

LEISURE CONTRACT UPDATE

REPORT OF: Assistant Director for Commercial Services & Contracts
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Wards Affected: All
Key Decision: No
Report to: Scrutiny Committee for Communities, Leisure & Parking
Date of meeting 16 November 2022

Purpose of Report

1. This paper provides an update on the Council's Leisure Management Contract with Places Leisure (PL). Specifically, it presents a summary of the latest position in:
 - (a) Open book reconciliation for the financial year 2021/22
 - (b) Open Book reconciliation for year-to-date 2022/23
 - (c) The impact of rising energy costs
 - (d) Decarbonisation of the leisure centres
 - (e) A forward look to 2023/24 and beyond
 - (f) Next steps

Recommendations

2. **The Committee are recommended to note the contents of the report.**
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Background

3. The Council's contract with Places Leisure (PL) commenced in July 2014. It is a 15-year concession contract with an option to extend for a further 5 years (until 2034).
4. Before the Coronavirus pandemic, PL was required to pay an annual management fee to the Council of £1.4m in return for running the Council's leisure centres.
5. The pandemic and the restrictive regulations made under the Coronavirus Act 2020 meant the Council had to work with PL to assist in delivering the Leisure Management contract so far as that was possible during the pandemic.
6. This saw the Council assume the operational and financial risk of managing the leisure centres, through the provision of financial support and the waiving of the contractual management fee.
7. The majority of the provisions under the Coronavirus Act 2020 (including those relevant here) expired on 24th March 2022.
8. However, the period since the pandemic has seen significant economic uncertainty. This has included escalating fuel and utility costs, and significant and ongoing cost of living pressures; all of which have a direct impact on the financial model of the leisure centre operation.
9. Officers continue to work closely with PL, colleagues from other local authorities, and the Council's expert advisors to secure the best possible outcome for the Council for the remaining contract term. This report provides a summary of the current position.

Open Book Reconciliation- April 2021- March 2022

10. During the financial year 2021/22, the Council continued to take full responsibility for the financial and operational risk of the Leisure Contract under the "Qualifying Change in Law" clause. The open book reconciliation exercise for this period has now concluded and the final position is summarised in the table below:

F/Y 2021/22

Period	Forecast	Actuals
April 21- Sept 21	-£934,029	-£540,839
October 21	£48,427	-£96,747
November 21	£23,302	-£121,382
December 21	-£52,427	-£215,895
January 22	£20,000	-£67,615
February 22	£53,000	-£30,316
March 22	£53,000	-£171,357
Total	-£788,727	-£1,244,151

11. As can be seen from the numbers above, the positive recovery trajectory seen up to September 2021 (which was showing an improvement against the forecast of over £400k) was significantly impacted in October, November, and December 2021, and again in March 2022; and although January and February saw a marked improvement, financial performance at year-end was still well below forecast.
12. Analysis of this trend shows that while income had steadily improved since April 2021 and reached approximately 77% of pre-Covid levels in February 2022 (in line with national trends), expenditure had increased rapidly since October. This was almost exclusively due to significantly increased energy costs, which, for the period November to March, averaged over £175k per month, compared with an average monthly figure of approximately £80k pre-Covid.

Open Book Reconciliation- April-August 2022

13. It was agreed with PL at the beginning of the current financial year that we should plan for an ongoing improvement in performance through 2022/23, giving rise to a full-year surplus of approximately £600k. It was also agreed that the financial and operational risk for the contract would transfer back to PL from 1 April 2022.
14. The Council is therefore now in receipt of a reduced (but guaranteed) Management Fee of £600k, with an accompanying agreement securing the Council a share of any surplus above that threshold; while any under-achievement of this target (or any other unforeseen costs) are PL's to bear. This is a one-year-only arrangement, and a formal variation to the contract, reflecting this position, was prepared, agreed, and signed by both parties.
15. Places Leisure agreed to this approach based on detailed modelling, which envisaged the recovery trajectory seen during 2021/22 continuing, and costs being actively managed.
16. Whilst income has broadly delivered in line with projections (and is currently at around 85% of pre-Covid levels), over-all financial performance has been significantly impacted by the ongoing increased utilities costs. This has given rise to PL experiencing a shortfall against budget of over £250k for the first six months of the financial year.
17. As previously explained however, the financial and operational risk for the contract is now with PL, and this under-achievement of the target is theirs to bear.

Rising Energy Costs

18. Energy costs are projected to remain significantly above historic rates for the foreseeable future. Leisure centres have high energy demands, especially those facilities with swimming pools; and energy costs are typically a leisure operator's second highest cost after staffing.
19. Places Leisure is actively working to identify and implement any practical measures they can take to reduce energy consumption in the centres and are ensuring they take advantage of the most competitive energy tariffs available.
20. PL will, between October 2022 and March 2023, receive the Government relief designed to support businesses with the increasing cost of energy. It is anticipated that this will cover the costs of approximately one third of PL's energy outgoings. At this moment, there is no indication that any support would be available in the 2023/24 FY.
21. The benefits of the energy saving mechanisms (outlined fully below) will likely be felt during the next financial year.

Energy Saving and Decarbonisation

22. PL is implementing energy saving and decarbonisation initiatives on a 'spend to save' basis, with an initial focus on installing Photo Voltaic (PV) Panels on the roof of the Triangle and implementing a further roll-out of LED's across all three centres. These projects have been costed at approximately £260k and £80k respectively, and PL have identified the capital funding to take these projects forward this financial year on the basis that their projected 'pay-back' periods are seven and 10 years respectively.
23. Further decarbonisation projects are being actively explored as part of the longer-term investment plan for the centres.

Management Fee- 2023/24 and beyond

24. As explained in paragraph 4, before the Coronavirus pandemic, and the triggering of the "Qualifying Change in Law" clause, PL were required to pay an annual management fee to the Council of £1.4m in return for running the Council's leisure centres.
25. The original procurement took place at a time when the leisure market was extremely competitive; and the management fee secured by the Council was consequently very generous. The contract was an important part of the Council's financial strategy, as the income over the lifetime of the contract is very significant.
26. The Council would like to see a return to the pre-pandemic management fee; however, this is subject to negotiation and agreement with PL in the context of the latest challenges around energy costs and the wider cost of living crisis. Work on this will continue over the coming months to secure a firm position before the budget-setting process for 2023/24 concludes.

Planning for the future

27. Between the commencement of the contract and the onset of the Coronavirus pandemic, PL invested over £6m in the improvement of the leisure centres. This was supplemented by over £1.5 million of Council funding and supported a range of significant improvements to keep the local leisure offer modern and competitive.
28. Seven years remain before the expiry of the initial contract term, with the potential to extend for a further five years beyond that.

29. The facilities require ongoing investment to further develop and enhance the activities and to keep the offer 'fresh' to increase footfall, as well as to ensure they can accommodate the population growth projected in the district over the coming years, and to ensure they are energy efficient and economical to run.
30. There is also a need to continue to respond to the increasing competition entering the marketplace, particularly with the arrival of budget gym providers in the district; as well as to ensure that any unused or under-used facilities are repurposed to further increase the leisure offer and/or generate an income.
31. Work will therefore take place over the coming 12 months to jointly develop and secure an agreement for a forward plan for the district's leisure centres for the remaining contract term (to 2029).

Policy Context

32. A key part of the work taking place over the next 12 months will be to determine a clear, data driven, strategic pathway for our leisure centres. This will enable the Council to respond to the needs of a growing district both within, and beyond, the current contract lifetime.
33. The plans and proposals forthcoming regarding decarbonisation directly support the ambitions outlined in the Council's Sustainable Economy Strategy; specifically:
 - (a) to create a Mid Sussex Net-Zero Carbon Programme.
 - (b) to identify the investment, job creation and green economy potential for Mid Sussex of achieving carbon net-zero.
 - (c) To maximise the impact and benefits of the Sustainable Economy Strategy by building effective and collaborative partnerships through a range of mechanisms including Service Level Agreements
34. Whilst the primary focus of this report is to capture the current financial challenges of the Leisure Services Agreement, the services provided by PL directly support the Council in its aim to develop and promote physical activity to improve overall health and mental wellbeing. This includes providing referral programmes and access to activities at a concessionary rate.

Financial Implications

35. There are no financial implications arising from the recommendations of this report.

Risk Management Implications

36. There are no risks that might affect the successful implementation of the decision arising from this report.

Equality and Customer Service Implications

37. None.

Other Material Implications

38. None.

Sustainability Implications

39. Places Leisure is implementing energy saving and decarbonisation initiatives, initially installing PV Panels on the roof of the Triangle and implementing a further roll-out of LEDs across all three centres. Places leisure has invested their own capital and these projects have a projected 'pay-back' periods of seven and 10 years. Further decarbonisation projects are being actively explored as part of the longer-term investment plan for the centres.