



Report of the Cabinet Member for Investment, Regeneration & Tourism

Cabinet – 17 November 2022

Leisure Partnerships - Financial Support 2022/2023 – Freedom Leisure

Purpose:	<p>To seek Cabinet approval for the levels of financial support needed for the financial year 2022/23 for our leisure partnership (Freedom Leisure) 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:	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:	<p>It is recommended that Cabinet:</p> <ol style="list-style-type: none">1) Approves 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) Delegates 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 budget approval for financial relief within recommendation 13) Delegate's 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 it is a reality 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 may be referred to more generally as Trust or Operator.
- 1.5 The past two years has been challenging for leisure operators and Trusts, however Freedom Leisure 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 Freedom Leisure 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

- 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

4. Financial position and continued support for 2022/2023

- 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 significant increase in costs of utilities, 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 paid by the Council. 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 and related only on the Swansea contract basis, not the broader financial position of the Trust. 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. This report does not seek to pay Freedom Leisure any inflated upfront revenue, but to continue operating in an open book, payment in arrears fashion, limiting liability on the Council.
- 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 Table 1 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

Table 1:

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

- 4.6 Since the detail in the above table was provided by Freedom Leisure, the current anticipated deficit level has slightly reduced, however the request remains at £800k as the maximum sum that will be required in this period, due to the unpredictable nature of fixed costs and income generation at the current time

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 further rises in April 2023, when current Government interventions are due to end. 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, the key recommendations for energy investment focus upon the two largest sites; The LC and Penlan Leisure Centre. Investment is likely to involve installation of air source heat pumps and Solar PV. Such spend to save investments likely to be significant in costs and requires a robust 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.

Future Years and Support

- 4.11 There is also a need to highlight within this report the pressures being placed on the partnership in future years, with those pressures arising as quickly as 2023/2024, as a result of a predicted significant increase in

energy unit costs. Additionally, the cost of living crisis and rises in inflation that will impact the continuation of providing sustainable successful services and facilities within existing financial budgets. Should the partnership not withstand these external economic shocks, then vital health and wellbeing opportunities, services and facilities could be at risk of being lost and in turn increase pressure on other local and central government services, such as Health and Social Care.

- 4.12 Freedom Leisure are taking a contract-by-contract approach in order to seek support from their partners to ensure each contract remains sustainable. Without appropriate mitigation and support per contract, the sustainability of the partnership with Freedom Leisure that it provides to operate the Council facilities and delivering our services are at significant risk.

In order to help mitigate future rising costs and protect cash flow, Freedom Leisure are making significant and immediate changes to their central overhead costs and exploring the options of temporary closures to some services and a reduction in their workforce. It is important to note that any amendments to the services provided, this will be done in consultation with the Council.

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, the subsequent cost of living and energy crisis being felt by Freedom Leisure who operate Council services and facilities on a day to day basis, and directly deliver shared wellbeing goals, and vital community, public and education facilities on behalf of the Council. The report sets out the levels of financial support that the operator requires during the recovery phase in 2022/2023 to sustain the current challenges and in order to return to a pre Covid-19 trading 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 facilities operated by the partners contained within the report are 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 this partner 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, Welsh Sports Association and Welsh Govt. as well as industry sector representatives regarding the challenges facing the Cultural and Leisure sector.
- 5.10 In direct dialogue with Freedom Leisure, officers have assessed the financial needs and consulted appropriately.
- 5.11 The report relates to the Council's ability to financially support the partnership in the context of the Covid-19 pandemic and subsequent cost of

living and energy crisis to the end of March 2023, with no intention to undertake public consultation or other stakeholder consultation as it does not at this stage affect service users as the funding will ensure that services are maintained to the current contracted level.

6. Legal Implications

- 6.1 The Council has previously entered into variation agreements with Freedom Leisure.
- 6.2 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.
- 6.3 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 for 2022/2023 is likely to be a maximum of £800,000 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