

STROUD DISTRICT COUNCIL
STRATEGY AND RESOURCES COMMITTEE

**AGENDA
ITEM NO**

20 OCTOBER 2020

3

Report Title	PROVISION OF ADDITIONAL SHORT TERM SUPPORT TO THE LEISURE CONTRACT PROVIDER IN STROUD (SPORT AND LEISURE MANAGEMENT) TO RECOVER FROM THE IMPACT OF COVID-19
Purpose of Report	To consider payment of a phased grant award to Sport and Leisure Management Ltd.
Decision(s)	<p>The Committee RESOLVES that:</p> <ul style="list-style-type: none"> a. A sum not in excess of £150,000 is ring-fenced from Council reserves to fund monthly payment to SLM to support the continued operation of services at Stratford Park Leisure Centre. b. Responsibility for the allocation and monitoring of services, outputs and payments to SLM is delegated to the Strategic Director of Communities in consultation with the Strategic Director of Resources and S151 Officer, the chair of Strategy and Resources Committee and the Chair of Community Services and Licensing Committee. All payments will be contingent on full and open access to operational accounts and service activity being provided. c. Authority is delegated to the Section 151 Officer and Head of Legal Services to negotiate and conclude any legal documentation necessary arising from any decision made.
Consultation and Feedback	Group Leaders and the Chair of Community Services and Licensing Committee have been briefed on the financial and operational impact of Covid-19 on SLM and the reopening of Stratford Park Leisure Centre.
Report Authors	Keith Gerrard, Strategic Director of Communities Email: keith.gerrard@stroud.gov.uk
Options	The Council could choose not to provide support to SLM at this time. This may delay the operation of Stratford Park Leisure Centre for an unknown period of time.

Background Papers	None			
Appendices	Appendix 1 - Current Delivery of Activities at Stratford Park Leisure Centre (Summary)			
Implications (further details at the end of the report)	Financial	Legal	Equality	Environmental
	Yes	Yes	Yes	No

1. BACKGROUND

- 1.1. In July 2020 this committee considered a report to provide grant support to Sport and Leisure Management Ltd (SLM).
- 1.2. It was brought to the committee in the context of SLM facing significant financial challenges as a result of the impact of the Covid-19 restrictions. These restrictions required all leisure centres to close to the public as of 22 March 2020. Following a review of restrictions Stratford Park Leisure Centre (SPLC) reopened to the public, with a partial programme on 25 July 2020. The report was compiled supported by information and advice provided by leisure industry specialists Knight Kavanagh and Page (KKP).
- 1.3. The facility closure between 22 March and 25 July resulted in a £41,000 loss of income and an overall operating deficit for the year forecast to be £294,000. (This has recently been revised to £298,000). SLM raised concerns at the time that without additional financial support it may not be possible for it to continue to meet its contractual obligations.
- 1.4. The report recommended grant support of £170,000. It included a number of conditions including no redundancies this calendar year, a commitment to an open book approach to account scrutiny and a monthly payment structure which would be based on ongoing review of performance. This was proposed to be in addition to supported already provided by the Council, the payment of its £80,000 annual management fee in advance and the deferring of the introduction of the Living Wage by six months, an effective cash payment of £35,875.
- 1.5. After careful consideration it was agreed that a loan of the same amount with a number of conditions would be made available.
- 1.6. SDC officers met with SLM management shortly after the committee decision. SLM declined the loan offer giving two reasons: an unwillingness from the company to commit to a repayment while there were uncertainties around business performance over the coming 6 to 12 months and an inability to commit to the no redundancy condition.
- 1.7. The information in this report reflects Government guidance and operational procedures at the time of publication. Any subsequent changes to Guidance which may impact on this business position of SLM or the decisions for consideration in this report will be brought to Committee at its meeting on 20th October.

2. The current situation and what has changed since the last committee report

- 2.1 The current operating contract with SLM at Stratford Park Leisure Centre runs until 31 October 2021, not 2023 as set out in the previous report. Officers were in discussion with representatives of SLM regarding an extension to the contract as authorised by the Community Services and Licensing Committee on the 23rd of January 2020. SLM were seeking legal advice on a proposed variation to the contract but this coincided with the country going into lockdown and the centre being required to close and as such, no further progress was made.
- 2.2 Since reopening to the public on 25 July 2020 SPLC has operated a revised programme of activity working within government safe distancing guidelines. This has included opening access to the fitness gym, exercise classes and outdoor artificial turf pitch (ATP). The outdoor tennis courts were opened on a non-bookable, free of charge basis, and as of 20 August, lane swimming was introduced. Swimming lessons were re-introduced during the first week in September.
- 2.3 Since reopening, the range of activities includes most of the elements which formed part of the normal programme. Access, with the exception of the outdoor tennis courts, has been by booking in advance. This has allowed participation numbers to be managed more specifically.
- 2.4 To comply with social distancing guidelines most areas of the programme have now significantly reduced capacity. To accommodate as high a number of participants as possible, the gym layout was changed and exercise classes have been relocated to the larger space provided by the sports hall, although this has required the sports hall programme to be amended.
- 2.5 Table 1 below illustrates reduced operating capacity in key activities at the facility pre and post the introduction of Covid-19 restrictions.

Table 1: Maximum Capacity for the Leisure Centre Pre and post Covid-19

Activity space	Maximum capacity pre Covid -19	Maximum capacity post Covid-19
Swimming Pool	80	20
Fitness Gym	94	30
Squash Courts	8	8
Sports Hall*	80	16
Dance Studio	100	26

(*based on half the hall, i.e. 3 badminton courts, when configured for exercise classes)

- 2.6 To deliver this programme the facility has used a revised staff rota. It has, for example, reduced the number of reception staff and class instructors where there is not the physical capacity to deliver classes because of social distancing requirements. Ancillary staff hours have also been amended.
- 2.7 Specialist leisure consultant KKP has advised SDC that this approach is in line with that taken by other private sector and trust operators across the country.
- 2.8 **Ending of the government furlough scheme and other support.**

2.9 Since lockdown in March, the wage costs of 22 staff have been supported up to 80% by the furlough scheme. As of 30 September this was reduced to 70% and as of 31 October will stop. This will have a direct impact of expenditure. SLM does not believe the latest Government initiatives (i.e. the Job Support Scheme) will mitigate this position.

3. Operating performance

3.1 Since reopening on 25 July financial performance and usage has been significantly lower than the same period last year.

3.2 Table 2 below details the actual operation position for 2019-20. Table 3 shows the actual and forecast operation position for 2020-21. It indicates that the contract is anticipated to be in a deficit position throughout this financial year. Comparing the two financial years, this represents a 68 % reduction in income.

Table 2 - In 2019 – 2020 SLM showed an operating profit of £124,000 (SPLC)

	Apr £k	May £k	Jun £k	Jul £k	Aug £k	Sep £k	Oct £k	Nov £k	Dec £k	Jan £k	Feb £k	Mar £k	Total £k
2019/20 Actuals													
Income	(142)	(138)	(151)	(171)	(156)	(149)	(144)	(159)	(138)	(151)	(151)	(113)	(1,758)
Expenditure	138	138	144	155	155	157	150	148	130	143	149	106	1,715
Manage't Fee	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(81)
Net (profit)/loss	(11)	(7)	(13)	(22)	(8)	1	(0)	(17)	(15)	(15)	(9)	(14)	(124)

Table 3- in 2020-21 SLM forecast a total operating deficit of £298,000. (SPLC)

	Apr £k	May £k	Jun £k	Jul £k	Aug £k	Sep £k	Oct £k	Nov £k	Dec £k	Jan £k	Feb £k	Mar £k	Total £k
2020/21 Forecast													
Income	(3)	(4)	(3)	(6)	(43)	(60)	(62)	(68)	(62)	(84)	(76)	(81)	(552)
Expenditure (net of furlough payments)	29	26	24	42	69	100	119	124	127	124	96	122	1,004
Management Fee*	(13)	(13)	(13)	(13)	(13)	(13)	(13)	(13)	(13)	(13)	(13)	(13)	(154)
Net (profit)/loss	13	9	8	23	14	27	44	44	52	27	8	29	298

* Management Fee represents contracted payment from SDC to SLM to support delivery of services. Increase in 2020/21 is a result of the introduction of the Real Living Wage.

3.3 Taken together tables 2 and 3 show why SLM are in the position of requesting additional support. Income forecasts are down by £1.2 million comparing 2019/20 and 2020/21. The expenditure costs (net of furlough) can only be reduced by approximately £700,000.

It is this significant decrease in the income which makes the centre a loss-making facility that SLM do not feel they can support without assistance.

3.4 The expenditure forecasts include an estimated impact of both redundancy costs and salary savings over the course of the financial year. Forecasts include all estimated government support. SLM do not believe that the job support scheme will bring additional income to the centre.

3.5 The table below shows the full breakdown of the income forecasts for the centre over this coming financial year.

Table 4: Detailed Income Forecasts (SPLC)

Income (figures are rounded)	Qtr 1 £000	Jul £000	Aug £000	Sep £000	Oct £000	Nov £000	Dec £000	Jan £000	Feb £000	Mar £000	Total £000
Aquatics	(1)	(1)	(3)	(19)	(20)	(21)	(19)	(24)	(24)	(25)	(156)
Community	0	0	(2)	(2)	(2)	(2)	(1)	(2)	(2)	(2)	(12)
Fitness	(9)	(5)	(31)	(32)	(33)	(39)	(37)	(52)	(42)	(47)	(327)
Food & Bev	0	0	0	0	0	0	0	0	0	0	(2)
Indoor Sport	0	0	(4)	(4)	(4)	(4)	(3)	(4)	(4)	(4)	(32)
Outdoor	0	0	(3)	(3)	(3)	(3)	(2)	(3)	(3)	(3)	(23)
Total Income	(10)	(6)	(43)	(60)	(62)	(68)	(62)	(84)	(76)	(81)	(552)

3.6 To illustrate the impact on performance over the last six months, tables 5 to 7 below provide a comparison of performance by income and footfall for April to September 2019 and 2020; the period since the introduction of lockdown restrictions.

Table 5: user visits and income - April to September 2019 (SPLC)

2019	April	May	June	July	August	September
user visits	56,401	52,256	52,567	55,846	54,300	50,089
Income	141,823	137,872	150,994	170,609	156,448	149,003

Table 6: user visits and income - April to September 2020 (SPLC)

2020	April	May	June	July	August	September
User visits	0	0	0	775	11,357	11,500 (estimated)
Income	3,220	3,921	3,295	5,600	42,619 Forecast	60,150 (forecast)

Table 7: % variation in user visits and income April to September 2019 and 2020 (SPLC)

% Variance	April	May	June	July	August	September
User visits	-100%	-100%	-100%	-99%	-79%	-77%
Income	-98%	-97%	-98%	-97%	-73%	60% (forecast)

3.7 Comparison between Stratford Park Leisure Centre and with the Pulse at Dursley

3.8 The Pulse at Dursley, which is operated directly by the District Council, has been working within the same Covid-19 closure restrictions as SPLC. A decision to close The Pulse was made slightly ahead of the announcement of government guidelines. It closed its operation on 17th March, five days before SPLC and reopened on 27 July.

3.9 During the lockdown period staff at the Pulse were not included in the furlough scheme. All staff were paid their normal wages (based on the previous twelve months) throughout the closure period. During this time, they were redeployed to other duties and some staff delivered a range of online classes and promotional videos.

3.10 Although the Pulse was not eligible for furlough support Central Government have committed to reimbursing 75% of lost income (after a 5% deductible). Stratford Park Leisure Centre is not eligible for this support.

3.11 It is not possible to carry out a direct like for like comparison between The Pulse and SPLC. SPLC and The Pulse differ in scale, the range of activities they offer and their geographical catchment. However, with a degree of caution a comparison of usage and performance serves to illustrate the impact of pandemic restriction on leisure provision in the district.

3.12 During the last full financial year April 2019 to March 2020, SPLC had 609,033 user visits with a subsidy by SDC of approximately 27p. During the same period The Pulse had 288,911 user visits with an estimated subsidy per use of 54p.

3.13 Since closing to the public on 17th March until 30 September 2020, The Pulse had an estimated 36,900 user visits. This compares with the same period last year, when it had 152,565 user visits.

3.14 Between April and September 2020 The Pulse saw an estimated 82% reduction in its income compared with the same period last year. SPLC reduction over the same period was 87%

3.15 To illustrate the impact on performance over the last six months at The Pulse tables 8 to 10 below provide a comparison of performance by income and footfall for April to September 2019 and 2020; the period since the introduction of lockdown restrictions.

Table 8: user visits and income - April to September 2019 (The Pulse)

2019	April	May	June	July	August	September
user visits	24,750	25,900	24600	26,800	25,700	24,850
Income	103,300	110,100	104,400	120,310	116,700	100,500

Table 9: user visits and income - April to September 2020 (The Pulse)

2020	April	May	June	July	August	September
User visits	0	0	0	3211	16,900	14,500
Income	-400	-1033	84.00	5700	38520	£70,000

Table 10: % variation in user visits and income April to September 2019 and 2020 (The Pulse)

20-19/20-21 % variance	April	May	June	July	August	September
User visits	-100%	-100%	-100%	-88%	-34%	-41%
Income	-100.38%	-101%	-99.9%	-95.28%	-66.85%	-30%

3.16 Stratford Park Leisure Centre's programme of work to develop business, maximise income and attract usage and provide community access.

3.17 Since the reopening of the facility, SDC has monitored the operation of contact closely. There is a high level of confidence that local management, supported by the wider group team has taken appropriate action to provide a range of accessible activities while maximising income and managing expenditure. This has included maintaining its current membership base and attracting some new sales.

3.18 KKP has also scrutinised the efforts which the site has made and believe the work undertaken by the SPLC team is generally in line with what other operators are doing.

3.19 From 25 July, since reopening the centre, SLM has adopted a "phased approach" to developing the programme and implementing a plan for businesses development.

3.20 It initially opened its health and fitness programmes, which incorporated group exercise classes. The aim of this approach was to get customers to feel safe and back into the business. This allowed important first income to be generated.

3.21 Alongside amended national guidelines relating to organised sport, SLM has opened a wider programme of activity.

3.22 From 21 August a second phase of opening allowed SLM to deliver up bookable activities including lane swimming, swimming lessons and club access for swimming, badminton, handball and table tennis clubs.

3.23 At the same time, it also opened outdoor tennis courts and outdoor football and hockey pitches to accredited sports clubs which complied with their sports' national governing body guidelines. Karate and squash have been provided since mid-September.

3.24 Walking football will commence on the all-weather pitch on the 19th October. To conform with Covid requirements this will be a supervised session.

3.25 Some activities, such as gymnastics and trampolining, are not being provided because of availability of sports hall space as other activities are re-located.

3.26 The current SPLC outline programme is as follows:

- *Opening times* - the centre is open from Monday to Friday 6am to 10pm and 7.30am – 10pm Saturday and Sunday
- *Rehabilitation and wellbeing* - Cardiac Rehab x 3 & Respiratory Rehab classes 28 September.
- *General access programme* - Fitness Gym, Group Exercise Classes, (Both income-generating activities), Squash, Badminton, Table Tennis, Junior Martial Arts classes, Volleyball, Hand ball, Tennis Courts, All Weather Pitch
- *Wet programme* - Swimming lessons (income-generating activity), General swimming Aqua and swimming Clubs
- *Dry programme* – Squash, Badminton, Table Tennis, Junior Martial Arts classes
- *Outdoor activities* – Tennis Courts and the All Weather Pitch for school's hockey

A breakdown of the current delivery status of activities is provided [Appendix One](#)

4. **Service Changes and implications**

4.1 SLM is concerned that the implications of reduced income and usage over the coming months may mean that the contract will not be financially sustainable. To mitigate the impact of reduced income it is taking a number of steps to reduce expenditure.

4.2 ***Anticipated redundancies***

4.3 On 1 September 2020 SLM contacted the Council to say that it was preparing to contact 19 members of staff to begin statutory consultation on redundancy. In addition, it said up to 80 non contracted (casual) workers would have their regular working hours reduced or ceased. The reasons given by SLM for this was primarily the impact of the closing of the furlough scheme and the consequent pressure to reduce costs.

4.4 ***Reduction in Services***

4.5 Alongside anticipated redundancies SLM informed SDC that it would not reopen the café service in order to reduce costs. As a result of reduced footfall and social distancing requirements it anticipated this will limit café use. The delivery of a café function is specified in the contract.

5. **Consideration of support for the contract**

5.1 ***Provision financial support***

5.2 Actual and forecast performance information provided by SLM indicate the contract is likely to have an annual deficit this financial year of £298,000. Independent specialist advice is that this is broadly in line with industry trends across operators. SLM has approached the Council and requested financial grant support to assist it to mitigate the

impact of this deficit through an approximate 50:50 share with the Council. The figure requested is £150,000.

- 5.3 This figure divides the forecast deficit equally between SDC and SLM. In doing this it equalises the risk. With so much uncertainty around the trading period this year the usual levels of confidence in forecasts is not possible.
- 5.4 However, in the light of the uncertainty of financial forecasts, if the loss is greater than £300,000 SLM will cover all of that additional loss. If the loss is less than £300,000 then the 50:50 split remains and the council's contribution will reduce pro rata. This gives SLM an incentive to grow income and mitigate the potential losses to both them and the Council.
- 5.5 ***Costs of delivering directly by Stroud District Council***
- 5.6 Industry specialists KKP has undertaken an assessment of likely costs to SDC if it were to take on the operation of SPLC directly. It has advised this would result in a direct net cost to the Council in this and in future years.
- 5.7 Notwithstanding the specific impact on trading because of the impact of Covid, it is estimated that the net increase in running costs to the Council of operating SPLC would be approximately £200,000 pa. This would principally be as a consequence additional NNDR (business rates) and staffing cost. It does not take into account any one off set up costs such as reconfiguring operating technology, transitional management/officer time and development of a revised marketing and communication platform. It should also be anticipated that to deliver the transfer there would be a break in service with a temporary closure of the facility.
- 5.8 Operating models which would not incur full NNDR costs (such as arm length trusts) are used by other local authorities. Understanding the strengths and weaknesses of these options requires detailed consideration. An assessment of operating models is included as an output of the forthcoming leisure review.
- 5.9 In addition to this net annual increase in cost, the impact of Covid-19 trading conditions would need to be taken into account. As referenced elsewhere in this report, in this financial year this is estimated at £300,000. The cost in future years is unknown but it is likely that difficult trading conditions will continue into 2021-22.
- 5.10 Based on these estimates and purely as an illustration, if the Council was to take over operation of SPLC for the final six months of this financial year, its cost could be expected to be at least £250,000, i.e. six months of £200,000 additional annual costs and six months of £300,000 Covid additional related costs. This does not include any one off costs which would be associated with the change of management arrangements.

6. OPTIONS FOR PROVIDING SUPPORT TO SLM.

- 6.1. The Council does not have any legal or contractual obligation to financially support SLM. Any decision to provide support will be altruistic in nature to ensure that a service is maintained from SPLC for residents of the District.
- 6.2. **Option 1 - The Council provides no further financial support**

- 6.3. With pressures on the Council's budget this option has direct financial advantages in the short-term, but risks future service provision and may incur additional costs in the future.
- 6.4. If SLM ceases to operate SPLC before the contract end date of 31 October 2021, it is the Council's position that this will be a breach of contract entitling the Council to terminate the contract and seek damages. To continue to provide a service under these circumstances would itself incur costs with potentially a break/disruption to services through a transition period.
- 6.5. **Option 2 - SDC supports SLM with capped at £150,000 support to offset its predicted deficit to the end of this financial year.**
- 6.6. A capped approach would allow the operator to build business and its relationship with its customer base.
- 6.7. Payments up to £150,000 would be in addition to the previous support provided by the Council and paid on an incremental and strict open book basis, i.e would not be lump sum up front.
- 6.8. It should be clear that the Council's contribution would not guarantee the reinstatement of any specific programmes and activities. The impact would be seen on activities where the cost of delivery is high and the income generated is relatively low. SLM would retain full control of its managing its cost base. This includes, if necessary, making staff redundancies.
- 6.9. The Council's contribution will enable SLM to trade more confidently, make medium term decisions and not enter into premature negotiations about exit from the contract
- 6.10. This option would recognise the most challenging period of business growth, between re-opening and Christmas. It would place risk on SLM and so further incentivise effective business planning. This amount takes into account anticipated receipt of £25,000 by SLM through the Job Retention Bonus.
- 6.11. This option would not be a guarantee against some level of redundancies. It would however provide a degree of mitigation and job losses and the maintenance of a degree of service provision. Council officers would advise on providing activities which best meet community need within available resources.

7. RECOMMENDATION

- 7.1. It is recommended that Option 2 is adopted and that a sum not in excess of £150,000 is allocated to assist in the reopening of Stratford Park Leisure Centre on an open book basis payable monthly in arrears
- 7.2. This amount recognises that in the months immediately after reopening it is likely that income would take time to grow while the majority of operating cost, including a large

proportion of staff costs, would be incurred at and in some cases ahead of the opening date.

7.3. Based on the forecasts provided by SLM, £150,000 would allow the company to provide a service broadly in line with its contractual obligations until income increases to approach the costs of operations in January 2021. To this extent it would incentivise SLM to develop its business during this period.

7.4. As noted at paragraph 5.2 This figure divides the forecast deficit equally between SDC and SLM. In doing this it divides the risk.

8. Implications

8.1 Financial Implications

8.2 The recommended option includes a capped cost to the Council of £150k. Previous reports to Strategy and Resources have established the principle that the net cost of Covid-19 will be funded from the Council's equalisation reserve. The sum of up to £150k will be recorded as a cost of Covid-19 and used to help calculate the draw on reserves at the end of 2020/21.

8.4 Any payment each month will only be made after receipt and analysis of open book financial information provided by SLM. At such point that the total grant awarded reaches £150 k no further payment will be made.

8.5 By making payments monthly in arrears the financial risk of sums lost through potential contractor default is mitigated.

8.6 Unlike for Council run leisure centres which receive 75% income reimbursement there is no equivalent grant support from central government for reimbursing local authorities with centres run by outsourced providers. Andrew Cummings, Strategic Director of Resources

8.7 Legal Implications

8.8 The legal implications are as set out in the last report which members are asked to refer to and are subject to legal advice privilege. If members wish to clarify any aspects of the legal advice, the Monitoring Officer will advise the Chair to move that the meeting go into closed session whilst any legal issues are discussed

8.9 Equality Implications

8.10 This report has been written with reference to the Councils Equality and Diversity Policy. Particular reference was made making services accessible and easy to use and providing the best possible standards of service and value for money to all our customers.

8.11 The council is committed to equality and the fair application of the policy, ensuring that people receive fair outcomes in the standard of service they receive from the Council and equality access to Council services, regardless of their race, gender, age, religion or

belief, sexual orientation, marital or civil partnership status and/or disability in line with the principles set out in the Equalities Act 2010.

8.12 Environmental Implications

There are no significant implications within this category.

CURRENT DELIVERY OF ACTIVITIES AT STRATFORD PARK LEISURE CENTRE (SUMMARY)

Activities	Running	Activities	Running
General Swimming	YES	Ninja Kids	YES
Swimming Lessons	YES	Karate	YES
Club Swimming	YES	Kick Boxing	YES
Aqua Class	YES	Martial Arts	YES
Over 50's Swimming	NO	Tae-Kwon-Do	YES
Under 5's Swimming	NO	Other martial arts	NO
Splash Time	NO	Gymnastics	NO
Fitness Gym	YES	Birthday Parties	NO
Personal Training	YES	Indoor 5-a-Side	NO
Group Exercise	YES	Netball/walking netball	NO
Cardio Rehabilitation	YES	Roller Skating	NO
GP Referral	YES	Trampolining	NO
Spin Classes	YES	Volleyball	NO
Table Tennis club	NO	AWP & Outside Tennis Courts	NO
Kickers Football under 5's	YES	School Hockey	YES
Badminton clubs	YES	Walking Football (19/10/20)	YES
General Badminton	YES	Walking Rugby	NO
Handball adult	NO	Gloucester Rugby Community	YES
Handball under 18's	YES	Football Clubs	YES
Stroud Hockey Clubs	YES	Squash Courts	YES
Stroud Tennis Club	YES	General Squash	YES
Netball (Fitness)	YES		