
Extension of existing leisure management contract from January 2023 to June 2023

Committee considering report:	Executive
Date of Committee:	3 November 2022
Portfolio Member:	Councillor Howard Woollaston
Date Portfolio Member agreed report:	6 October 2022
Report Author:	Paul Martindill
Forward Plan Ref:	EX4267

1 Purpose of the Report

- 1.1 To consider the extension of the current leisure management contract to June 2023 to allow for the conclusion of the leisure management procurement process.
- 1.2 The financial details are included in a Part II report due to the commercially sensitive information that could influence the current live procurement for a new 10 year management contract.

2 Recommendation

- 2.1 Executive resolves to:
- 2.2 Approve the forecasted costs relating to the extension of the Leisure Contract, as detailed in the Part II report, until the conclusion of the tender process due to be completed by June 2023 and that the Service Director for Communities and Wellbeing approves the variation agreement in consultation with Legal Services and Finance.

3 Implications and Impact Assessment

Implication	Commentary
Financial:	<p>In collating the revised budget pressures the following factors have been taken into consideration:</p> <ul style="list-style-type: none">• Continued loss of income resulting from the business disruption caused by the Covid pandemic

Extension of existing leisure management contract from January 2023 to June 2023

	<ul style="list-style-type: none"> • The unprecedented cost of energy inflation • Contract inflation at 9.1% • Efficiency savings that were based on the new leisure contract being procured one year earlier. • New competition in the local fitness market
Human Resource:	Provided the contract runs to the end of the agreed contract extension then TUPE will apply in relation to the obligations of the operator of the new contract.
Legal:	<p>There needs to be a variation in place with the financial scope clearly set out including against the base position. Any negotiations with Parkwood should ensure that there is no double counting including for energy provision.</p> <p>Any changes that entail termination of a service provision or termination of individual centres will need to be carefully considered.</p> <p>Since this report is not going to be in before end of October deadline for extension and that you have already committed to the tender process, it would be prudent to issue a letter to Legacy Leisure stating that until the Executive any continuation of this contract is on the existing financial position.</p> <p>Shiraz Sheikh, Sarah House & Dawn Bond 03.10.2022.</p>
Risk Management:	<p>The impact of energy cost inflation represents the biggest risk to accurately predicting the budget pressure for the remainder of this financial year and for the period April to June 2023.</p> <p>The impact of the general cost of living crisis on leisure centre attendances and income generation is difficult to predict with precision.</p>
Property:	Only one site, Northcroft Leisure Centre, is owned by West Berkshire Council and does not have any Joint Use Agreements in place with schools and Parish Councils.
Policy:	Leisure Centres provide a major contribution to the health and well-being of residents

Extension of existing leisure management contract from January 2023 to June 2023

	Positive	Neutral	Negative	Commentary
Equalities Impact:		X		
A Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?		X		
B Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?		X		
Environmental Impact:		X		
Health Impact:		X		
ICT Impact:		X		
Digital Services Impact:		X		
Council Strategy Priorities:		X		
Core Business:		X		
Data Impact:		X		
Consultation and Engagement:	Any proposal to reduce the leisure offer would be subject to a formal consultation exercise as per Council policy.			

4 Executive Summary

- 4.1 Budget pressure on the leisure centre service has been driven by two primary factors, the disruption caused to business continuity by the Covid pandemic and energy inflation and the associated cost of living crisis.
- 4.2 The Sport, Leisure and Culture Consultancy (SLC) was selected from the Sport England approved list to review Parkwood's financial forecasts to the end of extended contract period. Their conclusion is that the contract has not seen a particularly strong post-Covid recovery compared with national averages, but that the recovery is within the range of other contracts reviewed. The SLC report is included in the appendices of the Part II report.
- 4.3 All options to mitigate the cost to the Council have been explored and are detailed in the Part II report.
- 4.4 Recent Government announcements relating to energy caps for businesses is forecast to achieve some savings in the period October 2022 to March 2023. Professional leisure bodies are continuing to actively lobby National Government for support because the current economic circumstances are an existential threat to the leisure industry.
- 4.5 In view of all the options considered, it is recommended to extend the contract for a further six months to enable the current procurement process to be completed and a new contract awarded in March 2023 with commencement on 01 July 2023.
- 4.6 The contract extension will be on the basis of the continuation of an open book arrangement.
- 4.7 The new leisure contract will reveal the impact of the Council's committed capital investment (£9M+) alongside new proposals for programming and marketing. Following the evaluation of tenders, the Council will be better informed of the long-term financial costs of maintaining all the leisure centre services. It is therefore, recommended to support the leisure operator through to the end of the current contract period until June 2023, and then to determine the scope of services and on-going affordability, when the contract evaluation is reported to West Berkshire Council in March 2023.

5 Supporting Information

Introduction

- 5.1 During the Covid pandemic, leisure centres were required to close for a period of five months in 2020 and for four months in 2021, resulting in substantial business disruption. The national leisure industry has not witnessed a return to pre-Covid pandemic levels for attendances. In 2022 energy inflation, and the associated cost of living crisis, has resulted in a stagnating recovery, creating severe budget pressures for the current financial year.

Background

Support Agreement during Covid Pandemic

- 5.2 In line with Government guidance for Local Authorities, a support mechanism was agreed with the leisure operator. This was essential to ensure the leisure operation could remain viable during closures when no income was achieved.
- 5.3 The closures did not run over a continuous 12 month period, however, the centres were closed for almost ten months in total. Following each of the three openings, Covid restrictions continued to apply which meant that centres could not operate at their full capacity for approximately a further seven months.
- 5.4 With the extension of the current contract for an additional year, it is a condition of the agreement that the leisure operator continues to receive support until either a recovery is seen or the extension to the contract comes to an end.

Current Position

- 5.5 Central Government support ceased in March 2022, leaving local authorities to negotiate with leisure operators to determine the ongoing levels of financial support required to continue service delivery.
- 5.6 In 2022 the UK has witnessed a significant increase in energy inflation, unprecedented in the last 50 years and this has added significant operational costs to leisure centre management. However pre-agreed energy purchasing arrangements undertaken by Parkwood has offered a degree of protection to inflation in comparison to other leisure contracts. Over the course of the coming months, these purchasing arrangements end.
- 5.7 Due to the costs of heating pools, supplying power to fitness equipment, the cost of heating, lighting, air conditioning in sports halls and changing rooms, energy inflation has a much more significant impact on leisure centres than on other services.
- 5.8 In March 2022 a new 220 station Pure Gym opened approximately 0.5 miles from Northcroft Leisure Centre creating additional competition in the leisure market.
- 5.9 In summary, these factors have led to a budget pressure until the conclusion of the current contract at the end of June 2023.
- 5.10 To test the legitimacy of Parkwood's financial forecasts (both income and expenditure) and to compare their performance with other operators in the market, an external review was commissioned and undertaken by Sports, Leisure and Culture (SLC), an approved consultancy from Sport England's Framework of Suppliers. Parkwood were fully co-operative during this process.

Key Findings in SLC Report

- 5.11 The SLC report highlights that comparisons should be used with extreme caution given that a number of factors will impact on recovery including the mix of facilities, age of the building, local demographics, local changes to demand and supply and local decisions relating to the speed of reopening.

5.12 The national fitness market has failed to return to pre-Covid levels. This impact has been exacerbated in West Berkshire by the opening of new competing facilities in the area, which have taken market share from Council provision.

The Benefits of the Leisure Centre Services

5.13 Since 2015, West Berkshire has witnessed increasing provision from the commercial sector, with the arrival of the David Lloyd Centre and, in more recent years, the expansion of Pure Gyms. Most of the commercial sector is providing its services primarily for adults. In contrast to this, West Berkshire's public leisure centres provides a unique offer of affordable health and well-being services that make a significant contribution to the health and social well-being of all residents.

5.14 Prior to Covid, leisure centres were at just over 1,000,000 visits per annum. Uniquely, the centres provide swimming lessons for more than 20 primary schools and some secondary schools, and there are more than 2,500 children on the centres swimming programme outside of school usage. Many older people who experience problems with joints use swimming as their main activity to sustain their health. The pools are also heavily used by children and families during school holiday periods.

5.15 West Berkshire's leisure centres offers a home to many local sports clubs including Newbury and District Swimming Club, Burghfield FC, four martial arts clubs, badminton clubs, cricket clubs, West Berkshire Fencing Club and West Berkshire Roller Skating Club, enhancing community cohesion and local identity and bringing together children, adults, volunteers and coaches to enable many people to fulfil their sporting potential and improve their quality of life.

5.16 Specific health initiatives run from West Berkshire's leisure centres including the Activity for Health programme which includes the GP Exercise on Referral programme which is targeted at people at risk of coronary heart disease and provides a first stepping stone back into activity, which can potentially be live saving.

Proposals

5.17 To retain the full opening of the leisure centres and to report on the affordability of retaining the full service following the completion of tender evaluations and negotiations to Executive in March 2023.

5.18 During this period Parkwood performance will be actively monitored by the leisure client team to try to improve the financial position.

5.19 The leisure client team will also actively review all proposed expenditure relating to maintenance and equipment to ensure vital services are maintained but any areas of optional expenditure are evaluated before budget is committed

6 Other options considered

6.1 These are detailed within the Part II report

7 Conclusion

7.1 The review of financial performance and forecasts for 2022/23 has not revealed any opportunities for the Council to significantly reduce the cost of its leisure facilities in the short term. The income and expenditure forecasts provided by Parkwood Leisure are generally reasonable. Under an open book process the actual costs will be determined by Parkwood's operational performance and may be less than those forecast but equally, the possibility remains that the costs could be as forecast, or even worse. Similarly, an upturn in market conditions linked to stronger income recovery than projected by Parkwood will reduce the deficit but if recovery rates continue to stagnate then this could have the opposite effect. In the current circumstances it is recommended to provide financial support and to extend the current contract from January to June 2023 to enable the procurement of a new leisure management contract to be concluded – please refer to Part II report for financial details.

8 Appendices

8.1 None

Subject to Call-In:

Yes: No:

The item is due to be referred to Council for final approval

Delays in implementation could have serious financial implications for the Council

Delays in implementation could compromise the Council's position

Considered or reviewed by Overview and Scrutiny Management Committee or associated Task Groups within preceding six months

Item is Urgent Key Decision

Report is to note only

Wards affected: All

Officer details:

Name: Paul Martindill
Job Title: Interim Service Lead - Leisure
Tel No: 07575202839
E-mail: paul.martindill1@westberks.gov.uk
