

Public Document Pack

Your ref
Our ref
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Lichfield, Staffordshire WS136YU

Customer Services 01543 308000

Dear Sir/Madam

LEISURE, PARKS & WASTE MANAGEMENT (OVERVIEW AND SCRUTINY) COMMITTEE SUPPLEMENT

Please find attached supplement papers for Leisure, Parks & Waste Management (Overview and Scrutiny) Committee on **THURSDAY, 16TH JULY, 2020 at 6.00 PM TO BE HELD VIRTUALLY.**

Yours faithfully

A handwritten signature in dark ink, appearing to read 'Christie Tims', is written over a light grey circular watermark.

Christie Tims
Head of Corporate Services and Monitoring Officer

SUPPLEMENT

3. Re-opening of Leisure Centres

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Leisure Centres

Cabinet Member for Recycling & Leisure

Date: 16 July 2020

Contact Officer: Ben Percival

Tel Number: 01543 308060

Email: ben.percival@lichfielddc.gov.uk

Key Decision? **NO**

Local Ward All Wards

Members



**Special Leisure, Parks
and Waste
Management
(Overview and
Scrutiny) Committee**

1. Executive Summary

- 1.1 The Government mandated closure of leisure centres has created a significant financial pressure for a service largely funded from fees and charges. Social distancing restrictions and a forecast reduction in demand are likely to have an impact on income extending far beyond the closedown period.
- 1.2 LDC are providing financial support to Freedom Leisure during closedown and for an initial period following re-opening. To manage these costs, Burntwood Leisure Centre will re-open initially, with Friary Grange remaining furloughed to the end of October 2020.
- 1.3 A further update will be provided in the autumn.

2. Recommendations

That Committee

- 2.1 Endorse the actions taken to date to support the continued provision of indoor leisure services.
- 2.2 Note the contents of the report.
- 2.2 Receive a further report in the autumn to update on the position of the leisure centres and wider context.

3. Background

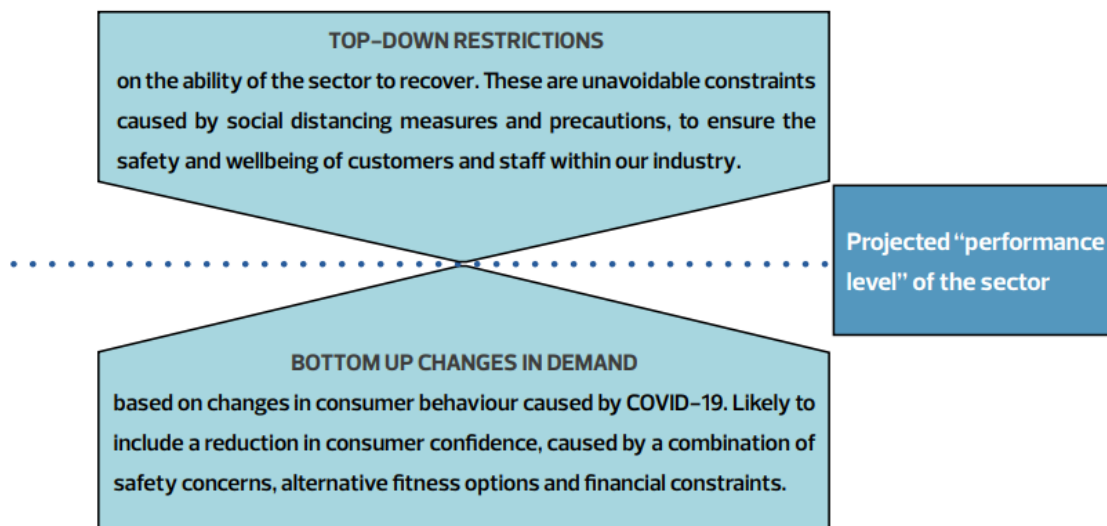
Background

- 3.1 Leisure centres have a key role in supporting residents' health and wellbeing. Physical activity is acknowledged as having a positive impact on physical and mental health and wellbeing, with preventative and therapeutic benefits on a range of conditions. Survey data indicates that the most popular recreational physical activities (after walking) are consistently swimming and fitness – which are reliant on leisure centres for their delivery.
- 3.2 The provision of leisure centres is an entirely discretionary service with an established model of generating trading income and outsourcing, having initially been subject to competitive tendering in the late 1980s. Many successful leisure operations recover all their operating costs through trading income, in many cases delivering an operating surplus.
- 3.3 On this basis, leisure centres present a very cost effective means of supporting residents' health and wellbeing; supporting physical activity whilst in many cases delivering a financial surplus to the operating authorities.

- 3.4 Lichfield's two leisure centres – Friary Grange and Burntwood – are operated by Freedom Leisure under a 10-year contract that commenced in 2018. The competitively procured contract was profiled such that LDC paid a management fee to Freedom Leisure in the first two years as Freedom established their operation and management model. From 2020/21 for the remainder of the contract Freedom were profiled to pay a management fee to LDC.
- 3.5 The future of Lichfield's leisure centres was the subject of much examination in 2019. The outcome was that LDC committed to pursuing the permanent replacement of the ageing Friary Grange Leisure Centre and in the interim to complete a refurbishment of the existing facility. This involved an additional revenue subsidy to Friary Grange of £85k per year and capital expenditure capped at £695k.

Covid-19

- 3.6 As part of measures to manage the spread of Covid-19, Government mandated closure of all indoor leisure centres on 21st March. Government has now confirmed that leisure centres will be permitted to re-open on 25 July. Guidance has been published as this report is being drafted and includes a range of restrictions on capacity, services, activity duration and access arrangements which will remain in place "until further notice". This guidance will be augmented by guidance to follow from National Governing Bodies of sport and industry bodies such as UK Active.
- 3.7 The mandated closure saw virtually all income to leisure centres cease overnight. Whilst closure has reduced operating expenditure, some significant expenditure remains – including leases, licenses, utilities and staffing costs not covered by the Job Retention Scheme. This created an immediate cost pressure for leisure operators.
- 3.8 When leisure centres are permitted to re-open, it is anticipated that income levels will be diminished for a prolonged period. The published social distancing guidance reduces both the capacity of leisure centres and limits the range of activities that can be safely undertaken. It is also possible that Covid-lockdown may dampen demand for leisure centres – with customers' disposable income and consumer confidence both impacted. The figure below from the UK Active Impact Report illustrates the situation well:



- 3.9 Much research has been undertaken during lockdown to assess people's likely appetite to return to leisure centres. Most surveys suggest a majority will be willing to return relatively quickly, albeit activity surveys tend to have a completion bias – with people who are unlikely to exercise less likely to state this or complete the survey at all. Surveys also indicate that people are slightly less comfortable with the idea of visiting a leisure centre than they are visiting a pub, restaurant or coffee shop.
- 3.10 Sport England research has indicated a more positive picture. Survey data suggests that physical activity levels have remained broadly stable during lockdown. People have been making greater use of parks and outdoor spaces, walking, jogging and cycling, accessing on-line exercise instruction and being more

active as family units. Research also indicates that the Government messaging about the importance of remaining active during lockdown has had a positive impact, with some previously sedentary people becoming more active. It is hoped that these positive changes can be sustained after lockdown and indeed could present a potential opportunity for the leisure centres.

Additional Costs

- 3.11 The closure of leisure centres created an immediate cost pressure as income ceased. Even those authorities and providers who chose to furlough staff were left with significant overheads that could not be mitigated. Hibernating centres still require security, a degree of maintenance and draw on utilities; lease and license costs also continue. A particular challenge has been that the Job Retention Scheme places a 3% limit on pension contributions – a substantial shortfall from the pension costs of most leisure centre staff who are enrolled in the Local Government Pension Scheme at a contribution rate of around 20%. The cost pressure from April to June 2020 will likely increase from the initial estimate of £104,000 to £240,000.
- 3.12 When centres re-open, the cost pressure is anticipated to continue to accumulate and potentially accelerate. As centres re-open, costs will quickly build to near pre-Covid levels – with additional costs to support Covid-safe operation. Income however will likely be much slower to build due to operating restrictions, limited capacity and depressed demand. Industry estimates suggest that income in the first 12 months following re-opening will be reduced by 30-40%.
- 3.13 For the just under half of local authorities who have retained their leisure services in-house, these cost pressures will fall to the authority. For authorities like Lichfield with an outsourced leisure service, liability for these cost remains unclear. Whilst one of the benefits of outsourcing has always been the transfer of business risk, legal advice is that the Government-mandated closure of the centres represents a “qualifying change in law” which allows contractors to approach client authorities for support with costs.
- 3.14 Many leisure contractors – including Freedom Leisure – are constituted as charities. The provision of physical activity is considered a charitable endeavour and brings a range of tax efficiencies, reducing the cost of the service. As charities, where operating surpluses are generated, these are re-invested in the service. This means most leisure contractors hold very limited reserves and are ill-placed to afford large unplanned costs.
- 3.15 It should be noted that councils still have a legal duty to deliver best value and so will need to ensure that public money is spent wisely in its response to the pandemic and that the council does not incur additional costs that could reasonably be avoided. However, the scale of the crisis means that budget deficits are likely to be impossible to avoid and are also likely to increase in the event of only a gradual relaxation of public health measures such as social distancing.

Lichfield Contract

- 3.16 Officers have been working with Freedom Leisure to assess the costs of closure and also estimates for re-opening. Max Associates have also been employed (with support from Sport England) to provide some additional consultancy support and validation. Accepting that this is a rapidly changing situation the current estimates of cost are:

Closedown costs – April-June **£240,000**

Re-opening costs – July 2020 – June 2021 **£838,000**

- 3.17 Projections have presented different re-opening costs ranging between £303k (Freedom Leisure) to £1.033m (Max Associates initial projections). The above estimates in 3.16 are considered to be a prudent assessment based on information currently available. They will inevitably be subject to change as

information becomes clearer and circumstances evolve – for example the recently published government guidance on the re-introduction of indoor leisure centres from 25 July 2020.

- 3.18 Government have provided additional support to local authorities, though nothing specific to leisure although there is ongoing dialogue between the sector and the Government on how arms-length leisure operations can be supported. However at this stage LDC have received grant payments totalling £1.073m against estimated cost pressures and income reductions projected to be between £2.342m and £5.602m. However on 2 July 2020 a further package of financial support for local government was announced including £500m of additional funding, a support mechanism for income reductions and the ability to spread Council Tax and Business Rate losses over a three year period rather than a single year.

Action taken to date

- 3.19 To support the continued functioning of the leisure contract, LDC has agreed to provide financial support to help Freedom Leisure manage their operating costs until the end of March 2021. This will ensure the continued viability of the local contract and facilitate a return to service provision as soon as allowed by Government. The agreement is based on the following key principles:
- 3.19.1 Payment in arrears based on an open-book accounting process with Freedom Leisure providing evidence of Lichfield-specific spend.
 - 3.19.2 Monthly reporting of income and expenditure.
 - 3.19.3 Weekly operational review meetings
 - 3.19.4 The agreement will be formalised in a Deed of Variation to the existing contract
- 3.20 This approach reflects Government guidance, is based on legal advice, consultants' recommendations and is in keeping with the emerging approach of other local authorities.

Initial phased return of services

- 3.21 The decision has been made to initially re-open only Burntwood Leisure Centre as soon as possible following the easing of restrictions on 25 July. Friary Grange will remain closed until the end of the Job Retention Scheme in October 2020. The rationale for this decision is as follows:
- 3.21.1 Only re-opening one centre initially mitigates the additional costs and manages the financial risk
 - 3.21.2 One centre will likely be sufficient to meet the initial demand – which is anticipated to be low.
 - 3.21.3 Pre-lockdown, Burntwood was averaging 11,500 visits per month, whereas Friary Grange had fewer than 3,500 per month; therefore focusing re-opening efforts on Burntwood supports more users.
 - 3.21.4 Burntwood as the larger, more modern site is better suited to a Covid-safe socially distanced operation.
 - 3.21.5 The facilities that lend themselves to social distancing at Friary Grange – the artificial turf pitch and sports hall, transferred to the management of The Friary School in May. The remaining facilities are much smaller spaces, which will have very limited capacity under social distancing conditions.
 - 3.21.6 A greater proportion of Friary Grange users are older people, with more than a quarter of members aged 65 or older. Research indicates older people are more nervous about returning to leisure centres.
 - 3.21.7 The continuation of the Job Retention Scheme supports keeping one centre closed in the short term.

3.21.8 This approach reflects the emerging direction of most leisure operators and local authorities who are taking a phased approach to re-introducing leisure facilities and services.

3.22 The post-lockdown performance of Burntwood will be subject to weekly operational reviews and monthly formal reviews. The performance of Burntwood – in particular the returning demand – will be used to inform decisions on the restoration of service at Friary Grange.

3.23 Whilst Friary Grange remains closed, officers and Freedom Leisure will work with Friary Grange users to support their access to other facilities on a temporary basis.

Longer term options

3.24 A range of factors makes planning for the re-establishment of leisure services in the longer term challenging. Factors that remain unclear include:

3.24.1 The impact of the Covid-19 pandemic on the economy and people's disposable income

3.24.2 The impact upon LDC's revenue budget, costs incurred, expenditure pressures and priorities

3.24.3 The extent to which the changing patterns of physical activity during lockdown – greater access of on-line and outdoor activities – will be sustained, reducing the demand on leisure centres

3.24.4 The impact on consumer confidence and comfort in returning to leisure centres

3.24.5 The duration and extent to which the Government restrictions limit the effective delivery of services.

3.25 As such a variety of scenarios have been modelled to assess their short and longer term financial impacts and requirements. These scenarios are intentionally broad to articulate the impacts of the range of available options. The scenarios modelled are:

3.25.1 Re-open both Burntwood and Friary Grange immediately

3.25.2 Re-open Burntwood immediately, furlough Friary Grange until October, review then re-open

3.25.3 Re-open Burntwood immediately, furlough Friary Grange until October, review then remain closed

3.25.4 Re-open Burntwood immediately, Friary Grange to remain closed permanently

3.25.5 All centres remain closed and work on the new leisure centre ceases

3.26 The merits of the scenarios are presented in the table below. Detail on the respective costs are presented as Appendix 1.

	Scenario 1 Re-open BLC immediately Re-open FG immediately Complete FG refurb	Scenario 2 Re-open BLC immediately Furlough FG Re-open FG Complete FG refurb	Scenario 3 Re-open BLC immediately Furlough FG FG remains closed No FG refurb	Scenario 4 Re-open BLC immediately Permanently close FG immediately No FG refurb	Scenario 5 Close both sites and put service on indefinite hiatus
Additional cost to MTFS	£1,077,448	£1,029,993	(£743,793)	(£821,000)	(£3,517,349)
Business risk	Cost could be higher, no management of future risk	Cost could be higher no management of future risk	Costs could be higher Closure of FG reduces future risk	Costs could be higher Closure of FG reduces future risk	Provides cost certainty and ceases expenditure. Only ongoing liability for BLC site.
Service impact	Retains full service	Retains full service	Retains principal centre Allows time to mitigate FG closure	Retains principal centre	Complete service cessation
Reputational risk	Profligate use of resources during financially challenging times	Disquiet over delayed opening of FG	Closure of FG will be challenging. 4-month review will help mitigate	Closure of FG will be challenging.	Very challenging narrative, especially jumping to this outcome.

- 3.27 The option to bring the service back in-house was considered, but at this stage has been discounted. Delivery through Freedom Leisure is cost efficient; as a charity they benefit from NNDR relief – worth around £190k per year. Exiting the contract would be legally complex and would see LDC inherit a range of additional risks for little discernible benefit. This option will remain available should circumstances change.

Wider Leisure Projects

- 3.28 The leisure review projects underway are currently progressing largely unaffected by the Covid-lockdown.
- 3.28.1 The operational issues with Friary Grange site are now resolved, with an amended lease with Staffordshire County Council now in place.
- 3.28.2 There was a short delay to the Friary Grange refurbishment project, as prospective contractors could not initially visit site to prepare tenders. However tenders have now been received, evaluated and moderated and subject to the resolution of some final queries a preferred supplier should shortly be identified. Contract award may be put back to allow monitoring of the response to re-opening Burntwood and further scrutiny and evaluation of scenarios.
- 3.28.3 Planning for the new Lichfield Leisure Centre remain on track. A few consultation focus groups had to be deferred, but otherwise the project is progressing well. Reports on site and facility mix options should follow in the coming months.

Future decision making

- 3.29 Regular briefing notes will be provided to the Leisure, Parks and Waste Management Overview and Scrutiny Committee to monitor the first phase of re-opening. Further reports to Overview and Scrutiny and potentially to Cabinet may be required to authorise any policy or resource implications for the subsequent phase.

Alternative Options	<p>4.1 The Council could decide not to provide any support to Freedom Leisure. However this would jeopardise the ongoing provision of leisure services as this may see Freedom exit the contract. Bringing the service in-house or seeking another external provider would involve significant disruption to service, risks and potentially costs in excess of those outlined.</p> <p>4.2 The Council could seek to cease any involvement in direct leisure provision. This would however have an impact on physical activity levels and the associated health and wellbeing benefits. There would also be an ongoing asset liability for the Burntwood Leisure Centre site.</p>
Consultation	Sport England, Max Associates, Winckworth Sherwood, Staffordshire local authorities
Financial Implications	<p>6.1 To enable different scenarios to be compared, a whole life cost approach was taken over the remaining 7 year and 9 months horizon of the current Freedom Contract from April 2020 to December 2027.</p> <p>6.2 Additionally to enable comparison of scenarios where financial implications occur at different times over this period and enable comparison on a consistent pricing basis a Net present Value is provided using a rate of 3.5%.</p> <p>6.3 The detailed financial modelling over the remaining Freedom Contract is shown at APPENDIX 1 and is summarised below:</p>

	MTFS	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
Total Cost	£6,519,400	£7,596,848	£7,549,393	£5,775,608	£5,698,401	£3,002,051
Net Present Value @ 3.5%	£6,085,205	£7,162,653	£7,115,198	£5,446,400	£5,369,193	£2,845,315
Funded by:						
Borrowing	(£4,993,000)	(£4,993,000)	(£4,993,000)	(£4,993,000)	(£4,993,000)	£0
Eligible Section 106	(£97,910)	(£97,910)	(£97,910)			
Sinking Fund	(£17,000)	(£17,000)	(£17,000)			
VAT Reserve	(£525,000)	(£525,000)	(£525,000)			
Revenue Budget	(£886,490)	(£1,963,938)	(£1,916,483)	(£782,608)	(£705,401)	(£3,002,051)
Total Funding	(£6,519,400)	(£7,596,848)	(£7,549,393)	(£5,775,608)	(£5,698,401)	(£3,002,051)
Cost Per Annum	£841,213	£980,238	£974,115	£745,240	£735,277	£387,361
Cost Per Capita	£62.99	£73.40	£72.94	£55.80	£55.06	£29.01
Cost per Band D	£171.51	£199.86	£198.61	£151.95	£149.91	£78.98
5% income reduction		£1,043,000	£1,043,000	£741,000	£741,000	£0
Average per annum		£134,580	£134,580	£95,610	£95,610	£0
10% income reduction		£2,089,000	£2,089,000	£1,484,000	£1,484,000	£0
Average per annum		£269,550	£269,550	£191,480	£191,480	£0
20% income reduction		£4,171,000	£4,171,000	£2,965,000	£2,965,000	£0
Average per annum		£538,190	£538,190	£382,580	£382,580	£0

6.4 It is important to note that in the last three full financial years of Council operation from 2014/15 to 2016/17, the annual subsidy ranged from £440,000 to £601,000.

Contribution to the Delivery of the Strategic Plan

- 7.1 Sustainable leisure centre provision in support of active lifestyles contributes to:
- Enabling people** – to live healthy and active lives.
 - Developing prosperity** – to enhance the district for visitors
 - A good council that** – is financially sound, transparent and accountable.

Equality, Diversity and Human Rights Implications

- 8.1 There are no equality, diversity and human right implications associated with the actions taken thusfar.

Crime & Safety Issues

- 9.1 The review has not had an impact on any crime and safety issues.

GDPR/Privacy Impact Assessment

- 10.1 Not required.

	Risk Description	How We Manage It	Severity of Risk (RYG)
A	Reduction in income beyond the level projected	<ul style="list-style-type: none"> Monthly review meetings Potential to switch scenarios 	Yellow
B	Permanent reduction in demand	<ul style="list-style-type: none"> Maintain liaison with Sport England Adapt service to respond to new customer requirements 	Yellow
C	Further period of Covid-related lockdown	<ul style="list-style-type: none"> Focus on Covid-safe operation. 	Red
D	Freedom Leisure cease to trade	<ul style="list-style-type: none"> Maintain close relationship with Freedom Leisure – visibility of their cash-flow. Continue to liaise with Freedom's other client authorities. 	Yellow
E	Users are displaced by the delayed opening of Friary Grange	<ul style="list-style-type: none"> Officers and Freedom Leisure will work with users to find temporary alternate venues A communications plan will ensure users remain engaged 	Yellow

F	The Council's overall financial position means that financial support to discretionary services such as leisure centres (including any new leisure centre) needs to be reduced or curtailed	<ul style="list-style-type: none"> • Ongoing monitoring of the financial implications of the pandemic. • The MTFS update will provide scenarios of the Council's overall financial position to inform decisions on financial support for leisure centres. • To continue to evaluate policy announcements and respond to consultations with the aim of influencing policy to address the needs of the Council. 	Red
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Background documents

None

Relevant web links

None

Appendix 1

	Scenario (whole life cost over the remaining contract term)					
	MTFS Baseline	Scenario 1 - Re-open BLC immediately, Re-open FGLC immediately & Complete FGLC Refurbishment	Scenario 2 - Reopen BLC immediately, Mothball FGLC, FGLC reopens and complete FGLC refurbishment	Scenario 3 - Reopen BLC immediately, Mothball FGLC, FGLC remains closed and no FGLC refurbishment	Scenario 4 - Reopen BLC immediately, Close FGLC now and no FGLC refurbishment	Scenario 5 - Close Both sites and put service on indefinite hiatus
Approved Revenue Budgets						
Commercial Bid - Burntwood	(£1,907,111)	(£1,907,111)	(£1,907,111)	(£1,907,106)	(£1,907,106)	
Commercial Bid - Friary Grange	£520,541	£520,541	£520,541			
Other Council Costs	£354,660	£354,660	£354,660	£252,000	£252,000	
Earmarked Reserve - VAT Repayment	(£120,000)	(£120,000)	(£120,000)			
Ongoing Costs	£250,000	£250,000	£250,000			
Ongoing Costs	£455,910	£455,910	£455,910			
Short Term Costs	£120,000	£120,000	£120,000			
Burntwood PWLB Loan	£1,212,490	£1,212,490	£1,212,490	£1,212,490	£1,212,490	£1,212,490
Approved Capital Budgets						
Short Term Refurbishment	£639,910	£639,910	£639,910			
New Leisure Centre	£4,993,000	£4,993,000	£4,993,000	£4,993,000	£4,993,000	
New Costs Identified						
Burntwood 12 months operation		£463,462	£463,462	£463,462	£463,462	
Burntwood 8 months operation						
Burntwood 4 months furlough						
Repay Sport England Grant						£200,400
Friary Grange 12 months operation		£373,986				
Friary Grange 4 months mothball			£77,207	£77,207		
Friary Grange 8 months operation			£249,324			
Lockdown closure costs		£240,000	£240,000	£240,000	£240,000	£240,000
Friary Grange redundancy costs				£329,554	£329,554	£329,554
Friary Grange decomission				£40,000	£40,000	£40,000
Friary Grange Mitigation				£75,000	£75,000	
Burntwood decommission						£40,000
Burntwood redundancy costs						£329,554
Burntwood security costs						£80,000
Burntwood Ongoing Maintenance etc.						£150,000
Business Rates						£560,053
Contract Management Saving						(£180,000)
Total Cost	£6,519,400	£7,596,848	£7,549,393	£5,775,608	£5,698,401	£3,002,051
Variance to MTFS Baseline		£1,077,448	£1,029,993	(£743,793)	(£821,000)	(£3,517,349)
Variance to Option 1			(£47,455)	(£1,821,241)	(£1,898,448)	(£4,594,797)
Net Present Value @ 3.5%	£6,085,205	£7,162,653	£7,115,198	£5,446,400	£5,369,193	£2,845,315
Risks:						
Assume 5% permanent reduction in income:						
Burntwood		£741,000	£741,000	£741,000	£741,000	£0
Friary Grange		£302,000	£302,000	£0	£0	£0
Assume 10% permanent reduction in income:						
Burntwood		£1,484,000	£1,484,000	£1,484,000	£1,484,000	£0
Friary Grange		£605,000	£605,000	£0	£0	£0
Assume 20% permanent reduction in income:						
Burntwood		£2,965,000	£2,965,000	£2,965,000	£2,965,000	£0
Friary Grange		£1,206,000	£1,206,000	£0	£0	£0
	MTFS	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
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