

Title: Financial Support – Everyone Active Leisure contract

Lead Officer: Rose Winship/Andy Jones

Portfolio Holder: Cllr Bartlett

Public report / Confidential report No

Wards of the District directly affected: All

Contrary to the policy framework: No

Contrary to the budgetary framework: No

Key Decision: Yes

Included within the Forward Plan: No

Equality Impact Assessment Undertaken: N/A

Consultation & Community Engagement: N/A

Final Decision: Yes (in part)

Accessibility checked: Yes

Officer/Councillor Approval	Date	Name
Chief Executive/Deputy Chief Executive	2 nd June 2021	Andy Jones
Head of Service	23 rd June 2021	Rose Winship
CMT	23 rd June 2021	Chris Elliott, Andy Jones, Dave Barber
Section 151 Officer	23 rd June 2021	Mike Snow
Monitoring Officer	23 rd June 2021	Andy Jones
Finance	23 rd June 2021	Mike Snow, Dilip Dibasia
Portfolio Holder(s)	23 rd June 2021	Cllr Bartlett

1. Summary

- 1.1 In light of the challenging period since March 2020, Everyone Active, who run the local leisure centres on behalf of the Council, have required financial support from the Council so that the centres have been able to reopen after the various periods of lockdown. This report seeks approval for the release of grant funding provided by DCMS to support leisure operators, and financial support from the Council for the current financial year.
- 1.2 The report also refers to the wider impacts of the pandemic on the leisure sector and the work that is ongoing nationally to lobby government for additional financial support to protect the future delivery of public leisure services in recognition of the contribution made to the health and wellbeing of the nation.

2. Recommendations

Cabinet is asked to:

- 2.1 Note the national picture within the leisure sector in terms of recovery from the pandemic and the work that has been ongoing locally with our partner Everyone Active (EA) to ensure that facilities can reopen as soon as the roadmap allows.
- 2.2 Note the work undertaken by EA and officers in the last 15 months in order to minimise expenditure during essential closure periods, whilst taking the necessary steps to ensure that the buildings are maintained and ready to open when the roadmap allowed.
- 2.3 Approve the release of c£189,000 of National Leisure Recovery Fund (NLRF) funding to EA as per the terms of the grant award by Sport England.
- 2.4 Agree that the EA concession fee due to the Council for 2012/22 is waived with the consequent funding shortfall of £1.25m met from the Government's Income Compensation Scheme (estimate £165k) and the provision included in the Budget provided for potential non-recovery of income within the Budget.
- 2.5 Subject to the approval of 2.4, agree to support EA in 2021/22 with further subsidy capped at £411,000, including the £189,000 NLRF (recommendation 2.3) and therefore to approve the release of up to £222,000 from the provision referred to in paragraph 3.4.2 but noting that there is still uncertainty in relation to the Government's "roadmap" and the closure dates of the Kenilworth leisure centres and so delegates authority to the Head of Cultural Services and Head of Finance, in consultation with the Portfolio Holders for Culture, Tourism and Leisure, and Resources, to increase the capped amount with any changes reported to a future Cabinet meeting.

- 2.6 Notes that a further report will be submitted to Cabinet as part of the 2nd quarter budget review which will include EA financial performance to date and initial financial projections for 2022/23 and beyond.

3. Reasons for the Recommendations

3.1 Recommendation 2.1

- 3.1.1 The pandemic has over the last 12 months had a major impact on the leisure sector, leaving many facilities closed and more with threat of closure. According to recent findings from the District Council Network (DCN) over 100 leisure centres across the country will be forced to close due to lack of funds, and nearly 60% of district councils considering closures said that they would be forced to close centres within the next 12 months.
- 3.1.2 Now more than ever the contribution that public leisure centres make to the health and wellbeing of local communities is under threat. COVID has shown the importance of health and wellbeing being at the forefront of the services that the public sector delivers and that they are accessible to all in the community. It has been encouraging to see how customers have returned back to local leisure centres when they have reopened, many of them acknowledging just how much they missed the facilities while they were forced to be closed, and recognising how their physical and mental wellbeing suffered when they were unable to participate in their regular activities.
- 3.1.3 DCN has led a campaign to call on government to increase the support that is being offered to these vital community services and facilities to ensure that they survive the pandemic and return to a pre-COVID state as soon as possible. (Appendix A) DCN are calling on:
- a financial package for leisure centres in addition to the current NLRF
 - that district councils are represented on the recreation and sport taskforce chaired by DCMS
 - that a national leisure strategy focussed on the role of leisure services in combatting obesity and mental health is formed.
 - that a full evaluation of the establishment, administration and delivery of the NLRF is undertaken and that a compensation scheme to compensate councils for lost sales, fees and charges is set up.
- 3.1.4 Officers worked closely with senior EA colleagues in the last 15 months to react to the enforced closures of centres and to take the most appropriate action to ensure that the buildings remained secure, safe and well maintained throughout lockdowns, and that the relevant forward planning took place so that the centres were ready to reopen as soon as they were allowed.

3.2 Recommendation 2.2

- 3.2.1 During the pandemic the leisure centres were closed on the following dates:
- Closure 1 - 20th March 2020 -25th July 2020
 - Closure 2 - 5th November 2020 – 2nd December 2020
 - Closure 3 - 31st December to 12th April 2021 (Artificial pitches opened 29th March 2021)

- 3.2.2 During the previous financial period of 2020/2021 a subsidy capped at £927,167 was agreed by Executive enabling EA to service, maintain and keep the sites compliant with relevant health and safety regulations whilst closed, in addition to waiving the concession due to the Council for the year of £940,000. The funding also supported EA in opening sites with reduced capacity and less activities due to social distancing. An open book approach was adopted, and all transactions were supplied to Council officers by EA along with actuals for each income and expenditure line. This allowed the Council to monitor all income and expenditure at a time when the Council was underwriting the service.
- 3.2.3 The impact of Covid on leisure and sports facilities income has been severe and this position is likely to remain challenging. Customer behaviour is unpredictable and regaining confidence is a priority. EA is starting the latest reopening with low membership numbers and smaller numbers on direct debit transactions. Social distancing has decreased occupancy and reduced activities. Whilst there is positivity with the releases of steps in lockdown the industry is very cautious on a timescale with recovery to pre-Covid levels.

3.3 Recommendation 2.3

- 3.3.1 Sport England opened the NLRF in December 2020, with the aim of supporting the reopening and recovery of public sector leisure facilities. A total of £100M has been distributed to 266 local authorities across England, funded by the Government and administered by Sport England.
- 3.3.2 Warwick District Council was successful in its application and received £277,851 in a grant from Sport England in March 2021
- 3.3.3 A total of £88,387 was allocated to financial period 2020/2021 so reducing the level of subsidy that needed to be found by the Council. The balance of £189,464, is to be used from 12th April 2021 under the terms and conditions stipulated by Sport England specifically allocated to support the reopening of leisure centres after Covid shutdown.
- 3.3.4 Releasing the balance of £189,464 will fulfil the terms of the agreement with Sport England which is to pass the fund to the external contractor (EA) promptly and allow them to deliver a range of leisure centre activities as the sector reopens in accordance with the roadmap below.

Step 1- 29th March 2021 – opening of outdoor artificial pitches

Step 2 – 12th April 2021 – opening of gyms, swimming pools and under 18 indoor sport

Step 3 – 17th May 2021 – recommencement of group fitness, aqua classes, adult activities

Step 4 – 19th July 2021- to be confirmed but (at time of writing) it is hoped that activities can return to their designated areas freeing up sports halls and studios. Swimming lessons will also return to pre Covid numbers of pupils per class.

3.4 Recommendation 2.4

- 3.4.1 The concession fee was originally agreed in the contract between this Council and EA and is derived from the LOBTA (Leisure operators base trading account) submitted by EA as part of its contract bid. In 2020/2021 the concession fee from EA of £940k was waived due to pandemic and closures and to enable EA to remain locally viable. Subsequently, an amount of £670,000 of the waived concession fee was recovered from an MHCLG income compensation fund.
- 3.4.2 In 2021/2022 the leisure sector is still subject to social distancing and the Government roadmap as described above. The sites are focussing on business recovery, increasing consumer confidence and increasing membership base but the picture is very different to pre-Covid times. Given this picture there is no prospect of EA being able to fulfil its concession fee obligation. Therefore, if Members wish to continue the delivery of leisure centre related activities, the concession fee will need to be waived and a further financial subsidy agreed (see below). The concession due for 2021/22 is £1.25m, for which 100% provision was allowed in the 2021/22 Budget for the possibility of this concession not being recovered. Under the Government's income Compensation Scheme, the Council should be able to recover c£165k towards this for the months April-June, so leaving £165k of the provision.

3.5 Recommendation 2.5

- 3.5.1 EA has supplied a new forecast for a subsidy of £411,000 required in 2021/22 as Appendix B -Confidential - Warwick Forecast Summary 2021-2022. The rationale for the sum is based on a number of factors including the evolving roadmap to recovery, ending of furlough scheme, the gradual growth of memberships and Direct Debit income in Q2 and Q3 of 2021/22 as business gain momentum and restrictions are released. This should be funded from the £189,000 of NLRG funding, £165,000 from the balance of the provision referred to in paragraph 3.4.2 and £57,000 from the Leisure Options Reserve.
- 3.5.2 The forecast supplied by EA is a prediction based on Covid restrictions at the present time and projected redevelopment dates. Whilst it is hoped that restrictions will be lifted from 19th July 2021, this is not guaranteed, and any extension would require a reset of the forecast. Discussions are currently taking place to confirm the redevelopment dates for the Abbey Fields and Castle Farm projects. If these are delayed than this would also be a trigger for a reforecast of the EA financial position. Officers will provide a verbal update at the meeting on the latest position.
- 3.5.3 Assuming that Members agree the proposals in this report a summary of the financial support provided by this Council over the last two years would be as follows:

Detail	2020/2021	2021/2022
Concession fee lost	-£938,028	-£1,250,000
Subsidy cap	-£927,167	-£411,000

NLRF grant	£88,387	£189,464
MHCLG grant	£670,000	£165,000 (April to June 2021)
Total cost to WDC	£1,106,808	£1,307,000

3.6 Recommendation 2.6

- 3.6.1 The performance of the contract will be carefully monitored during the recovery phase. A further Budget Review report will be brought to Cabinet in Autumn 2021 containing the performance of the contract and financial projections for 2022/2023. The financial projections will be reflective of how the contract has performed over the summer months and the prevalence of Covid infections. Officers will also bring forward details of the possible concession fee income which will be payable once the new leisure centres have opened in Kenilworth. This will also need to address the financial implications of the planned closures of the Kenilworth Leisure Centres whilst under re-development, and the impact on the Council's finances thereafter.

4. Policy Framework

4.1. **Fit for the Future (FFF)**

- 4.1.1. The Council's FFF Strategy is designed to deliver the Vision for the District of making it a Great Place to Live, Work and Visit. To that end amongst other things the FFF Strategy contains several Key projects. The decision taken in 2016 to appoint an external partner to run the Councils leisure centres was a key decision for the Council at sought to protect the delivery of quality leisure services for many years to come. the
- 4.1.2. The FFF Strategy has 3 strands, People, Services and Money, and each has an external and internal element to it, the details of which can be found on the Council's website. The table below illustrates the impact of this proposal if any in relation to the Council's FFF Strategy.

4.2 **FFF Strands**

4.2.1 **External impacts of proposal(s)**

People - Health, Homes, Communities - Improved health for all; Impressive cultural and sports activities; Cohesive and active communities.

Services - Green, Clean, Safe -: Safe and well managed public buildings offering quality, safe activities for all

Money- Infrastructure, Enterprise, Employment -: Dynamic and diverse local economy; Vibrant town centres; Increased employment and income levels.

4.1.2. **Internal impacts of the proposal(s)**

People - Effective Staff – All staff are properly trained; All staff are engaged, empowered and supported and that the right people are in the right job with the right skills and right behaviours.

Services - Maintain or Improve Services - Focusing on our customers' needs; Continuously improve our services and opportunities for local people to participate in quality sporting activities.

Money - Firm Financial Footing over the Longer Term - Better return/use of our assets; Full Cost accounting; Continued cost management; Maximise income earning opportunities and seek best value for money.

4.2. **Supporting Strategies**

4.3.1. Each strand of the FFF Strategy has several supporting strategies and the relevant ones for this proposal are explained here. Both the Indoor Sport Strategy and Playing Pitch Strategy are relevant to the services offered by EA in the local leisure centres, outlining how the facilities operated by EA contribute to the wider sport and leisure provision across the district.

4.3. **Changes to Existing Policies**

4.3.1 Not applicable

4.4. **Impact Assessments**

4.5.1. Not applicable to this report.

5. **Budgetary Framework**

5.1. The estimated costs to the Council of the proposed support to EA in this report are: -

• Loss of concession	£1,250k
• Maximum subsidy to EA	£411k
• Total	£1,661k

5.2. It is proposed that this is funded from: -

• Provision for loss of funding	£1,250k
• NLRF Funding	£189k
• Government Income Compensation Scheme	£165k
• Leisure Options Reserve	£57k
• Total	£1,661k

- 5.3. Based on the above figures, any difference between the support cost and the funding should be able to be accommodated from existing budgets or the Leisure Options Reserve.
- 5.4. The Leisure Options Reserve has a balance of £740k. This was specifically allocated to fund the initial cashflow costs of the Kenilworth Leisure Centres re-development and to compensate the operator during closure of the centres. Before the scheme is agreed to progress, it will be necessary to ensure there is sufficient funding to meet these demands.

6. Risks

- 6.1. The substantive risks associated with this report are financial and are dependent upon how the national leisure sector recover from the pandemic. As outlined in Appendix A, the leisure sector has been fundamentally impacted by the pandemic and will take a significant time to recover. There is a call for increased financial support from government for the sector, but it is also anticipated that local authorities will need to make difficult decisions about how they are able to ensure that local facilities are financially sustainable and continue to provide these key services for local people.
- 6.2. Recommendations 2.2 and 2.3 in this report clearly have a financial impact on this Council at a time when there are many competing pressures on the Council's finances. Whilst early indications are that customers are returning to local leisure centres and attendance figures are encouraging, there are risks that the recovery could be slowed or halted with further outbreaks of COVID-19 and that further controls need to be introduced with the reintroduction of reduced services or further lockdowns. In these circumstances, the financial position of EA would once again be in jeopardy and the Council could be asked once again to provide financial support. In these circumstances, the long-term ability of the Council to underwrite the costs of these services would need to be carefully scrutinised.
- 6.3. There is a risk that despite the financial support given by WDC to EA, the impact of COVID-19 is so severe that EA is unable to continue to trade and is forced to terminate contracts with some or all of its local authority partners. In this situation, WDC would need to consider options for the ongoing delivery of leisure services which would undoubtedly result in the cost of this service to the Council increasing and there being a potential reduction in the range of facilities.
- 6.4. There is a risk that despite the financial support given to EA as outlined in 2.2 and 2.3, the local contract is unable to return to pre-COVID levels, and the financial model that underpins the contract is unviable. Recommendation 2.4 requires a further report to be presented in Autumn 2021 to update members on the financial position of the contract. At this point it is anticipated that officers will have a clearer understanding of how the contract is progressing and what the financial position may be in future years. However, it should be noted that financial modelling will need to remain flexible for some time as the industry emerges from the challenging period of the pandemic.

- 6.5 Sport England and Government recognise the vital role that gyms and leisure centres play in helping people to be active. Studies show that preventing people from taking part in organised exercise has resulted in falls in cardiorespiratory fitness levels and weight gain, the two risk factors causing worse COVID-19 symptoms. As evidence mounts that being overweight or obese, and/or having low cardiorespiratory fitness are likely to worsen COVID-19 outcomes and affect mental health. If there is another break in provision of leisure services the cost to health in Warwick District would be immense. Warwick District Council is involved with Moving Communities, a national initiative, which measures the social impact of the use of the leisure centres. This data will inform future investment decisions to help strengthen communities and improve health and wellbeing. If the leisure centres do not operate and we are removed from this scheme it will see Warwick District fall behind in the quest for funding and sustainability for the future.
- 6.6 There is a risk to the Council in not paying the NLRF money over to EA in that it potentially places the Council in breach of the NLRF grant terms and conditions. Ultimately, if this was deemed to be a material breach by Sport England, under clause 11.1 of the grant agreement this could entitle NLRF to claw back the grant monies from the Council.

7. Alternative Option(s) considered

- 7.1. Throughout the last 12 months officers have worked closely with EA to ensure that the leisure centres were in a position to reopen when it was possible to do so. Members supported the approach taken to date with the subsidy of £927,000 confirmed for 2020/21. However it is recognised that the Council does not have unlimited finances to continue such subsidy, and alternative options have been considered.
- 7.2. The Council could decide not to waive the concession fee in 2021/22, or top up the NLRF funding, leaving EA unable to operate the local leisure centres. This could result in lengthy legal dispute, and possible termination of the contract. The outcome could be the closure of some or all of the local leisure centres, while alternative options are considered for the future operation of the centres. Previous work, and current advice from within the sector has demonstrated that alternative options for managing leisure facilities (in-sourcing or setting up a Trust) are unlikely to provide financially viable solutions, leading to inevitable reduction in local authority leisure provision. Full reports would be brought to members of this situation were to develop.