

# ARUN DISTRICT COUNCIL

## REPORT TO AND DECISION OF OVERVIEW SELECT COMMITTEE ON 26 JANUARY 2021

### PART A: REPORT

**SUBJECT: LEISURE OPERATING CONTRACT – COVID-19 REVIEW**

**REPORT AUTHOR:** Robin Wickham (Group Head of Community Wellbeing)  
**DATE:** January 2021  
**EXTN:** 37835  
**PORTFOLIO AREA:** Community Wellbeing

#### **EXECUTIVE SUMMARY:**

This report provides an overview of the actions taken to mitigate the impact of the COVID-19 pandemic on the Council's leisure operating contract since the 21 March 2020.

#### **RECOMMENDATIONS:**

The Overview Select Committee is requested to note this report and the current situation in relation to the Leisure Operating contract including the usage of the centres and the level of support agreed by the Council.

#### **1.0 BACKGROUND:**

- 1.1 On 21 March 2020 Arun's leisure centres closed in response to restrictions imposed by HM Government to contain the spread of COVID-19. The costs associated with maintaining the buildings and the consequential impact on income generation threatened the viability of the Council's Leisure Operating Contract.
- 1.2 On 16 April 2020 the Chief Executive, in consultation with the S151 Officer and in accordance with the Constitution, exercised his delegated authority to defer Freedom Leisure's payment of contractual fees and provide financial support in the form of relief payments for the upkeep of leisure facilities whilst they remained closed.
- 1.3 The decision was based on the advice issued by the Cabinet Office in "Procurement Policy Note: Supplier Relief due to Covid-19" (March 2020), but also in recognition of the importance of working with Freedom Leisure to ensure the leisure operating contract could continue post the pandemic to meet the health and wellbeing needs of the community.
- 1.4 The Council sought independent legal advice regarding the terms of support for the Leisure Operating Contract which were reflected in letters of variation agreed with Freedom Leisure (see background papers). The essence of the variations gives relief to Freedom Leisure in accordance with PPN 02/20 to ensure the leisure operating

contract remains viable. Freedom Leisure has accepted open book accounting and quarterly reconciliation for the duration of the relief period.

1.5 Freedom Leisure accepted the following relief:

- a deferral of the operating fee (£66,637 per month) for three months; and
- reimbursement of £45,436 for the upkeep of the buildings during the closure period subject to open book accounting (as per Policy Procurement advice 02/20 issued by the Cabinet Office).

1.6 On 15 July, Full Council reviewed the decision of the Chief Executive and approved the following additional relief measures for July, August and September (Quarter 2):

- an extension of the payment holiday for the operating fee for the remainder of the financial year (to March 2021) and to extend the contract expiry date to 31 March 2027 to recover lost fees;
- a supplementary estimate for a sum up to £270,000 to support the first three months of the reopening phase of the leisure centres; and
- authority for the Group Head of Wellbeing to apply for and receive grant funding that may from time to time become available to support leisure and cultural services affected by COVID-19.

1.7 The purpose of the additional relief was to enable the facilities to open to the community and for Freedom Leisure to rebuild the operation as the restrictions imposed by the pandemic were lifted. The impact of the pandemic persisted, and further relief was supported by Cabinet on 20 July (C/009/21092020) and 14 December (C/037/14122020) for Quarter 3 and Quarter 4 respectively.

1.8 In terms of the context of the relief provided, Freedom Leisure has taken stringent steps to mitigate the impact of the pandemic on its business operations. At a local contract level, the workforce has been reduced by approximately a third through the termination of 'casual' employees and redundancy. Where appropriate the Job Retention Scheme (furloughing of employees) has been utilised. HM Government currently pays 80% of the salary of employees (capped at £2,500 per month) for hours not worked and confirmed this will remain until the end of April 2021. Freedom Leisure continues to pay National Insurance Contributions and pension contributions. Supply contracts have been reduced or renegotiated and local Covid-19 grants have been applied for. In addition, a staff pay award of 2% advised in February 2020 has not been implemented.

1.9 Central overhead costs have been reduced by 35%. The measures taken include the Head Office workforce being cut by 25% through redundancies. Corporate and Senior Management Team pay 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 helped keep down central costs (e.g. Welsh Resilience fund, Arts Council). Since April 2020 the impact on the Freedom Leisure reserve is a loss of £1.2M.

1.10 In July, the Council was advised by the Ministry of Housing, Communities and Local Government of a compensation scheme for lost sales, fees and charges. The scheme has allowed the Council to recover the lost income that has negatively impacted on its financial sustainability; specifically, in balancing the budget for the current financial year. The scheme requires the Council to absorb five percent of its planned income

and it can then claim 75 pence in every pound compensation of the remaining sum. The Council is in the process of claiming £572,000 of the £800,000 it had budgeted in the current financial year.

- 1.11 A second scheme was announced in October to support local authorities with the cost of keeping leisure centres open. The ‘National Leisure Recovery Fund’ was made available by the Department for Digital, Culture, Media and Sport working with the Ministry of Housing, Communities and Local Government (MHCLG) and Sport England. The fund is not retrospective but will provide support from 1 December to 31 March. If the Council’s application is successful, the sum allocated to Arun is £310,000.
- 1.12 The costs associated with opening the centres are regularly reviewed and Freedom Leisure submits a quarterly forecast of the relief required based on sector intelligence, performance across its local authority contracts and local factors. These forecasts are the basis for the relief sums recommended to Cabinet.
- 1.13 The relief payments approved are summarised in Table 1. The first and second quarters (Q1 and Q2) have been reconciled with positive balances but it should be noted that the approved sum of £270,00 for Q2 assumed that the facilities would open in early July. As the centres opened on 25 July, the relief payments required in Q2 were significantly lower (£130,000) than forecast. In September, Q2 also realised an unexpected positive trading balance (£14,225) as operating income exceeded expenditure.

Table 1. 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 Sept	266,958	270,000	130,241	139,759
Q3	Oct to Dec	191,442	191,500	TBC	
Q4	Jan to March	177,740	177,740*	TBC	

\* Cabinet 14 December, subject to approval by Full Council

- 1.14 A second national lockdown between 5 November and 2 December was unanticipated and is set to have a further impact on Q3. The interruption to the service will affect both the forecast income and expenditure and will be considered when reconciling the actual costs against the approved sum at the end of the period. It is anticipated that more support will be required for Q3 (currently around £30k) which will be met from the favourable variation in Q2 (noted in 1.11 above).
- 1.15 Q4 was also forecast prior to the introduction of Tier 4 restrictions which compelled the Leisure Centres to close. The duration and impact of this closure is unknown at the time of writing this report.
- 1.16 When the leisure centres opened in July it was only possible to do so by applying Covid-secure building measures. Inevitably this required the capacity of activities to be reduced in line with HM Government guidelines and those of the Governing Bodies of Sport.

1.17 The reaction of customers to the new procedures put in place by Freedom Leisure was positive and has continued to be supportive despite the interruptions to the service. Maintaining the customer base is an important factor in realising a quick and sustained recovery and Freedom Leisure has continued to communicate with its customers throughout the pandemic.

1.18 Attendances at the centres have been encouraging as indicated in Table 2.

Table 2. Attendances		Month 1 15 July to 24 Aug	Month 2 25 Aug to 24 Sep	Month 3 25 Sep to 24 Oct	Lock Down 2	Month 4 2 Dec to 24 Dec
Arun Leisure Centre	Swimming	2,649	3,610	3,268		2,521
	Studio	1,344	1,494	1,801		1,533
	Gym	2,824	3,131	3,019		2,166
	Additional		492	368		166
Littlehampton Wave	Swimming	4,500	6,057	5,675		4,291
	Studio	1,746	2,437	3,096		2,377
	Gym	7,258	8,211	7,592		5,564
	Additional		695	712		414
Total		20,321	26,127	25,531		19,032

1.19 Between Month 1 and Month 2 attendances grew by 29%, which was reflected in September's positive financial balance (noted in 1.11 above) and represented 58% of the available capacity in the centres. A small drop in numbers (2%) was recorded in the Month 3 which anecdotally, has been attributed to heightened concerns of the spread of the virus in the lead up to the second national lockdown.

1.20 Unsurprisingly, attendances in Month 3 compared to the previous months were low. Month 3 amounted to only three-week's trading as West Sussex moved to Tier 4 restrictions on 26 December and HM Government required the Leisure Centres to close. This was compounded by December being a slow trading month for leisure centres; for example, when there were no restrictions the footfall in December 2019 was 20% lower (63,106) than the average monthly footfall (78,691) for the 2019/20 financial year. The footfall for the shortened month represents a 25% drop compared to the previous trading month.

1.21 There is also a contrast in the attendances at the centres. The Littlehampton Wave is a larger facility with greater capacity to accommodate customers. Members will also be aware that the Arun Leisure Centre is a Dual Use Facility and shares the accommodation with Felpham Community College. This relationship is governed by an agreement between West Sussex County Council, the College and Arun District Council that covers all matters relating to the management and maintenance of the building. During school hours public access is restricted, particularly the sports halls, studio, squash courts and indoor cycling studio. To a lesser extent, the school has access to the swimming pool. West Sussex County Council provide financial support for running costs associated with the building which in 2020/21 amount to £138,000.

- 1.22 Freedom Leisure has played a significant role in rebuilding its business in Arun. Having made the buildings COVID-secure it has provided customers with regular and timely information on the services it is able to offer. The frequent changes to guidelines and lockdowns have been a challenge to the rebuilding process, but Freedom Leisure remain positive and continues to work with officers to ensure that the business recovers as quickly as the restrictions permit with a wide range of activities (see Appendix 1: Re-opening and Recovery for examples).
- 1.23 Throughout the pandemic, Freedom Leisure has aimed to operate on a sustainable and cost-efficient basis, creating the conditions to open fully when conditions allow. Pre-COVID-19, all the facilities were well used and provided an important focus for the local community for physical activity, health and social wellbeing. The facilities achieved over 1.1M visits per year, served a diverse range of residents and were an essential resource for local sports clubs and organisations. Given the impact of COVID-19 it has never been more important for residents to have access to leisure facilities for their own physical and mental health and wellbeing.
- 1.24 The Council's leisure facilities and the activities they support are aligned with the forthcoming Sport England Strategy (January 2021):
- Recover and Reinvent – Emerge from COVID-19 a stronger and fairer District
  - An Active and Healthier Life – enable people to live an active life, strengthening the connection between physical activity and wellbeing
  - Fairer Access to Physical Activity – create a fairer Arun where no-one is less active because of who they are and where they live
  - Strengthen Communities – work in partnership to create active communities
  - Active Environments – make it easier for residents to be active in the space around them
- 1.25 Arun District Council has supported the leisure operating contract throughout this difficult period in recognition of the significant impact the restrictions have had on the operation of the leisure centres and in appreciation of the valuable role the facilities play in the physical and mental wellbeing of the community. The importance of the Public Sector has latterly been recognised by HM Government and the financial support now available to publicly owned and accessible health and fitness facilities will help in the rebuilding of our leisure services and the strengthening of our community.

## **2. OPTIONS:**

- a) To note the report as recommended.
- b) To propose an alternative recommendation.

<b>3. CONSULTATION:</b>		
Has consultation been undertaken with:	<b>YES</b>	<b>NO</b>
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify)		✓
<b>4. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)</b>	<b>YES</b>	<b>NO</b>
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)		
<b>5. IMPLICATIONS:</b>		
<p><b>5.1 Financial:</b> 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 dependent 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 Recovery 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.</p> <p><b>5.2 Legal:</b> The leisure operating contract is subject to two Letters of Variation reflecting the Supplier Relief due to COVID-19.</p>		

## **6. REASON FOR THE DECISION:**

- The Overview Select Committee is requested to note this report to ensure that members are fully informed about the current situation in relation to the Leisure Operating contract including the usage of the centres and the level of support agreed by the Council.

## **7. 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)
- Letters of Variation - Supplier Relief due to COVID-19:

[Leisure Contract update - Link 1 - Contract Variation May 2020.pdf \[pdf\] 276KB](#)

[Leisure Contract update - Link 3 - Contract Variation Aug 2020.pdf \[pdf\] 216KB](#)

## **Appendix 1    Re-opening and Recovery**

The benefits of leisure and physical activity within communities has never been so important and access to physical activity will be a key factor in driving the recovery of our local community post Covid. Programming will be designed and targeted at those identified groups who have suffered most with mental or physical illness through these times to aid their recovery.

Freedom Leisure, supported by ADC, will introduce a multi-media strategy to engage and communicate with customers, encouraging them to come back to the facilities:

- Engaged with public – social media, links with ADC to advertise, newsletters.
- Campaigns – cleanliness of centres, Covid membership guarantee
- Confidence building
- Staff – personal calls to all GP referral and known vulnerable customers
- Offers – a range of offers will be widely promoted

### **Activities**

- Swimming is one of the most universally popular physical activities participated in and available to all age groups. As swimming is an essential life skill, particularly for children, it is seen as a priority to re-introduce swim lessons at the earliest opportunity. Provision of adult lane/casual swimming is also a priority given the benefits of swimming for those with life limiting conditions and disabilities.
- Activities such as gym and exercise classes are very popular for all age groups and the health and safety of customers can be managed effectively through pre-booking of sessions, social distancing control measures and enhanced cleaning regimes on site. The leisure pools are a particularly popular activity for young people, and it is important that the programme available on site is attractive to all age groups to encourage physical activity and mental wellbeing

**The Active Communities Programmes will recommence as soon as practicable and include:**

- Choir – initially via Zoom sessions (60 person existing choir group)
- Athletics sessions – delivered at both ALC and Wave to juniors as after school sessions
- Sports Camps – delivered during half term at ALC/Wave and Six Villages
- Active Play Sessions – Delivered in Littlehampton with funding from Littlehampton Town Council
- Schools Coaching – currently in 4 schools in the ADC area
- Healthy Walks – 8 out of 14 walks delivered per week – normally attended by those 60 plus and provides not only exercise but an important social interaction

**Funding will also support the re-introduction of:**

- Girls Kickboxing – Satellite Club Funding and in Partnership with Active Sussex – targeted session for girls 12-18
- Dance Project - Working in Partnership with ArtsWork, Youth Workers and ADC for young people with mental health issues
- Re-Boot Programme – Partnered with Active Sussex, Sussex Early Intervention Youth Programme, referrals via Police/social workers children at risk of being involved in crime
- Round the World – Mencap Scheme working with learning disability groups
- Talented Athlete Scheme – supporting those nationally selected athletes with free membership
- MIND Membership – Subsidised membership for those referred via MIND

- Active Aging Programme – Aimed at 60 plus and running once per week instructor lead session
- Just Play – Aimed at getting men aged 35+ active through football
- Friday Night Project – Youth programme allowing access to the centre for physical and social activities
- Walking Football –
- Walking Netball
- Xplorer Family Orienteering Sessions