

ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF CABINET ON 14 DECEMBER 2020

SUBJECT: FINANCIAL SUPPORT TO LEISURE OPERATING CONTRACT

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EXTN: 37835

PORTFOLIO AREA: Community Wellbeing

EXECUTIVE SUMMARY:

Freedom Leisure is in receipt of a support package to mitigate the impact of the COVID-19 pandemic on the Council's leisure operating contract. This report sets out the current situation with recommendations for the period January 2020 to March 2021.

RECOMMENDATIONS:

Cabinet approve the following measures:

- a) to make a bid to the National Leisure Relief Fund towards the operating support costs paid to Freedom Leisure; and
- b) recommend to Full Council a supplementary estimate for a sum up to £177,740 (Band D equivalent of £2.86) to support the Council's leisure operating contract from January to March 2021 (Quarter 4) be approved.

1. BACKGROUND:

- 1.1 Since 21 March 2020 Arun's leisure operating contract has been significantly affected by restrictions imposed by HM Government to contain the spread of COVID-19. In the first instance a national lockdown required a three-month closure of the facilities followed by restricted operating conditions between 25 July and 4 November to comply with Covid-secure facility guidelines and most recently a second national lockdown on 5 November necessitated a further temporary closure.
- 1.2 Throughout this period Arun District Council has supported the leisure operating contract in recognition of the consequential and significant impact the restrictions have had on the operation of the leisure centres and in appreciation of the valuable role the facilities play in improving the physical and mental wellbeing of the community.
- 1.3 Detailed background information is available in the reports submitted to Full Council on 15 July 2020 and Cabinet on 21 September 2020.
- 1.4 A noteworthy change since the last report is the announcement on 22 October 2020 that a 'National Leisure Relief Fund' totalling £100M is to be made available to support local authorities with the challenges of keeping leisure centres open. The Department

for Digital, Culture, Media and Sport is working with the Ministry of Housing, Communities and Local Government (MHCLG) and Sport England to establish the criteria and guidance for claims. The level of funding that Council will be able to attract is therefore unclear and the funding is unlikely to be retrospective.

- 1.5 The announcement to support local authorities with the cost of keeping leisure centres open complements the MHCLG's income compensation scheme that was announced in the summer. This scheme permits the Council to claim back approximately 70% of the lost income from the leisure operating contract (£572,000); for information the contract sum due this financial year is approximately £800,000.
- 1.6 The purpose of the financial support is to enable the leisure facilities to open to the community and for Freedom Leisure to rebuild the service as the restrictions imposed by the pandemic are lifted. It is evident from the attendances at the centres how welcome the decision to open was and how quickly the numbers have grown as detailed in Tables 1 and 2.

Table 1 Attendance Over 4 Week Period
(25 July to 24 August)

		Capacity	Customers	%
Arun Leisure Centre	Swimming	8,735	2,649	30%
	Studio	1,536	1,344	88%
	Gym	7,980	2,824	35%
Littlehampton Wave	Swimming	8,848	4,500	51%
	Studio	2,161	1,746	81%
	Gym	10,829	7,258	67%
Total		40,089	20,321	51%

Table 2 Attendance Over 4 Week Period
(25 August to 24 September)

		Capacity	Customers	%
Arun Leisure Centre	Swimming	7,741	3,610	47%
	Studio	1,752	1,494	85%
	Gym	7,704	3,131	41%
	Additional	1,224	492	40%
Littlehampton Wave	Swimming	9,222	6,057	66%
	Studio	2,904	2,437	84%
	Gym	12,740	8,211	64%
	Additional	1,436	695	48%
Total		44,723	26,127	58%

- 1.7 Tables 1 and 2 provide a direct comparison between the first two months of the leisure centres opening in respect of attendances to specific areas of the buildings. Table 2 includes the additional activities that Freedom Leisure made available in the period. The session capacity also evolved particularly at the Arun Leisure Centre which was able to provide a more flexible offer for gym users at off peak times allowing customers to access the facilities for longer and without booking, whilst still maintaining a Covid Secure environment.
- 1.8 The financial support for the leisure operating contract and the relief payments made to Freedom Leisure are summarised in Table 3. The first quarter has been finalised resulting in £131,120 support; a reduction of £5,180 from the approved sum.

Table 3. Relief Payments

Period		Freedom Forecast	Approved Sum*	Reconciled Sum	Balance
Q1	April to June	136,308	136,300	131,120	5,180
Q2	July to September	266,958	270,000	130,212	139,788
Q3	October to December	191,442	191,500		

*Subject to open book accounting

- 1.9 The approved sum of £270,00 for Q2 assumed that the facilities would open in early July. As the facilities opened later than anticipated (25 July) the relief payments required in Q2 were significantly (£130,000) lower than the sum forecast, boosted by a positive balance (£14,225) in September.
- 1.10 Unfortunately, Q3 was affected by a second national lockdown that was not factored into the approved relief payments. The interruption to the delivery of the service between 5 November and 2 December will affect both the forecast income and expenditure in Q3 and will be taken into consideration when reconciling the actual costs against the approved sum at the end of the period. This is likely to result in more support being required for Q3 (currently around £30k) which will be met from the favourable variation in Q2 (noted in 1.9 above).
- 1.11 As previously stated, the reduction in income caused by COVID-19 has a temporary, but significant impact on the leisure operating contract. Freedom Leisure will require ongoing support to run the Council's facilities until restrictions are fully lifted and income builds to its pre-pandemic level.
- 1.12 The impact of the pandemic on Freedom Leisure should not be underestimated. At a local contract level, in addition to utilising the Job Retention Scheme (furloughing of employees) the workforce has been reduced by approximately a third through the termination of 'casual' employees and redundancy. A pay award of 2% advised in February 2020 has not been implemented. Mitigation has also included reviewing and when possible reducing supply contracts, applying for locally available Covid-19 grants and reducing central overhead costs by 35%.
- 1.13 In respect of central overhead costs, Freedom Leisure has reduced its Head Office workforce by 25% through redundancies. Corporate and Senior Management Team pay has been reduced by up to 30%, employees have, and continue to be furloughed. Central contracts have been negotiated down (e.g. insurance) and successful grants

applications have also helped keep down central overheads (e.g. Welsh Resilience fund, Arts Council). Since April 2020 the impact on the Freedom Leisure reserve is a loss of £1.2M.

- 1.14 Throughout the period, the Freedom Leisure Corporate Management team has been an advocate for the sector, working with partners to lobby MP's and HM Government in support of both the National Leisure Relief Fund and the income compensation scheme, but also to highlight the health related benefits of activity and the need to keep leisure facilities open to the public.
- 1.15 Freedom Leisure has projected its position in respect of the loss of income and corresponding reduction in expenditure for Q4. The challenge of income generation whilst operating at reduced capacity is significant as leisure centres have substantial operating costs. The net cost of operating the leisure facilities in Q4 with reduced capacity and the potential impact on customers following the lockdown in Q3 is an estimated sum of £177,740 (see Table 4).

Table 4. Estimated Net Operating Costs January to March (Q4)

January	58,199
February	58,496
March	61,045
Total	177,740

- 1.16 As previous relief payments, the proposed sum of £177,740 for the final quarter is a maximum sum and if approved will be settled in accordance with the terms of the Covid contract variations previously agreed.
- 1.17 In supporting the opening of the facilities, the Council has provided a lifeline for the leisure operating contract to maintain its customer base and protect a crucial revenue stream for Arun. If the fourth quarter payment is agreed, the total value of the contract support costs approved in 2020/21 will be £775,540. To mitigate this financial burden, it is proposed that Officers seek reimbursement from the 'National Leisure Relief Fund' even though the extent of this support is currently unknown.
- 1.18 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 £1,693,800 and the remaining five years of the original term (2021 to 2026) the sums due to the Council exceed £4,461,700.
- 1.19 The health benefits of exercise and movement have been widely reported. The NHS and HM Government have stated the higher risk factors associated with obesity, diabetes and heart disease following a diagnosis of COVID-19. Leisure centres also play a role in ameliorating the negative effects that lack of exercise and social isolation play on mental health. Clearly leisure centres play an important role in providing the opportunity for people to remain fit and active, particularly during the winter months.
- 1.20 In conclusion, the opening of our leisure centres has demonstrated the Council's commitment to supporting and improving the health and wellbeing of the community. The leisure centres have proved popular and patronage has grown. Freedom Leisure has extended its offer and increased capacity in step with demand. The introduction of a 'National Leisure Relief Fund' will provide the opportunity to reduce the Council's

financial burden in supporting the leisure operating contract and continued support will ensure that it has the best prospect of recovering quickly as restrictions are lifted. Keeping the leisure centres open throughout the winter months will provide the Arun community the opportunity to maintain healthy and active lifestyles in high quality safe facilities.

2. PROPOSAL(S):

It is proposed that Cabinet approves the following measures:

- a) to make a bid for operating support costs from the National Leisure Relief Fund;
- b) to reflect the delayed opening the facilities in July in the operating support payments for Q2 and Q3; and
- c) recommend to Full Council a supplementary estimate for a sum up to £177,740 to support the Council's leisure operating contract from January to March 2021 (Quarter 4).

3. OPTIONS:

3.1 To support the recommendations as set out in the report; or

3.2 Not to support the recommendations.

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:

6.2 **Financial:** When support for the Leisure provider was initially considered in March 2020 there was considerable uncertainty over the length and impact of any restrictions

related to Covid-19. The continued support of the Leisure provider has to be viewed in the context of the financial situation we find ourselves in and the effect on the Council's overall financial strategy. The business model for delivery of the contract is dependant on a high volumes of usage, which is not possible due to the C-19 restrictions, and the closure of the centres for the second time has added increased uncertainty and risk in relation to the timescale for usage numbers to increase to the level to make the contract viable again without financial support. Whilst the Council's financial outlook for 2020/21 has improved slightly since the approval for the third quarter's support package (management fee and direct support) there are significant issues around sustainability. However, any decision inevitably involves an element of risk and the report shows how the risk is shared between the contractors and the Council. The report also sets out the steps that the Leisure provider has taken and will continue to take to mitigate financial losses. It is also increasingly likely that support will be required in 2021/22. The support given for 2020/21 would be mitigated by any successful claim to the National Leisure Relief Fund but this is unlikely to be retrospective and will therefore be limited. It also should be noted that the level of support agreed in this report is the maximum amount, the actual level of support will depend on the outturn for 2020/21, which will be verified through open book accounting.

6.3 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 Council's leisure operating contract

To serve the health and wellbeing needs of the community

8. EFFECTIVE DATE OF THE DECISION: 13 January 2021

9. 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)
- Letter of Variation - Supplier Relief due to COVID-19

[Contract Variation – May 2020](#)

[Contract Variation – August 2020](#)