committee endorse the Financial Implications as detailed in Table 1 - Leisure Contract Financial Implications 2021/22.

3. OPTIONS:

3.1 To support the recommendation as set out in the report (preferred option); or

3.2 Require Freedom Leisure to meet its contractual obligation in full in 2021/22 without COVID-19 contingency funding; or

3.3 Write off the debt.

4. CONSULTATION:

Has consultation been undertaken with:	YES	NO
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify)		✓

5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)	YES	NO
Financial	✓	
Legal	✓	
Human Rights/Equality Impact Assessment		✓
Community Safety including Section 17 of Crime & Disorder Act		✓
Sustainability		✓
Asset Management/Property/Land		✓
Technology		✓
Other (please explain)		

6. IMPLICATIONS:

Financial: As stated above, the Council expects to receive £142,963 compensation from DLUHC (formerly MHCLG). The Council proposes to apply £289,127 of further funding received from HM Government to offset the projected under achievement of income for the year. The recommendation would result in a payment of £432,090 being due to the Council from Freedom Leisure for 2021/22. From April 2022, it is expected that contract payments will revert to the contractual amount due, assuming there are no further restrictions imposed by government

Legal: The leisure operating contract is subject to two Letters of Variation reflecting the Supplier Relief due to COVID-19.

7. REASON FOR THE DECISION:

To safeguard the Councils leisure operating contract and facilitate a full business recovery in Arun

To serve the health and wellbeing needs of the community

8. BACKGROUND PAPERS:

- Decision Taken under Officer Scheme of Delegation – Financial Support to Freedom Leisure (16 April 2020)
- Full Council Decision (15 July 2020)
- Cabinet Decision C/009/21092020 (21 September 2020)
- Cabinet Decision C/037/14122020 (14 December 2020)
- [Procurement Policy Note 02/20 Supplier Relief due to COVID-19](#)

- Letters of Variation - Supplier Relief due to COVID-19



Contract Variation
May 2020 - COVID-1



Contract Variation
August 2020 - COVII

Appendix 1

Lockdown Periods

Lockdown 1	21 March to 24 July 2020	Centres Closed
Lockdown 2	5 November to 1 December 2020	Centres Closed
Lockdown 3	25 December 2020 to 11 April 2021	Centres Closed

Recovery Periods

Recovery 1	25 July 2020	restricted swim and gym only	
Recovery 2	2 December 2020	restricted swim and gym only	
Recovery 3	Phase 1 Phase 2 Phase 3	12 April: 17 May: 19 July:	restricted swim and gym only restricted swim, gym and classes restrictions relaxed

Plan B

8 December 2021: face coverings required in public spaces
19 January 2022: face coverings relaxed in public spaces

COVID Restrictions End

24 February 2022