

LEISURE CONTRACT UPDATE

REPORT OF: DIRECTOR OF PEOPLE AND COMMERCIAL SERVICES
Contact Officer: Robert Anderton
Email: robert.anderton@midsussex.gov.uk Tel: 01444 477374
Wards Affected: All
Key Decision: No
Report to: Scrutiny Committee for Communities, Leisure & Parking
Date of meeting 22 March 2023

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 with:
 - (a) Trends in membership and visitor numbers
 - (b) Open Book reconciliation for year-to-date 2022/23
 - (c) Decarbonisation of the leisure centres
 - (d) A forward look to 2023/24
 - (e) Planning for the future

Recommendations

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

Background

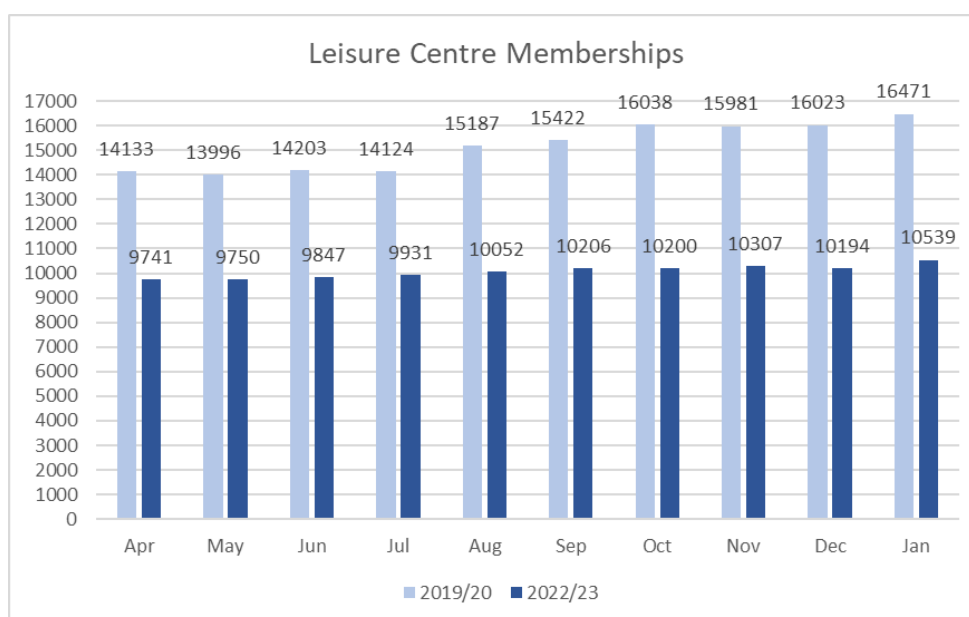
3. The Council's contract with Places Leisure (PL) commenced in July 2014. It is a 15-year concession contract with an option to extend for a further 5 years (until 2034).
4. Before the Coronavirus pandemic, PL was required to pay an annual management fee to the Council of £1.4m in return for running the Council's three leisure centres:
 - (a) Dolphin leisure Centre- Haywards Heath
 - (b) Kings Leisure Centre- East Grinstead
 - (c) Triangle Leisure Centre- Burgess Hill.
5. The pandemic and the regulations made under the Coronavirus Act 2020 required the Council to work with PL to assist in delivering the Leisure Management contract so far as that was possible during the pandemic. 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. From 2020 to date, this support has totalled approximately £8m, with £6.7m of that cost being borne by the Council, as follows:

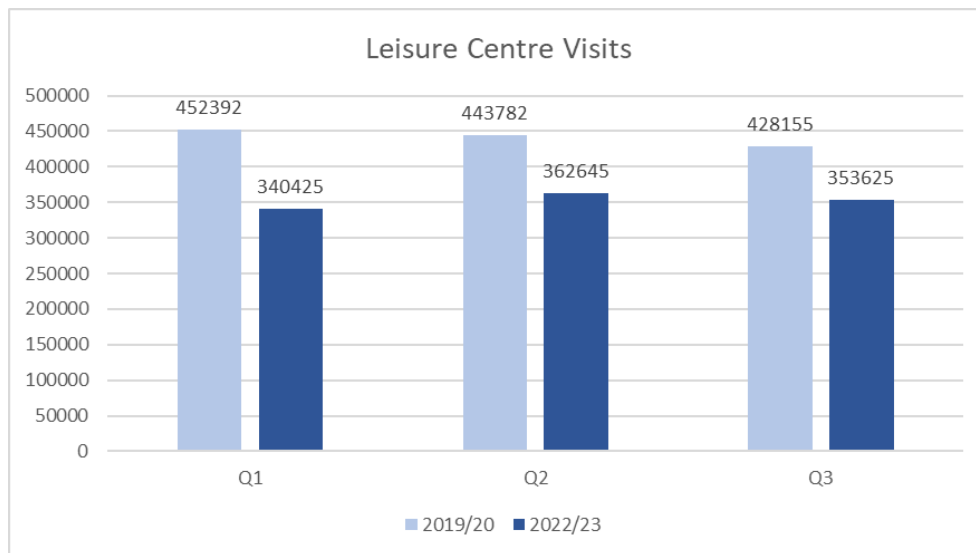
Direct financial support for centre operations	£4.3m
Foregone Management Fee	£3.7m
Government support for loss of income	(£1.3m)
Net cost to Council March 2020 to date	£6.7m

6. The majority of the provisions under the Coronavirus Act 2020 (including those relevant here) expired on 24th March 2022. However, the period since the pandemic has seen significant continued 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 centres, as well as on the spending habits of their customers.
7. In light of these ongoing challenges the Council negotiated a one-year agreement with PL for 2022/23, which secured a reduced 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.
8. 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.

Membership and Visitor Numbers 2019/20 and 2022/23

9. The following graphs demonstrate that, whilst both visitor numbers and membership numbers continue to move in the right direction, both remain significantly lower than they were pre-Covid.
10. The impact has not however been felt equally across all activities. For example, whilst 'dry' activities remain significantly below pre-Covid levels, pool use has recovered extremely strongly to a point where it now exceeds that seen pre-Covid.
11. This suppressed recovery of 'dry side' activities is likely to be the result of a range of factors; for example, the arrival of further competition in the district in the form of new budget high street gyms; and customers deciding to maintain the alternative exercise regimes they established during Covid rather than returning to the gym and/or organised exercise classes.
12. Therefore, while the recovery trajectory remains positive, this is something to watch as the cost-of-living crisis continues to force consumers to make difficult decisions about their discretionary spend.





Open Book Reconciliation- April 2022 -January 2023

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. While income has broadly delivered in line with projections, over-all financial performance has been significantly impacted by the ongoing increased energy costs. This has given rise to PL experiencing a shortfall against budget of over £470k in the first 10 months of the financial year.

Energy Saving and Decarbonisation

17. Given the ongoing pressures in respect of utilities costs, PL has been working actively to reduce energy consumption across its centres, and has achieved significant results, with a 7.8% drop in gas consumption and a 21% reduction in electricity consumption since 2019.
18. In addition, they are currently 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 on the basis of their projected 'pay-back' periods.
19. Work on the LED roll-out was completed in mid-March 2023; with the PV installations scheduled to take place shortly.
20. Further decarbonisation projects are being actively explored as part of the longer-term investment plan for the centres.

Management Fee- 2023/24

21. 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.
22. 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.
23. The Council would like to see a return to the pre-pandemic management fee; however, this is subject to ongoing negotiation and agreement with PL in the context of the ongoing challenges around energy costs and the wider cost of living crisis.
24. Reflecting those negotiations, the Council’s 2023/24 budget, which was agreed at Full Council on 1 March 2023, allows for an increased Management Fee of £1m for the coming financial year.
25. Given the commercial sensitivity of this negotiation, Members of the Scrutiny Committee will appreciate that no further details can be shared at the meeting as it will be broadcast on YouTube and these papers are publicly available.

Planning for the future

26. 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.
27. Six years remain before the expiry of the initial contract term, with the potential to extend for a further five years beyond that.
28. 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.
29. 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.
30. Work will therefore take place over the course of 2023/24 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

31. 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.
32. 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

33. 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

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

Risk Management Implications

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

Equality and Customer Service Implications

36. None.

Other Material Implications

37. None.

Sustainability Implications

38. 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.

39. Further decarbonisation projects are being actively explored as part of the longer-term investment plan for the centres.