



Report of the Cabinet Member for Investment, Regeneration & Tourism

Special Cabinet – 29 September 2022

Leisure Partnerships - Financial Support 2022/2023

Purpose:	<p>To seek Cabinet approval for the levels of financial support needed for the financial year 2022/23 for our leisure partnerships (Freedom Leisure and Wales National Pool) due to losses and a financial recovery plan related to the Covid-19 pandemic</p> <p>To update and inform Cabinet of current and future energy cost increases and the option of spend to save investments in order to mitigate rising costs across the Freedom Leisure contract.</p>
Policy Framework:	<p>Creating an Active and Healthy Swansea; City of Sport; Transforming our Economy and Infrastructure; Medium Term Financial Plan</p>
Consultation:	<p>Legal, Finance, Access to Services.</p>
Recommendations:	<p>It is recommended that Cabinet:</p> <ol style="list-style-type: none">1) Approve the extension of financial relief to Freedom Leisure until 31st March 2023 to include the Council underwriting an operating deficit of up to £800k in addition to the payment of the contractual monthly management fee for the financial year 2022/2023, with all relief payments reconciled under an open book approach;2) Delegate authority to the Interim Director of Place to renegotiate the profiling of Freedom Leisure's contracted management fee from financial year 2023/2024 to the end of their contract on the basis that the total cost remains within the contracted financial envelope for the term.3) Approve the extension of financial relief to Wales National Pool Swansea (WNPS) to include Council underwriting of an additional deficit of up to £200k for financial year 2022/2023;4) Delegate authority to the Interim 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, 2, and 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 the Covid-19 pandemic, when significant support was provided to our partnerships under previous Cabinet Reports, for continued sustainability and monitoring of these partnerships, the recovery partnership liaison has continued on a monthly basis or at relevant board meetings and working groups set up to specifically monitor current and future operations and costs.
- 1.2 Whilst good recovery has been made across a number of areas, and not all partnerships now require future support (Parkwood Leisure Ltd operation of Plantasia no longer requires relief for example) it is a reality that now that all Welsh Government Covid-19 loss of income claims and other support has diminished. However, it would be remiss to think that the legacy impact of Covid-19 from a financial and business planning perspective, plus other pressures and risks are gone.
- 1.3 Whilst some income lines across the portfolio have seen good growth, other elements have suffered greatly with continued nervousness in the sector. In addition, there has been a change of habit related to aging populations and 'working from home' blended approach continuing and become 'the norm'. As a result, income lines such as gym membership, car parking and indoor event/hires are taking longer to recover. This is compounded by the significant hikes in utilities and staffing costs/shortages which all have a significant and long term impact on financial performance of the venues. These culminating factors mean that partners are projecting that they will need support in the short/medium term to aid recovery.
- 1.4 For the purposes of this report, Freedom Leisure and WNPS may be referred to more generally as Trust, Contractor or Operator, if not named individually.

- 1.5 The past two years has been challenging for all parties involved, however all partners have performed well, managed costs to keep 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 months for all partners is to return to pre-Covid-19 trading positions. The Council as the client will be required to continue to remain in regular communication with all partners as contractors, in order to support and monitor recovery.

2. Industry and WLGA advice

- 2.1 Financial assistance from Local Authorities was 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 throughout all closure periods, reopening phases and now the rebuild and recovery phase.
- 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 A published 'Welsh Sports Association' and 'Community Leisure UK' paper reports public leisure is still feeling the impact of the Covid-19 pandemic. While all facilities and services have reopened, months of closure have led to changes in lifestyles and habits, and the public has not returned to using leisure facilities to be physically active to the same level as pre-Covid-19. In addition, the cost-of-living crisis and rising inflation is putting unprecedented pressure on businesses and the public. This has led to a crisis point in public leisure where operators are reporting unsustainable increases in costs, paired with stagnated return rates and reduced levels of income.
- At present, customer numbers, and therefore income for public leisure, remain reduced having stagnated since October 2021, with most in the sector reporting a return of 80% of pre covid-19 levels. This means that at present there are already fewer people being physically active in leisure centres than there were prior to the Covid-19 pandemic

3. Support provided by Swansea Council in 2021/2022

Freedom Leisure

- 3.1 Following an approved Cabinet report on the 17th June 2021 a variation agreement was entered into with Freedom Leisure, covering support between the 1st April 2021 until the 31st March 2022. 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 £963,488 for 2021/2022 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. The actual amounts transacted were agreed on a monthly basis through an open book process, and the additional level of support for 2021/2022 was £1,290,014. The significant impact on the business model was primarily due to lost revenue and the Council was able to reclaim the majority of these monies through the Welsh Government hardship 'lost income' grant scheme, however this WG scheme has now ended and no further grant is available to support future challenges

WNPS

- 3.4 The Council's share (£302,800) of the contractually agreed net subsidy for Council's financial year 2021/2022 was paid. This overall net subsidy is shared 50/50 with Swansea University.
- 3.5 Following the approved Cabinet Report on 17th June 2021 an agreed level of underwriting was set. The additional support provided for 2021/2022 was £106,242. As this was the result of lost revenue, the Council was able to reclaim its share through the Welsh Government hardship lost income grant scheme, however this WG scheme has now ended and no further grant is available to support future challenges

4. Financial position and continued support for 2022/2023

Freedom Leisure

- 4.1 Freedom Leisure are in year 5 of a 19.5 year contract and have yet to experience a full 'normal year' due to the Covid-19 pandemic. The pandemic may be over and whilst good recovery has been made across a number of areas, a deficit is predicted for 2022/2023 and support is likely to be required.

The projected deficit is due to a number of factors such as the reduction in management fee, in addition to the increase of costs of utilities by £30k per month across the portfolio, increases in staff costs and where some areas of income that are taking longer to recover. Whilst income has more generally returned back to 2019/2020 figures, income should be much further ahead due to the capital investments maturing against the decreasing management fee. However, in reality all previous business investments into the facilities have been delayed by 2 years and have not yet realised the growth anticipated.

Across the portfolio, swimming and Learn to Swim programmes are performing exceptionally well, gym membership levels are only at around 87% of pre Covid-19 levels, main hall hire is only at 72% and studio hire is at 49%. Venues such as the LC are seeing a greater impact due to the city centre work disruption and parking displacement, and the impact of the continued 'work from home' habits changing demand.

- 4.2 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 projection for financial year 2022/23.
- 4.3 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 since 2020. A continued monthly process of reviewing detailed accounts in arrears and invoicing any differences to reconcile accordingly.
- 4.4 In line with the contract award to Freedom Leisure in 2018, an agreed annual management fee of £871,466 for 2022/23 will be paid as normal. In line with the bid projections, this is a contractual reduction on the previous year's fee by £92,022, and a considerable reduction from the £1.9M management fee payment, which was the cost per annum in 2018 and 2019 (years 1 and 2 of the contract).
- 4.5 The table below details the monthly-predicted level of underwriting that is likely to be required in addition to the contractual management fee. The total support being requested for 2022/2023 is £800k, and it is not proposed that any support under this package will be recovered by the Council from Freedom Leisure in future years

Swansea Contract Projections - 2022-23 (9/6/2022)													
	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Total
	DRAFT	Projection	Projection	Projection	Projection	Projection	Projection	Projection	Projection	Projection	Projection	Projection	Estimate
Projected surplus/(deficit)	9,292	- 106,427	- 114,984	- 69,421	87,295	- 97,369	- 80,290	- 97,928	- 132,539	- 78,467	- 49,146	- 66,542	- 796,524

Longer-term management fee re-profiling

- 4.6 In addition to the support request for 2022/2023 Freedom Leisure have submitted a management fee re-profiling request to further assist in their long-term recovery. The overall cost impact of this re-profiling remains the same over time and as 'per bid' as a cumulative sum. The amounts which are allocated per year have been amended to reflect a different reduction profile. The original bid sees a year on year reduction and as part of the re-profiling request, Freedom Leisure are requesting the **2023/2024** management fee is increased and then subsequent years will actually be slightly less than set out in the original bid to claw back the additional payment in this year. The request will be at an increased cost to the Council in 2023/2024, however without this re-profiling there may be further requests of support submitted by Freedom Leisure in future years.

Energy Cost increases and potential mitigations

- 4.7 There is also a need within this report to highlight the necessity to consider current and future energy cost increases and the option of spend to save investments in order to mitigate such costs.

Freedom Leisure are currently working on a series of options and associated costs, which together with a funding bid that is being discussed with Welsh Government and the Councils 'Economic Development and External Funding' team. These proposals could therefore be supported by other means and have been included within this report for visibility.

- 4.8 Energy cost increases are a national issue, with leisure facilities and in particular those with swimming pools due to their high utility requirements being significantly impacted.
- 4.9 Energy forecasts suggest a further rise in 2023. It paints a bleak picture for the sector, especially for operators of large facilities, including swimming pools, theatres and events spaces. This is despite various energy saving mitigations already put in place. Whilst leisure facilities are consistently in the top 5 most carbon intensive buildings in a local authority area, leisure trusts are unable to make further investments without sustainable financial support into their services.
- 4.10 Following recent energy surveys carried out by Freedom Leisure, some of the recommendations for energy investment into the two largest sites; The LC and Penlan Lesiure Centre are likely to involve installation of air source heat pumps and Solar PV. With investments likely to be significant in costs therefore, a funding strategy which seeks contributions from various grant funders and others means will need to be further developed in order to formalise future requests for Council contribution to support this agenda. This will be further detailed in a subsequent report for consideration.

Wales National Pool Swansea (WNPS)

- 4.11 Swansea Council and Swansea University are contractually bound to underwrite the annual deficit of WNPS until December 2023 when the current agreement ends. The partners are currently exploring future operating models for this facility and the wider Swansea Bay Sports Park which coincides and will deal with the future funding obligations of partners.
- 4.12 Currently, the General Manager is required to present a financial business plan to WNPS Board for approval. The business plan determines the likely 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
- 4.13 The covid-19 pandemic has significantly affected the financial performance of WNPS and although there have been improvements in several areas during 2021/2022 in comparison to the previous year, income is still less than their last 'normal' year in 2018/2019. Like other partners, recreational swimming and swim memberships are improving, and School / University use is strong, however event hire, room hire and catering are showing slower recovery. There are also 'uncontrollables' that have played a large part in raising the predicted partner contribution for 2022/2023; these include increased utility costs, increased insurance costs and staff costs.

In order to try and mitigate the increased costs WNPS are looking to implement measures to reduce utility costs such as pool covers and a new CHP unit and will be undertaking a review of staff numbers, salaries and rotas.

- 4.14 It is important to note that WNPS financial year straddles the Councils. WNPS financial year runs from August to July. This report only seeks support for the period April 2022 to March 2023. Therefore, this report covers 4 months of WNPS 2021/22 financial year and 8 months of their 2022/23 financial year.
- 4.15 A typical trading year for WNPS would result in contributions per partner of £302,800.
- 4.16 The anticipated cost for WNPS financial year 2022/2023 is a deficit contribution by each partner of £530k. Utilising existing budgets and profiled sundries already accounted for, the anticipated additional contribution from the Council is likely to be £200k across the period and this is proposed as a maximum level of underwriting to cover the period.

5.0 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 following the impact of the Covid-19 pandemic for the cultural and leisure providers that operate facilities on behalf of the Council. The report sets out the levels of financial support that the operators require during the recovery phase in 2022/2023 in order to return to a pre Covid-19 position
- 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 range of facilities operated by the partners 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. Intervention through funding support from the council now provides partners with greatest chance of fully recovering, and reduce the future financial impact on the Council longer term. Losing or significantly reducing such services provided 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 the 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 Cultural and 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 2023 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 previously entered into variation agreements with Freedom Leisure and WNPS.

- 6.2 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
- 6.3 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.
- 6.4 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 and WNPS for 2022/2023 is likely to be £1million in a worst case scenario.
- 7.2 If cabinet were minded to proceed, the Section 151 Officer would recommend the cost be underwritten by release from the £6m allocated in the budget for Place Covid Temporary Funding (given the 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, if so approved, will be fully reflected in the future monitoring report on the budget to Cabinet.
- 7.3 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).

Background Papers: None

Appendices:

Appendix A - IIA Screening Form