



Report of the Cabinet Member for Investment, Regeneration & Tourism

Cabinet – 17 June 2021

Leisure Partnerships - Financial Support 2021/2022

Purpose:	To seek Cabinet approval for the levels of financial support needed for the period April 21 to March 22 for our leisure partnerships (Freedom Leisure, Parkwood Leisure and Wales National Pool Swansea Ltd) due to losses sustained and associated financial recovery plan related to the Covid-19 pandemic
Policy Framework:	Creating an Active and Healthy Swansea; City of Sport; Transforming our Economy and Infrastructure; Medium Term Financial Plan
Consultation:	Legal, Finance, Access to Services.
Recommendations:	It is recommended that Cabinet: <ol style="list-style-type: none">1) Approve the extension of financial relief to Freedom Leisure until 31st March 2022 to include the Council underwriting an operating deficit of up to £2M, in addition to the payment of the contractual monthly management fee for the financial year 2021/2022, all relief payments to be reconciled under an open book approach;2) Approve the extension of financial relief to Parkwood Leisure until 31st March 2022 to include the Council underwriting an operating deficit of up to £44k, in addition to the payment of the contractual monthly management fee for the financial year 2021/2022, all relief payments to be reconciled under an open book approach;3) Approve the extension of financial relief to Wales National Pool Swansea (WNPS) to include Council underwriting of an additional deficit of up to £300k for the financial year 2021/2022;4) Delegate authority to the Director of Place to agree any changes to service specification, the terms and conditions attached to any offer of underwriting or other support measures including authority to vary the level and period of financial relief providing that the total of all such variations are within the scope of the combined budget approvals for financial relief within recommendations 1 – 3;

- 5) Delegate authority to the Chief Legal Officer to enter into any documentation necessary to implement any of the recommendations in this report and to protect the Council's interests.

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1. Introduction

- 1.1 Following instruction from the Welsh Government, all seven Freedom Leisure facilities in Swansea were closed on the 19th December 2020 and re-opened on the 3rd May 2021. A high proportion of the Freedom Leisure staff were furloughed under the Government's Job Retention Scheme (JRS), with a handful of staff retained to undertake regular building and safety checks, and routine maintenance to plant and equipment. The majority of staff returned from the furlough scheme in readiness for the 3rd May.
- 1.2 Plantasia closed on the 2nd December 2020 and reopened on the 17th May 2021. A high proportion of the Parkwood Leisure staff were furloughed under the Government's Job Retention Scheme (JRS), with only two staff retained to undertake regular building and safety checks, routine maintenance to plant and equipment and management of the animals. The majority of staff returned from the furlough scheme in readiness for the 17th May
- 1.3 WNPS closed on the 19th December 2020 and re-opened on the 3rd May 2021. In line with Welsh Government guidelines WNPS was able to operate services for the Swim Wales elite squad throughout the latest lockdown, the remainder of the facilities and services for clubs and public resumed on the 3rd of May as noted above. A high proportion of the Wales National Pool staff were furloughed under the Government's Job Retention Scheme (JRS), with a handful of staff retained to operate for the elite squad, undertake regular building and safety checks, and routine maintenance to plant and equipment. The remainder of the staff returned from the furlough scheme in readiness for the 3rd May.
- 1.4 For the purposes of this report, Freedom Leisure, Parkwood and WNPS may be referred to more generally as Trust, Contractor or Operator, if not named individually.
- 1.5 The past year has been challenging for all parties involved, however all partners have performed well, managed costs and kept them as low as possible, ensuring that staff and customers safety was a priority and that all

Government guidance was followed throughout. The aim for the next 12-24 months for all partners is to return to pre-covid trading position. The recovery will not be easy, with the months ahead still being uncertain, with continued restrictions. The Council will be required to continue to remain in regular communication with all partners in order to help and support them.

2. Industry and WLGA advice

- 2.1 Financial assistance from Local Authorities has been deemed as critical for Trusts to reopen and support facilities moving forward. Swansea Council has broadly followed the advice and guidance as relevant to its partnership arrangements, adopting an open book process through closure periods and reopening phases.
- 2.2 A published WLGA paper reports that leisure and culture facilities provide vital health, leisure and wellbeing services to local communities and will be a key re-engagement service for those communities post the Covid-19 pandemic.
- 2.3 Leisure and culture providers, who are charitable trusts or private operators are now at crisis point as a result of loss of income and limited cash reserves. Even with reopening in May 2021 for some facilities, a challenging trading position will continue for some time as a result of continuing restrictions on user numbers, limited use of the re-opened spaces and cancellations of services where social distancing is simply not possible. In addition to enhanced cleaning, and start-up costs including staff re-training.
- 2.4 The effects of the pandemic on leisure and culture are likely to last for at least 18 months. It is likely to be financial year 2022/2023 before anything that is to be considered a position of financial stability returns. This also means that contractors will not be operating a surplus and many will continue to make requests for additional payments/support.

3. Support provided by Swansea Council in 2020/2021

Freedom Leisure

- 3.1 The Council entered into a variation agreement for the period 1st April to 30th June 2020 and following an approved Cabinet Report on 16th July 2020 a further two variation agreements were entered into with Freedom Leisure, covering support until the 31st March 2021. The purpose of the variation agreements was for the Council to give relief to the contractor in accordance with the policy set out in PPN 02/20 and requires both parties to act in good faith and work together towards the principles set out in PPN 02/20.
- 3.2 *Management Fee*; an agreed contractual management fee of £1,193,220 for 20/21 was paid from the Council to Freedom Leisure.
- 3.3 *Deficit Underwriting*; On top of the management fee an agreed maximum level of support from the Council as an underwriting was set at £1,323,000.

The actual amounts transacted were agreed on a monthly basis through an open book process, and whilst March's outturn is being finalised it is anticipated the actual cost for 20/21 will not exceed £800,000. The significant impact on the business model was primarily due to lost revenue and the Council was able to reclaim these monies through the Welsh Government hardship 'lost income' grant scheme. Therefore the Council's reserves earmarked to support the contractor for this period were not required during 2020/21.

- 3.4 *Additional staffing contributions:* an agreement was taken to top up all furloughed staff between the months of April to October 2020, at an additional cost to the Council. Total cost to the Council for this was therefore £340,290.

Parkwood Leisure

- 3.5 The Council entered into a variation agreement for the period 21st March to 30th June 2020 and following the approved 16th July 2020 Cabinet Report a further two variation agreements were entered into with Parkwood Leisure to cover until the 31st March 2021. The purpose of the Variation was for the Council to give relief to the contractor in accordance with the policy set out in PPN 02/20 and requires both parties to act in good faith and work together towards the principles set out in PPN 02/20.
- 3.6 *Management Fee;* an agreed contractual management fee of £122,678 for 20/21 was paid from the Council to Parkwood.
- 3.7 *Deficit Underwriting;* On top of the management fee an agreed maximum level of support from the Council as an underwriting was set at £180,000. The actual amounts were agreed on a monthly basis through an open book process and the actual cost for 2020/21 was £170,910. As the resultant impact on the business was primarily due to lost revenue, the Council was able to reclaim these monies through the Welsh Government hardship 'lost income' grant scheme and therefore the Council's reserves earmarked for this support were not required during 2020/21.

WNPS

- 3.8 The Council's share of the contractually agreed net subsidy for Council's financial year 2020/2021 was paid. The overall net subsidy is shared 50/50 with Swansea University.
- 3.9 Following the approved November 2020 Cabinet Report an agreed additional level of underwriting by the Council was set at £350,000. As the result of lost revenue the Council was able to reclaim its share through the Welsh Government hardship lost income grant scheme, therefore the Council's reserves earmarked to support the previous period were not required during 2020/21.

- 3.10 *Additional Staffing Contributions*: An agreement was made to top up all furloughed staff between the months of April to October 2020, at an additional cost to the Council at a total cost to the Council £47,574

4. Financial position and continued support for 2021/2022

Freedom Leisure

- 4.1 Freedom Leisure reopened all 7 of their facilities in line with the Government guidance on the 3rd of May 2021. Some restrictions will continue to be in place for the immediate future and these will continue to have a detrimental impact on business and commercial revenue that supports the agreed funding principles. Social distancing and reduced participant numbers are key factors, with maximum class numbers and participants in pools, sports halls and other spaces being the most damaging factors. Some areas such as indoor hospitality, and hosting of major events such as boxing and other indoor spectated tournaments cannot yet restart.
- 4.2 The majority of the staff returned from furlough in readiness for the 3rd of May, although furlough will continue to be used where deemed appropriate for some areas that cannot open immediately, with a blend of part furlough being utilised where appropriate for some roles.
- 4.3 The commercial financial predictions by Freedom Leisure remain fluid and only based upon the information available at the time of reporting. For the purposes of this report, Freedom Leisure have provided a best and worst case projection for financial year 2021/22. The projected income levels take into account the anticipated demand and the speed at which customers are likely to return. The best-case projection also assumes that social distancing rules are relaxed from the 21st June 2021, as advised by the UK Government.
- 4.4 The months ahead are still unclear and the projections have been prepared using the best intelligence available at the time. The use of customer survey data from the industry, current advice from UKactive, WLGA, Sports Wales and current government advice on social distancing and what the 'new normal' could look like, so could therefore change as announcements are made.
- 4.5 Any approved further relief period would adopt a continued open book accounting process which has worked effectively to support the partnership in an open and transparent manner. A continued monthly process of reviewing detailed accounts in arrears and invoicing any differences to reconcile accordingly.
- 4.6 In line with the contractual bid from Freedom in 2018, an agreed annual management fee of £963,488 for 2021/22 will be paid as normal. In line with the bid projections, this is a contractual reduction on the previous year's fee by £229,732.

4.7 The tables below detail the monthly-predicted level of underwriting that may be required, shown within a worst and best case scenario.

Table 1 – Best Case Projection = £1,523,475

Table 2 - Worst Case Projection = £2,422,630

4.8 Taking in to consideration both best and worst case projections for 2021/22 and the actual cost of underwriting required in 2020/21 being considerably under Freedom Leisure’s original projections, it would be prudent to anticipate and to assume an average value of underwriting of up to £2,000,000, in addition to the contractual management fee. A future report would be brought back to Cabinet should the unlikely arise and the maximum level set be exceeded.

4.9 At present it is not certain that the Welsh Government will continue with their hardship ‘income loss’ grant support scheme in 2021/22 to anywhere near the same extent as 2020/21 given overall budgetary envelopes, though discussions continue with Welsh Government officials and all authorities await ministerial decision in due course. If they continue to support, in full or in part, then the liability to the Council will be reduced through future claims.

Table 1

2021 – 2022 Deficit Underwriting Projections (BEST CASE)- per month											
Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
98,204	222,914	215,481	186,278	62,696	147,045	114,661	123,199	150,739	89,043	58,748	54,467
TOTAL: £1,523,475											

Table 2

2021 – 2022 Deficit Underwriting Projections (WORST CASE)- per month											
Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
191,963	222,221	223,182	218,751	186,636	208,447	195,820	195,950	218,489	194,751	183,102	183,318
TOTAL: £2,422,630											

4.10 Freedom Leisure are not currently anticipating that the additional support will need to be repaid through future decreases in management fee in later years. It is likely that post pandemic, the business plan and management fee profile previously agreed will have to be considered in line with future demands, income levels and the Councils financial plan. Such changes would need to be considered within a subsequent report which considers the likely impacts and costs, along with longer term mitigating measures that may be possible to address a long term business plan recovery.

Parkwood Leisure

4.11 Parkwood Leisure reopened Plantasia in line with Government guidelines on the 17th May 2021. Some restrictions continue to be in place such as social distancing.

- 4.12 Staff returned from furlough in readiness for the opening on the 17th May 2021, with some on part furlough to support recovery through the quieter periods.
- 4.13 Parkwood have provided a financial forecast for 2021/2022 and are seeking support for the months where they would be in a deficit position.
- 4.14 The financial forecasts are based on current knowledge from the Government and Tourism Boards so could therefore change as announcements are made. The income levels are an assumed position based on anticipated demand, and whilst there is much speculation within the industry in relation to the percentage of customers that will return to attractions, Plantasia is a unique facility and therefore little is known in regard to customer response and return.
- 4.15 A new relief period would adopt a continued open book accounting process which has worked effectively to support the partnership in an approved, open and transparent manner. A continued monthly process of reviewing detailed accounts in arrears and invoicing any differences to reconcile accordingly.
- 4.16 The agreed contractual management fee of £123,336 for 2021/22 will be paid as normal.
- 4.17 The table below details the monthly predicted level of underwriting that will be required. A total of £43,104
- 4.18 At present it is not certain that the Welsh Government will continue with their hardship 'income loss' grant support scheme in 2021/22 to anywhere near the same extent as 2020/21 given overall budgetary envelopes, though discussions continue with Welsh Government officials and all authorities await ministerial decisions in due course. If they continue to support, in full or in part, then the liability to the Council will be reduced through future claims.

Table 3

2021 – 2022 Deficit Underwriting Forecast											
Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
20,335	19,843	6,197	2,741	45,739	4,443	2,925	10,777	20,578	14,748	11,606	9,194

TOTAL: £43,104

- 4.19 Parkwood Leisure are not anticipating that the terms of the additional support will need to be repaid through future decreases in management fee in later years. It is likely that post pandemic, the business plan and management fee profile previously agreed may have to be considered in line with future demands, income levels and the Council's financial plan, with a further report to consider the likely impacts and costs at a later date

WNPS

- 4.20 WNPS reopened to the public and clubs in line with the Welsh Government guidance on the 3rd of May 2021 and the Learn to Swim programme

recommenced on the 17th of May. Some restrictions will continue to be in place, such as social distancing and reduced participant numbers.

- 4.21 In accordance with Welsh Government guidance, WNPS remained open throughout the latest lockdown to facilitate the Swim Wales elite squad for 10 sessions over 6 days per week. Negotiations took place to ensure Swim Wales were paying a fair and proportionate rate for this exclusive use.
- 4.22 The majority of the staff returned from furlough in readiness for the 3rd of May 2021, some part furlough will be utilised where necessary to support recovery.
- 4.23 Swansea Council and Swansea University are contractually bound to underwrite the annual deficit of WNPS until December 2023 when the current agreement ends. In each year the General Manager is required to present a financial business plan to Board for approval. The business plan will determine the funding required to subsidise the operation of the facility through the financial year (August-July). The total subsidy is split 50/50 between the two main partners.
- 4.24 It is important to note that WNPS financial years straddle the Councils. WNPS financial year runs from July to August. This report only seeks support for the period April 2021 to March 2022. Therefore this report covers 4 months of WNPS 2020/21 financial year and 8 months of their 2021/22 financial year.
- 4.25 A typical trading year for WNPS would result in contributions per partner of £302,800. As a result of the pandemic, WNPS revised budget from August 2020 to July 2021 anticipates a deficit of £638,914 per partner. The Council has provided support of £586,514 for the period August 2020 to March 2021, therefore an anticipated remaining cost of £52,400 will be a liability for the Councils 2021/22 budget to cover WNPS up to July 2021.
- 4.26 Furthermore, WNPS projects that its August 2021 to July 2022 budget will require additional deficit support of £562,302 per partner, a 86% uplift on the budgeted revenue funding for the Council. The additional funding for period August 2021 to March 2022 is anticipated to be £173,001 and will be a liability for the Councils 21/22 budget.
- 4.27 WNPS combined estimated additional deficit underwriting required for Councils financial period April 2021 to March 2022 is £225,401 based upon current projections.
- 4.28 At present it is not certain that the Welsh Government will continue with their hardship 'income loss' grant support scheme in 21/22 to anywhere near the same extent as 20/21 given overall budgetary envelopes, though discussions continue with Welsh Government officials and all authorities await ministerial decisions in due course. If they continue to support, in full or in part, then the liability to the Council will be reduced through future claims.

- 4.29 The financial forecast is ambitious, and does not anticipate further lockdowns and will be dependent on a number of factors. The nature and size of the pool, and its inherent inability to diversify and vary the offer will limit opportunity to be as easily mitigate running costs as other leisure facilities.
- 4.30 Due to the uncertain nature of the forecasting and to account for some unknown factors, it may be prudent to consider that some additional support may be required, up to an increase of circa 33% on the figure projected in 4.27. Therefore it is recommended to agree a maximum level of underwriting of £300,000, which is more akin to the support in the previous period.

5. Integrated Assessment Implications

- 5.1 The Council is subject to the Equality Act (Public Sector Equality Duty and the socio-economic duty), the Well-being of Future Generations (Wales) Act 2015 and the Welsh Language (Wales) Measure, and must in the exercise of their functions, have due regard to the need to:
- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Acts.
 - Advance equality of opportunity between people who share a protected characteristic and those who do not.
 - Foster good relations between people who share a protected characteristic and those who do not.
 - Deliver better outcomes for those people who experience socio-economic disadvantage
 - Consider opportunities for people to use the Welsh language
 - Treat the Welsh language no less favourably than English.
 - Ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs.
- 5.2 The Well-being of Future Generations (Wales) Act 2005 mandates that public bodies in Wales must carry out sustainable development. Sustainable development means the process of improving the economic, social, environmental and cultural well-being of Wales by taking action, in accordance with the sustainable development principle, aimed at achieving the 'well-being goals'.
- 5.3 Our Integrated Impact Assessment (IIA) process ensures we have paid due regard to the above. It also takes into account other key issues and priorities, such as poverty and social exclusion, community cohesion, carers, the United Nations Convention on the Rights of the Child (UNCRC) and Welsh language.
- 5.4 An IIA screening form has been completed, with an agreed outcome that a full IIA report is not required at this stage.
- 5.5 The Cabinet report sets out the financial implications of the Covid-19 pandemic for the leisure providers that operate facilities on behalf of the

Council. The report sets out the levels of financial support that the operators require during 2021/2022 in order to re-open and be able to continue to operate the facilities in line with a high-level phased approach, in accordance with industry and government guidance

- 5.6 The report is to inform a decision to sustain the current leisure and cultural services so that there is no negative impact on the users. Not acting or supporting our partners would impact on the service and facilities provided to the residents and visitors of Swansea.
- 5.7 The group of facilities contained within the report are extremely varied and provide a range of services to all groups of society and the general public which support their wellbeing, health and cultural experiences in a variety of ways.
- 5.8 The impact of the Council not supporting these partners will ultimately mean that the services are put at risk of failure or cessation and could therefore have a significant impact on the groups of the communities that they serve. The types of groups that use these facilities vary greatly but include disabled people, older people, single parents (who are mainly women) children and young people and engagements with those most vulnerable and need supporting in our society by providing engaging and welcoming spaces and places to use and feel comfortable. This extends to religious groups and ceremonial activities in Leisure Centres.
- 5.9 Officers consulted with national agencies such as the WLGA, Sport Wales and Welsh Govt. as well as industry sector representatives regarding the challenges facing the Leisure sector.
- 5.10 In direct dialogue with all partners, officers have assessed the financial needs and consulted appropriately.
- 5.11 The report relates to the Council's ability to financially support the partnerships in the context of the Covid-19 pandemic to the end of March 2022 there is no intention to undertake public consultation or other stakeholder consultation as it does not at this stage affect service users.

6. Legal Implications

- 6.1 The Council has already entered into variation agreements with Freedom Leisure, Parkwood Leisure and WNPS in 20/21 to enable a level of support to be made available in accordance with PPN 02/20.
- 6.2 The proposals for reviewing the support are in accordance with recent UK and Welsh Government guidance contained within PPN 04/20 and Recovery and Transition from Covid 19 Procurement Advice Note (PAN) for the Welsh Public Sector published June 2020.
- 6.3 In relation to WNPS, the Council together with Swansea University is contractually bound to underwrite the annual deficit of WNPS until December 2023 under the terms of the current management and operating

agreements. Failure by the Council to comply with this obligation would result in the Council breaching the terms of the Agreements with the consequential risk of potential claw back of government funding, litigation, costs and reputational damage

- 6.4 The Council will need to ensure that it complies with its Contract Procedure Rules, procurement legislation and the terms of any government guidance when making decisions to extend relief and/or financial support.
- 6.5 The terms and conditions of relief/support agreed with operators will need to be recorded in legally binding agreements (or variations to existing agreements) to ensure that the Council's interests are fully protected.

7. Financial implications

- 7.1 The total level of support required to support Freedom Leisure, Parkwood Leisure and WNPS for 2021/2022 is likely to be £2,344,000 in a worst case scenario.
- 7.2 The preceding financial implications rightly focus specifically on the considerations facing our leisure operators. The wider financial position facing the Council must however be borne in mind and Cabinet must be mindful of any potential precedent created by granting further extensions to any one group of operators over another, even if potentially otherwise justified given the nature (strategic scale, importance of wider draw)
- 7.3 Cabinet has yet to receive an overarching report on the Council's in-year 2021/22 finances but from estimates compiled by the Section 151 Officer and used as the basis for estimates of increased spend and income and tax losses and grant claims from Welsh Government it is clear the budget will need to flex as it did in 2020/21 but probably by a much smaller margin. Given claims for reimbursement are competitively pitched against 21 other Councils and against national fixed sum pots not all costs will be fully covered.
- 7.4 A best case scenario would be a seven figure shortfall (i.e. several £ million) and a worst case scenario an eight figure shortfall (i.e. over £10 million). That worst case scenario would require all in-year contingency sums to be allocated and several draws made on earmarked reserves to balance the budget in year. Crucially, however, no draw from General Reserves (set at the minimum acceptable level already) is forecast needed and a number of the earmarked reserves have been specifically strengthened as part of 2020/21 outturn to provide a buffer for financial decisions and recovery which are not then solely dependent upon the level of Welsh Government support .
- 7.5 This uncertainty materially impedes the ability of Cabinet to make decisions to incur more costs now and will increase the likelihood of further draws from earmarked reserves to cover final "losses" if not recompensed in full by Welsh Government. It is expected that the overall position will be firmed up in August when the extent of overall support for the first quarter and

potential scope for extra support for the rest of 2021/22 and the success of those reimbursement claims will be better known.

- 7.6 In all cases it is explicitly assumed that any voluntary decision to forgo income or increase costs by reducing or waiving charges due or providing subsidies and underwrites on reopening will mean there is no scope to claim such “losses” from Welsh Government.
- 7.7 If Cabinet were minded to proceed the Section 151 Officer would recommend the cost be funded by release from the sums allocated temporarily in the budget for Place based services (approximately £6m). The recovery fund or contingency (given one off nature) and that Cabinet accepts the draw from other earmarked reserves in due course will likely go up as the available contingency sum shrinks by release and allocation to services. Any draw from the Place budgeted one off lump sum, recovery fund or contingency, if so approved, will be fully reflected in the first quarter monitoring report on the budget to Cabinet.

Background Papers: None.

Appendices:

Appendix A - IIA Screening Form.