



Report of the Cabinet Member for Investment, Regeneration & Tourism

Cabinet – 16 July 2020

Leisure Partnerships - Financial Support and Options Appraisal

Purpose:	To provide an update on the costs of temporary closure of the existing portfolio of Leisure Centres and Plantasia and seek Cabinet approval for the levels of financial support needed and variations to contracts to ensure the facilities can reopen sustainably in the short to medium term.
Policy Framework:	Creating an Active and Healthy Swansea; City of Sport; Medium Term Financial Plan
Consultation:	Legal, Finance, Access to Services.
Recommendations:	It is recommended that Cabinet: <ol style="list-style-type: none">1) Agree to extend the current relief variation agreement and level of financial support required for both Freedom Leisure and Parkwood Leisure to 31st July, anticipating a 4 month closure of April-July, noting that the level of support for the 4 month period is likely to be £800,000 in total.2) In the event that the facilities are required to remain closed after 31st July, delegate authority to the Director of Place in conjunction with the Chief Finance Officer to extend the relief approved in recommendation 1 for a further period up to a maximum of 3 months.3) Agree to additional support for Freedom staff that remain on furlough during the closure phase and/or reopening phases. Agree to a fixed top up to the JRS scheme by 20% across the subsequent months of July, August and September, on the basis of the anticipated costs set out in recommendations 1 and 4.4) Approve Freedom Leisure's Option 2 reopening plan which requires a Council underwriting of an additional deficit of up to £1M, in addition to the contractual monthly management fee for the anticipated phased opening period from August to the end of

December 2020 (or equivalent 5 month period), reconciled under an open book approach.

- 5) Approve Parkwood Leisure's reopening plan which requires a Council underwriting of additional deficit of up to £100k, in addition to the contractual monthly management fee for an anticipated phased opening period from August until the end of January 2021 (or equivalent 6 month period).
- 6) Delegate authority to the Director of Place to enter into commercial discussions and negotiations on the terms and conditions to be agreed in regard to any additional underwriting over extended relief period to include any pay back terms, re-profiling of management fees, changes to profit share or other measures.
- 7) 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.

Report Author:	Jamie Rewbridge
Finance Officer:	Ben Smith
Legal Officer:	Debbie Smith
Access to Services Officer:	Catherine Window

1. Introduction

- 1.1 All seven Freedom leisure facilities were closed on 20th March, and 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.
- 1.2 Plantasia was closed in line with similar Government announcements. A high proportion of the Parkwood staff were furloughed under the Government's Job Retention Scheme (JRS), with just two staff retained to undertake regular building and safety checks, and routine maintenance to plant and equipment.
- 1.3 For the purposes of this report, Freedom and Parkwood, may be referred to more generally as Trust, Contractor or Operator, if not named individually.

2. Industry and WLGA advice

- 2.1 A number of discussions and forums have taken place around the fragility of the leisure and cultural industry, particularly where Trusts operate facilities in partnership with local Councils. This has more recently been presented in advice paper by the Welsh Local Government Association (WLGA)

- 2.2 The WLGA's recent advice to local councils is that Leisure Trusts have been unable to access a lot of the current government financial support being offered and are facing a very challenging position as a not for profit organisation.
- 2.3 Support from Local Authorities has been deemed as critical for Trusts to reopen facilities moving forward. The following section includes relevant advice produced by the WLGA together with input from Sport Wales, Arts Council Wales, Local Government Association (LGA), UK Active and Community Leisure UK. Swansea Council has broadly followed the advice and guidance as relevant to its partnership arrangements through the open book and funding support aforementioned through a closure period.
- 2.4 The 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.
- 2.5 Cultural, leisure and sport facilities will not be allowed to reopen in some restricted form until at least the amber stage of the Welsh Government's traffic light system to get out of the current lockdown.
- 2.6 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 when they are allowed to reopen by Welsh Government, this situation will continue for some time as a result of limited use of re-opened spaces and cancellations of services where social distancing is simply not possible, enhanced cleaning, and start-up costs including staff re-training.
- 2.7 Leisure and culture providers are currently falling between the cracks of most announced support packages. Leisure and culture trusts are most at risk because they are charities, societies or community interest companies (with a public benefit asset lock) and as such do not distribute profits. Currently leisure and culture providers are exempt from most COVID-19 emergency support funding.
- 2.8 Leisure and culture trusts in particular face serious cash flow challenges. Welsh leisure and culture trusts continue to incur an average of nearly £168,000 of monthly costs (excluding costs recovered through the Job Retention Scheme and any negotiated expenditure reductions). These costs include utilities, significant pension contributions i.e. local government pension scheme contributions are c. 17-18% (not recoverable from the Job Retention Scheme above the 3% threshold) and ongoing building maintenance. This is while leisure and culture trusts are losing an average of £460,000 of income per month.
- 2.9 When a leisure and/or culture operator running services on behalf of a council begins to be no longer financially viable, the Council faces a difficult choice. It can either allow the operator to become insolvent, potentially bringing any facilities owned by the Council back in-house as a means of keeping them open, or it can choose to support the operator.

- 2.10 In all cases, leisure and culture services contribute significantly to the Wellbeing of Future Generations Act. Therefore, any disruption in delivering those services will have a significant impact on council's statutory obligations, with many councils no longer having any professional leisure or cultural service managers to be able to recommence operational service or undertake operational reviews.
- 2.11 Either approach is likely to involve significant costs to the council. The cost of supporting a trust will vary according to the particular local circumstances and the approach of the council. Bringing a facility back in-house also involves a wide range of costs including:
- TUPEing staff and potentially 'topping up' the salaries of those currently on furlough;
 - loss of income while the facilities are closed under the current restrictions (and higher increased costs following the lifting of restrictions because councils will potentially need to recruit and secure expertise before they can reopen facilities. Councils will also face full business rates where previously trusts could claim charitable relief.)
 - re-tendering the services at a later date if applicable
- 2.12 Recognising that there will be many calls on council resources at this time, the following list is provided to help councils identify their options to support their local leisure and/or culture trust. Not all options will be appropriate in all council areas and will depend on local contracts. However, councils are encouraged to work with their leisure and culture provider as a partner, rather than simply a contractual provider, to identify what will work best for them and, in the long-term, the communities in support of the council's public health, future generations and economic strategies.
- 2.13 The following actions will support a partnership approach between councils and their leisure and culture providers:
- Adopting the recommendations and approach recommended in PPN 02/20 and subsequent PPN04/20.
 - Supporting the net subsidy position utilising the Open Book approach recommended in the PPN 02/20 to run from service closure on 20 March to the date at which 'full normal service and income levels have been achieved' to ensure fairness and transparency. Leisure and culture providers will be under an obligation to mitigate costs as much as possible.
 - Holding regular review meetings with the operator to monitor and manage the joint response to the crisis.
 - Understanding that organisations have had to furlough most of their staff resource, so reconciliation under the Open Book specific to the contract should be quarterly to minimise resource impact.
 - Understanding that leisure and culture operators including trusts, are not eligible for the vast majority of Welsh Government-backed business support schemes, nor those of Sport Wales and the Arts Council of Wales (at the time of writing).

- Taking steps to understand the potential costs to their council in present and future budgets should their leisure and culture partner be unable to continue.
- Noting that under 'Change in Law provisions' (where applicable) the council is fully responsible for all the costs of hibernation and supporting the ramp back up to normal working.
- Agreeing hibernation costs with the operator (where relevant), including security, plant checks etc.

3. Other in house operated services

- 3.1 For Councils in Wales that operate their own Leisure facilities in-house, the picture of deficit funding and ongoing running costs are worsened by the fact that Councils haven't had the same opportunity to furlough their staff, as trusts and operators have. Therefore the position in other local authorities is not dissimilar to the position Swansea Council face within operations such as the Grand Theatre, with 100% cost of staff, some ongoing building cost/risk, but no income.
- 3.2 In terms of some context, Freedom Leisure have been eligible for circa £1M under the JRS scheme for its Swansea contract over a 4 month period. Parkwood Leisure have been eligible for circa £38,000 under the JRS scheme for its Swansea contract over a 4 month period, these million-plus costs would have been borne by the Council in full or part if the arrangements were in-house, not contracted.
- 3.3 Some local authority leisure centres have been repurposed into field hospitals (In Carmarthenshire, for example). This further adds to the costs, as it will inevitably be later when these facilities can reopen, it will be argued that costs for ongoing building costs should be borne by the health board or other Government sources. A large proportion of the workforce in other local authority operated services were redeployed to school setting, food hubs and later TTP, similar to the approach for Swansea Council employees.

4. Support provided by Swansea Council to date

Freedom Leisure

- 4.1 The Council entered into a variation agreement for the period 1st April to 30th June with Freedom Leisure. The purpose of the variation was for the Authority to give relief to the Contractor in accordance with the policy set out in PPN 02/20 and that both parties shall act in good faith and work together towards the principles set out in PPN 02/20.
- 4.2 *Management Fee*; The agreement set out that the Management fee due for contracted services was to be paid part up front for the months of April, May, June and July, at a sum of £400,000 (£100k per month) to assist with immediate cash flow implications.

- 4.3 *Deficit Underwriting*; Furthermore, the agreement set out a level of additional underwriting on top of the management fee. This was based at the time on the knowledge that due to some anticipated limitations/shortfalls to cover all costs under the JRS scheme, and with some staff not being furloughed, ongoing building and equipment costs that could not be fully mitigated, a profiled management fee of £100k per month would not cover all costs with little or no income being generated.
- 4.4 The agreement currently states that the Council will underwrite up to maximum level of £75k over the three-month relief period based upon an open book basis, as a recommended and industry/LA approach guided by various advisory groups such as the WLGA.
- 4.5 Freedoms profiled lost/irrecoverable income per month within the Swansea contract is £625k and therefore £1.875M over the 3 month period.
- 4.6 *Additional staffing contributions*; Agreement was made to top up all furloughed staff for the month of April, at an additional cost of £76,000 (per month). Flexibility was left to consider this support on a month by month basis for May and June, dependant on the reality of being able to control costs within the overall £75,000 deficit set.
- 4.7 The May pay 'top up' was supported, owing to lack of robust detail on the full April costs, and a fairness and a commitment to provide staff with some notice before month end to let them know what they would earn the following month.
- 4.8 In May, when costs for April were further understood, a Director and Member decision was taken, together with engagement with JTUs to pay the June 'top up', under the knowledge that it was unlikely that the costs were being mitigated within the original threshold set. Thus meaning all furloughed staff have now received full pay for 3 months.
- 4.9 A decision has not yet been taken to agree a position for a July top up in line with a need to review, increase and extend the current relief agreement which this paper seeks to inform a decision on.
- 4.10 Swansea Council remains one of only two of Freedom's partners that have agreed a top up. Salary reductions have been implemented by Freedom Leisure with central head office staff and high earners taking pay cuts of up to 30%, as well as other measures such as reduction in number of casual workers retained, termination of new starters and the ending of any temporary staffing contracts.

Parkwood Leisure

- 4.11 The Council entered into a variation agreement for the period 21st March to 30th June with Parkwood Leisure. The purpose of the Variation was for the Authority to give relief to the Contractor in accordance with the policy set out in PPN 02/20 and that both parties shall act in good faith and work together towards the principles set out in PPN 02/20.

- 4.12 *Management Fee*; The agreement set out that the Management fee due for contracted services was to be paid as normal at 10k per month.
- 4.13 *Deficit Underwriting*; Furthermore, the agreement set out a level of additional underwriting on top of the management fee. As a result of ongoing building, animal care and equipment costs that could not be fully mitigated, as a profiled management fee of £10k per month would not cover all costs with little or no income being generated.
- 4.14 The agreement currently states that the Council will underwrite up to maximum level of £60k over a covid-relief period based upon an open book basis, as a recommended and industry/LA approach guided by various advisory groups such as the WLGA
- 4.15 As a company Parkwood Leisure opted not to top up any of its workforce that were furloughed to 100%, and therefore all staff that are and remain on furlough receive 80% salary. The Council were not approached by Parkwood to consider their approach in this regard, and therefore additional relief was not offered, and to be consistent Parkwood would have been unlikely to accept in any case.
- 4.16 The appropriated level of underwriting for the closure of Plantasia was set within the contractual variation between Parkwood and the Council. To extend a further closure period is likely to cost the Council an additional £20k per month whilst closed.

5. Current and future financial position and continued support for closure

Freedom

- 5.1 In late May it was highlighted that the unmitigated cost and level of underwriting required for the month of April was £88,000. Therefore whilst some cost for April may not appear in May and June, they are likely to be broadly the same and would inevitably increase as Freedom move forward to prepare for reopening, as staff would need to be taken off furlough and there will be costs for social distancing measures to be installed and for cleaning products, PPE etc.
- 5.2 The level of underwriting needed to cover the cumulative period April-June will exceed the £75,000 originally set, and may be more likely to cost in the region of £270k, if a similar bottom line outcome was repeated for May and June. This is in addition to the management fee, and the £76k per month JRS top up already paid.
- 5.3 The key factor for the high costs was primarily due to the fact that the JRS pays only a small proportion of employer pension contributions, and NI and is limited to £2500 per employee. Whilst most Freedom staff that TUPE transferred from the Council have LGPS pensions the contributions are significantly higher than the 3% offered under the scheme. Staffing costs in April were £381,000, but income/support under the JRS, including the £76,000 Council top up was £318,000, therefore was £63,000 short.

- 5.4 All other costs associated with maintaining the buildings and facility were broadly in-line with the initial estimates provided at the time of agreeing the variation levels.
- 5.5 Table 1 below provides a summary of the Council support to date, including monies already paid and that likely required through April-July.
- 5.6 For July, it depicts the difference in a furlough top up, on top of an additional level of underwriting of £100,000 but also considers reopening costs that may be incurred across the period, which will likely be spent in July, but has been profiled over the period.

Table 1

Column	1	2	3	4	5
Month	Management Fee	Level of underwriting required	JRS top up	TOTALS (with July JRS top up)	TOTALS (without July JRS top up)
April	£400,0000	£88,000 (part paid)	£76,000 (paid)	£564,000	N/A £564,000
May	£0	Up to £100,000 (outstanding)	£76,000 (paid)	£176,000	N/A £176,000
June	£0	Up to £100,000 (outstanding)	£76,000 (paid)	£176,000	N/A £176,000
July	£0	£100,000 (anticipated)	£83,000 Not yet confirmed	£183,000	£100,000
TOTAL	£400,000	£388,000	£311,000	£1,099,000	1,016,000

- 5.7 Cultural Services budget available in the current financial year is the management fee of £400,000 YTD, and therefore £1.2M for the year.
- 5.8 Based upon this profile, a full 4 month closure would result in a £616,000 overspend without a further JRS top up in July or £699,000 with a further top up in July.
- 5.9 The terms of the current variation agreement would be extended into July, with the a decision of whether this would or wouldn't include a JRS top up and a variation to the value.

Parkwood

- 5.10 The Council has been provided with open book accounting from Parkwood in respect of the closure costs for March (part), April and May. The closure costs are broadly in line with what was anticipated and agreed as the level of underwriting of £60,000 over months March (part) to June, i.e. the initial relief period

- 5.11 Table 2 below depicts the level of support, including due management fee that has been paid to Parkwood over the period, and likely continued level of underwriting that will require to be extended into July.
- 5.12 With an anticipated August restart date, it is anticipated that this will mean additional incurred cost in July as staff are released from furlough and measures developed to ensure social distancing can occur safely in a new operational manner

Table 2

Column	1	2	5
Month	Management Fee	Level of underwriting required	TOTALS
March (from 21 March)	£3,251 (pro rota)	£23,316 (paid)	£26,567
April	£10,081	£15,860 (paid)	£25,941
May	£10,081	£11,607 (agreed to pay)	£21,688
June	£10,081	£9,217 (anticipated)	£19,298
July	£10,081	£20,000 (anticipated)	£30,081
TOTAL	£43,575	£80,000	£123,575

Now that there is a fuller understanding of costs for both partnerships with Freedom Leisure and Parkwood Leisure, this report recommends the following;

- 1) **Agree to extend the current relief variation agreement and level of financial support required for both Freedom Leisure and Parkwood Leisure to 31st July, anticipating a 4 month closure of April-July, noting that the level of support for the 4 month period is likely to be £800,000 in total.**
- 2) **In the event that the facilities are required to remain closed after 31st July, delegate authority to the Director of Place in conjunction with the Chief Finance Officer to extend the relief approved in recommendation 1 for a further period up to a maximum of 3 months.**
- 3) **Agree to additional support for Freedom staff that remain on furlough during the closure phase and/or reopening phases. Agree to a fixed top up to the JRS scheme by 20% across the subsequent months of July, August and September, on the basis of the anticipated costs set out in recommendations 1 and 4.**

6. Freedom Leisure - Options, implications and costs of reopening

- 6.1 Three options have been put together in consultation with Freedoms operational team to ensure a balance of service and commercial outcomes for both Swansea Council and Freedom Leisure.
- 6.2 These options represent very different outcomes both financially and with differing customer and staff impact which are explained in more detail below. None of these options are set in stone and could be adjusted to suit need and that of the schools at any dual use sites.
- 6.3 Whichever option is agreed, an open book accounting process is the suggested method to continue to support the partnership. This would be a monthly process of reviewing detailed accounts in arrears and invoicing any differences that can be reconciled accordingly. The figures presented within each option assumes that the Management fee of £100k per month is paid as normal.
- 6.4 Whichever option is selected, and the level of relief provided, Freedom Leisure are not currently anticipating that the additional relief for reopening 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, with a further report to consider the likely impacts and costs.
- 6.5 A discussion with the operator in regards to changes to elements of the contract, in particular any profit/surplus sharing mechanisms being altered in favour of the Council, in order to improve future income streams/cost reductions in later years of the contract could be invoked.
- 6.6 At this stage, there is an assumed early August re-opening, depicted as (month 1) and Freedom have put an initial phase plan together based upon five months from this point taking us up to the end of the calendar year (Dec 2020). Where possible, the options have tried to consider the geography of the various sites in Swansea and the facilities they offer, where sites are proposed not to be open Freedom offer alternatives where practical.
- 6.7 Month one is subject to change and slippage, following Central Government and Welsh Government advice.
- 6.8 The options and all related financial forecasts are based on current knowledge of the Governments re-opening timescales and protocols so could therefore change as announcements are made.
- 6.9 The options assume that in phasing the opening of some facilities or features within facilities, some groups of staff or individuals can remain on furlough until their facility or duties resume. i.e. lifeguards are unlikely to be needed

immediately, should the opening of pools be staggered to a later date than dry facilities such as gyms.

6.10 The proposals assume that where groups of staff remain on Furlough the level of underwriting/deficit payment picks up the additional top up from 70% and then 60%, but only to a retained 80% position, and not topped up to 100%.

6.11 The income levels are an assumed position based upon anticipated demand, and whilst there is much speculation within the industry around the % of customers that will return, and this ranges between 30%-60%, it is difficult to gauge with any real certainty until some facilities begin to reopen across the country.

6.12 *Option 1*

Table 3

Option 1					
Site	Month 1	Month 2	Month 3	Month 4	Month 5
LC Swansea	Dry Only	Part Open	Part Open	Part Open	Part Open
Penlan LC	Dry Only	Part Open	Part Open	Part Open	Part Open
Penyrheol LC	Dry Only	Part Open	Part Open	Part Open	Part Open
Morrleston LC	Dry Only	Part Open	Part Open	Part Open	Part Open
Bishopston SC	Part Open	Part Open	Part Open	Part Open	Part Open
Cefn Hengoed	Part Open	Part Open	Part Open	Part Open	Part Open
Elba	Part Open	Part Open	Part Open	Part Open	Part Open
Active Communities	Robyn Lock to support site recovery plans				

Summary highlights

- All sites open from the announced start date.
- Pools all open from month two.
- 'Part open' denotes some changes to the way facilities operate will need to be adjusted to ensure social distancing, and some features may not be able to open in the immediate term i.e. small studio spaces for classes or soft play areas/climbing walls
- No adjustments to pre-covid opening hours at any sites.

Financial Impact

Monthly support required £345,000 deficit underwriting per month through open book. In addition to monthly management fee of £100,000 per month

Staff Impact;

All staff remain in post

6.13 Option 2

Table 4

Option 2					
Site	Month 1	Month 2	Month 3	Month 4	Month 5
LC Swansea	Dry Only	Dry Only	Part Open	Part Open	Part Open
Penlan LC	Dry Only	Part Open	Part Open	Part Open	Part Open
Penyrheol LC	Dry Only	Dry Only	Part Open	Part Open	Part Open
Morrleston LC	Dry Only	Dry Only	Dry Only	Part Open	Part Open
Bishopston SC	Part Open	Part Open	Part Open	Part Open	Part Open
Cefn Hengoed	Closed	Closed	Part Open	Part Open	Part Open
Elba	Closed	Part Open	Part Open	Part Open	Part Open
Active Communities	Robyn Lock to support site recovery plans				

Summary highlights

- Minimal temporary closures and only in the first few months at two smaller sites
- Pool openings are staggered to return to service in early months.
- 'Part Open' refers to some reductions in opening hours with later openings and early closures, and some weekend closures at the less busy periods i.e. Sundays, where impact is limited.
- 'Part open' also denotes some changes to the way facilities operate will need to be adjusted to ensure social distancing, and some features may not be able to open in the immediate term i.e. small studio spaces for classes or soft play areas/climbing walls
- Where sites are closed or where significant reduction in opening hours, alternative sites offered instead i.e. Bishopston members would be offered use of the LC without the need to join the city wide scheme, on weekends for instance.
- Cefn Hengoed Members would be able to use Morrleston for their already reduced single site rate whilst their facility remains closed.
- LC Waterpark would target a re-open for October Half Term

Financial Impact

Monthly support required £187,000 deficit underwriting per month, but with an 'Optimistic income' view £153,000 deficit underwriting per month through open book. In addition to monthly management fee of £100,000 per month.

Staff Impact

No further redundancies would be required subject to income performance

6.14 Option 3

Table 5

Option 3					
Site	Month 1	Month 2	Month 3	Month 4	Month 5
LC Swansea	Dry Only	Dry Only	Dry Only	Dry Only	Dry Only
Penlan LC	Dry Only	Part Open	Part Open	Part Open	Part Open
Penyrheol LC	Dry Only	Dry Only	Dry Only	Dry Only	Dry Only
Morrleston LC	Dry Only	Dry Only	Dry Only	Dry Only	Dry Only
Bishopston SC	Closed	Closed	Closed	Closed	Closed
Cefn Hengoed	Closed	Closed	Closed	Closed	Closed
Elba	Closed	Part Open	Part Open	Part Open	Part Open
Active Communities	No Active Communities at ALL				

Summary highlights

- LC Waterpark and associated services closed until 2021.
- Only four sites to open initially and only offering gym, classes and dry side sports
- 'Part Open' refers to some reductions in opening hours with later openings and early closures, and some weekend closures at the less busy periods i.e. Sundays, where impact is limited.
- 'Part open' also denotes some changes to the way facilities operate will need to be adjusted to ensure social distancing, and some features may not be able to open in the immediate term i.e. small studio spaces for classes or soft play areas/climbing walls
- Only Penlan pool would be open this year.
- No Active Communities work would resume.
- Bishopston and Cefn Hengoed would not re-open this year.

Financial Impact

Monthly support required £194,000 deficit underwriting per month through open book. In addition to monthly management fee of £100,000 per month.

Staff Impact

- Significant staff reductions would be required, approximately 80-90 staff.
- Estimated costs of redundancies across all sites would be in the region of £200- £250k plus pension associated costs which could be extensive.
- Opportunity to build service back up in 2021 very limited

6.15 The recommendation is that Option 2 is not only the cheapest but also provides a measured and balanced approach to the restarting of services without significant implications for staff, services and customers, should the business rebuild as anticipated.

7. Freedoms measures and changes of reopening

7.1 Under each of the above options, there remains some key factors that will significantly influence the success of a reopening plan, from customers, to pricing sensitivity and flexibility.

7.2 In order to safely reopen and for customer and staff confidence to be rebuilt, it is recognised that effective communication and messaging with all key stakeholders will be vital to achieving this. Below are some of the measures and strategies that will achieve these, whichever option is selected.

7.3 *Building Customer Confidence;* Customer confidence will be key in the return of core customers. National government have already highlighted the need for continued exercise in all their main advice to date. Leisure has an important role to play in the recovery as referenced in the WLGA report dated 5th June. Leisure will continue to play a vital role in delivering statutory responsibilities for the local authority under the Wellbeing of Future Generations Act.

7.4 *Pricing Strategy*

- Customers have not be charged while sites have been closed and refunds or credit has been offered all customers who had bookings taken during closure. i.e. kid's parties & events.
- It is suggested all gym membership charges re-opening at a 50% discount for the first two months to recognise the product adjustments Freedom will have to make and the loyalty of the existing membership.
- If customers wish to continue suspension of their membership for longer, this will be permitted for a further 3 months initially.
- Annual membership will also be extended for the closure period and a further one month will be added without charge.
- Customers who are on contracted commitments will not be extended i.e. if a customer joined in Jan 20 on a 12 month agreement they will still finish this commitment in Jan 21.
- At present all other pricing will remain in place as it would under normal operation.

7.5 *Product & Services*

- Online services at the LC are already in place. Further work will be needed to offer this at community sites as soon as practical.
- Fitness class space will be limited so online streaming will be offered to members without charge and a virtual class program will be developed for Swansea.
- Fitness staff will offer virtual welcomes for new members and touch base sessions for existing members outside the gym environment where possible.
- Sports halls and outdoor spaces will be considered for fitness classes to support increase capacity and social distancing measures.
- All sites will only accept card payments.

7.6 *Safety*

- A small team of staff in Swansea have been maintaining and completing a series of safety checks at all sites during the lockdown.
- Freedom have now started to plan essential maintenance visits to site in advance of opening. Contact has been made with corporate building services.
- Essential compliance such as legionella testing, gas certification and Loler are all being planned to ensure all sites are safe for day one.
- Social distances measures put in place before closure are being reviewed in line with current advice and a detailed risk assessment is being finalised covering areas such as reception, gym spacing and fitness class capacity.
- A pre-opening team is being developed to start in mid-July to ensure sites are spotlessly clean, all software & admin tasks required are complete and to instigate any safety measures deemed necessary for day one.
- Following almost 4 months off, all staff will have a re-induction to their site which will include all the enhanced measures being put in place. Further Training will be completed if required i.e. RLSS competency tests.

7.7 *Customer Communication*

- Re-opening letters and a follow up e-mails will go out to all members once a re-opening date is confirmed.
- Social Media feeds will continue to be updated with guidance to customers.
- Once the preferred option is agreed with Swansea Council, Freedom will also update all site opening times, services and products online.
- A 'Win back Campaign' will be launched to encourage previous members back and new members to join.
- A digital campaign will be launched to focus on the local community illustrating the importance of exercise.

8. Freedom Summary Conclusion

- 8.1 The months ahead are still unclear and this proposal has been prepared together with the best intelligence available. 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.
- 8.2 In respect of Freedom's financial standing as a company, all 19 of their local authority partners have provided levels of support during the closure period. For April alone local authority support across all contracts provided Freedom with £1.4m, with the scale of support very much dependent upon the mix of different facilities in the contracts.

- 8.3 Swansea is one of Freedom's bigger contracts, and the 2020 management fee was reduced in line with the profiled management fee reductions by £700k for the year and from 1st April 2020.
- 8.4 Freedom claimed £2.2m from the JRS scheme for the staff that are currently furloughed. Despite this support Freedom made a loss of £480k in the month of April and this comes straight out of reserves each month.
- 8.5 In normal circumstances Freedom has a payroll of £3.8m per month so this situation is the reason that they need reserves and are using them. Without wider Council(s) support and JRS scheme it is evident that reserves would not last long which is why there is pressure to get re-opened and back to normal levels of trading as soon as allowed.
- 8.6 The WLGA, Sport Wales, WSA, UK Active and other bodies including district Authorities in England continue to lobby Government(s) for a specific package of support for the local leisure sector. In England, where there is more prevalent use of leisure operators than in Wales there is a projected loss of income for leisure operators across the board and it is expected the total loss to be £305M for 2020/21.
- 8.7 The lobbying will inevitably continue through the reopening phasing, but as the report highlights, many operators are falling between stools in regards to direct Government support.
- 8.8 Sport Wales have recently released details of a Sports Resilience fund for leisure operators. This totals £105k potentially set aside for trusts per contract/area, in the form of a part grant & part loan. However, this support is more of a longer-term 'protect' fund rather than immediate revenue support.
- 8.9 It is assumed for the purposes of the reopening measures proposed that the recommendations and measures could change if advice and industry intelligence indicates. Strong and regular communication will be needed with all partners over the next 12-18 months for these sites to be able to achieve pre-covid trading and maximise the significant capital investment that has been completed in 2019/20 in Swansea.

Given the reopening costs and proposed measures it is recommended that Cabinet:

- 4) Approve Freedom Leisure's Option 2 reopening plan which requires a Council underwriting of an additional deficit of up to £1M, in addition to the contractual monthly management fee for the anticipated phased opening period from August to the end of December 2020 (or equivalent 5 month period), reconciled under an open book approach.**

9. Parkwood - Implications, measures and costs of reopening

- 9.1 The challenges faced by all operators post lockdown will be profound due to the substantial shortfalls in income. There will inevitably be far reaching ramifications on Parkwoods contractual and commercial relationship with Swansea and other partners. The previous business model was based on relatively predictable levels of income and costs based on front end investment. These variables have changed fundamentally and this will continue for at least the short and medium term.
- 9.2 Despite the inevitable pressures during the re-opening period, Parkwood remain confident that as a company they are well placed to minimise these financial losses and have detailed plans to drive income recovery as fast as possible and at the same time actively manage the cost base to its lowest level, subject to Client considerations.
- 9.3 Whilst there are considerable uncertainties over the range of possible outcomes, they have committed to an energised recovery and are intent on returning to a viable financial position as soon as possible.
- 9.4 To help facilitate open dialogue on how they intend to collaboratively mitigate the financial impact post lockdown, across the Parkwood portfolio they have modelled a range of scenarios. These include a broad range of options from not reopening facilities for an extended period through to a 'six phase' reopening plan aimed at returning to original service levels over a six month period.
- 9.5 There are multiple considerations, not just the financial impact but also managing local policy on tourism and leisure provision and meeting customer expectations, together with the all-important health and safety requirements.
- 9.6 An open book accounting process is the suggested method to continue to support the partnership. This would be a monthly process of reviewing detailed accounts in arrears and invoicing any differences each month so that they are reconciled accordingly. The figures presented within the proposal for Swansea's Plantasia assumes that the Management fee of £10k per month is paid as normal.
- 9.7 In taking a decision to provide further financial relief through reopening, Parkwood Leisure are not anticipating that the terms of the additional relief through the reopening phase 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 Council financial plan, with a further report to consider the likely impacts and costs at a later date.
- 9.8 A discussion with the operator in regard to changes to elements of the contract, in particular any profit/surplus sharing mechanisms being altered in favour of the Council, in order to improve future income streams/cost reductions in later years of the contract could be invoked.

- 9.9 At this stage, there is an assumed early August re-opening, depicted as (month 1) in Table 6 below and Parkwood have put an initial phase plan together based upon six months from this point taking us up to the end of January 2021. Where possible, the options have tried to consider the challenges and opportunities of the facility, and where partial closure of parts of the facility may be appropriate
- 9.10 The month one is subject to change and slippage, following Central Government and Welsh Government advice.
- 9.11 The options and all related financial forecasts are based on current knowledge of the Governments re-opening timescales and protocols so could therefore change as announcements are made.
- 9.12 The options assume that in phasing the opening of some facilities or features within facilities, some groups of staff or individuals can remain on furlough until their facility or duties resume. i.e. some catering staff are unlikely to be needed immediately, should the catering offer be staggered to a later date than other operational staff.
- 9.13 The proposals assume that where groups of staff remain on Furlough the level of underwriting/deficit payment picks up the additional top up from 70% and then 60%, but only to a retained 80% position, and not topped up to 100%. At this stage, whilst no redundancies are planned, Parkwood are realistic of the prospect that a long term and significant reduction in income may require the business plan to be reviewed and considerations made of the staffing structures required for the delivery of future services.
- 9.14 The income levels are an assumed position based upon anticipated demand, and whilst there is much speculation within the industry around the % of customers that will return to leisure venues, Plantasia is a unique facility and therefore very little is known in regards to customer response and return.
- 9.15 The lockdown period has been reasonably straightforward to evaluate from a financial viewpoint as there is no income and relatively low fixed costs, especially due to the Job Retention Scheme (JRS) funding and other mitigation measures. However, in the post lockdown phase there are many unpredictable variables that will have a significant impact on the outcome
- 9.16 Some key factors are:
- Consumer confidence in returning to Plantasia
 - Impact of further changes in legislation, regulations and guidance from Government, regulatory and industry bodies
 - Impact of Social Distancing measures on income levels (eg auditorium capacity).
 - Risks of a second shutdown, either localised or national.
 - Change in customer behaviour after a period of staying at home.

- The level of JRS funding available from central government from 1st August.
- The wider impact that COVID 19 will have on consumer spending and the economy.

9.17 A phased plan includes the following key assumptions and measures, which will be fulfilled by Parkwood;

- Pre-opening will include a deep clean; demarcation of social distancing; access, egress & directional signage; installation of additional sanitiser units; where possible moving of attractions to ensure 2 metre spacing.
- Attendance to be based on staggered entry times. This will ensure controlled usage, with no overcrowding.
- Cashless transactions will be enforced where appropriate.
- School Sessions will not be introduced until the new school year
- The JRS is unlikely to operate the same as before, from 1st August, with match contribution from employers anticipated.
- Staff will remain furloughed until such times as they are required.

9.18 The proposed re-opening phasing and costs for deficit underwriting for Plantasia are depicted in table 6 below:

Table 6

Phases	Likely Duration (reviewed weekly)	Facilities Open	No. of Staff Required	Range of Deficit Funding Needed (Per Month*)
Phase 1 (pre opening)	Upto 4 wks	None	Attraction Manager; Gardener Zoo Keeper	£15,176
Phase 2	Month 1	Main Auditorium & toilets	As above plus:Duty Manager, Plantasia Assistant	£16,888
Phase 3	Month 2	As above plus cafe (take away only)	As above plus: Food & Beverage & Zoo Keeper	£20,343
Phase 4	Month 3	As above plus School visits and reintroduction of animal handling	As above plus: Education Officers	£16,388
Phase 5	Month 4	As above plus: Cafe offer, parties and meeting rooms	As above plus: Casual F&B and plantasia Assistants	£14,396
Phase 6	Month 6 onwards **	Assume full functionality	All staff	£13,756

* The deficit funding assumes continued Fee payment from the Council to PL and does NOT include the cost of redundancy

* The deficit funding assumes no reduced JRS provisions from 1st August to 31st October.

** Until such times as pre Covid usage levels return.

9.19 The table and reopening phasing and measures above provide a measured and balanced approach to the restarting of services without immediate and significant implications for staff, should the business rebuild as anticipated.

9.20 This report recommends that Cabinet agree the following:

5) Approve Parkwood Leisure's reopening plan which requires a Council underwriting of additional deficit of up to £100k, in addition to the contractual monthly management fee for an anticipated phased opening period from August until the end of January 2021 (or equivalent 6 month period).

10. Equality and Engagement Implications

10.1 The Council is subject to the Public Sector Equality Duty (Wales) 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 Act.
- 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.

Our Equality Impact Assessment process ensures that we have paid due regard to the above.

10.2 An EIA screening form has been completed, with an agreed outcome that a full EIA report is not required at this stage.

10.3 The Cabinet report sets out the financial implications of the Covid-19 lockdown for the leisure providers that operate facilities on behalf of the Council. At this stage, the report sets out the levels of financial support that the operators require through the continued lockdown period, and anticipated levels of financial support that will be required to re-open the facilities in line with a high-level phased approach, in accordance with industry and government guidance

10.4 We have 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.

10.5 In direct dialogue with Freedom and Parkwood, we have assessed the financial needs and consulted with the Trade Unions and Members on implications for Swansea.

10.6 The report relates to our ability to financially support our partners in the context of Covid-19 lockdown so we are not undertaking public consultation or other stakeholder consultation as it does not at this stage affect service users. A reopening plan if and when agreed by UK govt. will be considered separately.

11. Legal Implications

- 11.1 The Council has already entered into variation agreements with both Freedom Leisure and Parkwood Leisure to enable to existing level of support to be made available in accordance with PPN 02/20.
- 11.2 The proposals for reviewing the support and for targeting future support in line with plans for phased reopening of facilities is 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.
- 11.3 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.
- 11.4 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.

12. Financial implications

- 12.1 The total level of support required to support both Freedom Leisure and Parkwood Leisure for an anticipated 4 month closure of April-July is likely to be £800,000, in a worst case scenario.
- 12.2 The likely worst case scenario for selecting Freedom Leisure's Option 2 reopening plan would require a Council underwriting of an additional deficit of up to £1M to the end of December 2020 (or equivalent 5 month period).
- 12.3 The likely worst case scenario for additionally underwriting Parkwood Leisure's reopening plan is £100k until the end of January 2021 (or equivalent 6 month period).
- 12.4 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)
- 12.5 Cabinet has yet to receive an overarching report on the Council's 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 by a nine figure sum (i.e. over £100 million). Given claims for

reimbursement are competitively pitched against 21 other Councils and against national fixed sum pots not all costs will be fully covered.

- 12.6 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 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.
- 12.7 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”. It is expected that the overall position will be firmed up in August when the extent of overall support and the success of those reimbursement claims will be better known.
- 12.8 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
- 12.9 If Cabinet were minded to proceed the Section 151 Officer would recommend the cost be funded by release from 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 contingency, if so approved, will be fully reflected in the first quarter monitoring report on the budget to Cabinet in August.

Background Papers: None.

Appendices:

Appendix 1 - EIA Screening Form.