

Companies Committee



SOUTH
KESTEVEN
DISTRICT
COUNCIL



Tuesday, 21 September 2021 at 2.00 pm
Council Chamber - South Kesteven House, St. Peter's
Hill, Grantham. NG31 6PZ

Cabinet Councillor Graham Jeal (Chairman)
Members: Councillor John Dawson (Vice-Chairman)

Councillor Bob Adams
Councillor Ashley Baxter
Councillor Philip Knowles
Councillor Susan Sandall
Councillor Ian Stokes,
Councillor Mark Whittington

Agenda Supplement

5. LeisureSK Ltd Performance Report

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Report attached which was marked 'to follow' on the agenda originally published

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**SOUTH
KESTEVEN
DISTRICT
COUNCIL**



Companies Committee

21 September 2021

Report of: Councillor Barry Dobson

The Deputy Leader of the Council

LeisureSK Ltd Performance Report

To provide an update on the performance of LeisureSK Ltd against the approved Business Plan for 2021/22.

Report Author

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Corporate Priority:	Decision type:	Wards:
Healthy and Strong Communities	Administrative	Two or more Wards

Reviewed by:	Susie McCahon, Leisure Officer	13 September 2021
Approved by:	Nicola M ^c Coy-Brown, Director of Growth and Culture	14 September 2021
Signed off by:	Councillor Barry Dobson, The Deputy Leader of the Council	15 September 2021

Recommendation to the decision maker

1. That Companies Committee notes the current progress of LeisureSK Ltd against the approved Business Plan for 2021/22.

1 The Background to the Report

- 1.1 Leisure is a key service for the Council as a high-profile customer facing service used by many residents of the district. The service encourages participation in sport, physical activity and recreation and makes a significant contribution to the Council's Corporate Plan (2020-2023) priority around the health and wellbeing agenda.
- 1.2 The Business Plan for LeisureSK Ltd from January 2021 to March 2022 was considered and approved at a meeting of Companies Committee on 23 February 2021, during which Members agreed to receive an update on the performance of LeisureSK Ltd twice yearly.
- 1.3 LeisureSK Ltd commenced the management of the Council's four leisure facilities in January 2021. However, in line with the government guidelines, the leisure centres remained closed until a gradual reopening commenced in late March 2021.
- 1.4 During the national lockdown a communications plan was developed which included a series of messages to ensure customers remained engaged and were updated on the transfer of the facilities to LeisureSK Ltd.
- 1.5 LeisureSK Ltd also developed and managed a weekly programme of online exercise classes that were accessible by the membership of all four leisure centres. These were live streamed and hugely successful in engaging with customers and providing opportunities for the membership to remain active, whilst they were unable to attend the leisure centres.
- 1.6 At the end of March 2021, some access to outdoor facilities was permitted. On 12 April 2021, most of the indoor activities were able to recommence. However, some activities, such as exercise classes, were not permitted until 17 May 2021.
- 1.7 In July 2021, all restrictions were lifted, and the centres were fully reopened. All activities have remained bookable in advance to ensure that customers can use the facilities safely, and that numbers can be monitored.
- 1.8 The LeisureSK Ltd business plan for 2021/22 includes a summary of the trading position and a budget for the associated management fee payable to the company. For the period January 2021 to March 2022 this was originally assessed to be £780,722.
- 1.9 Whilst the centres remained closed, or activities were limited, the Directors of LeisureSK Ltd ensured that appropriate steps were taken to mitigate the financial impact on the company and the Council. This included the use of the furlough scheme for most of the employees, with a small core of operational staff being retained to undertake necessary health and safety and operational building checks.
- 1.10 Whilst the leisure centres were closed, opportunities to attract income were severely limited. However, LeisureSK Ltd were able to offset some of the costs from a hire fee obtained from renting out the Table Tennis Centre at Grantham Meres Leisure Centre to the local Clinical Commissioning Group (CCG). The centre currently remains in operation as one of the main vaccination sites for Lincolnshire. In addition to the hire fee charged, LeisureSK Ltd have been able to recharge other associated costs. Since the centre reopened, this has included an element of loss of income.
- 1.11 In December 2020, Sport England launched the National Leisure Recovery Fund. The fund totalled £100 million and was established by the Department of Culture Media and Sport (DCMS) to support the reopening of public sector leisure facilities following the national lockdown.

- 1.12 As a result of a successful application, the Council were awarded a total of £320,597 from the fund. This award reduced the amount of support LeisureSK Ltd will require from the Council in the current financial year.
- 1.13 Additionally, it has been necessary to reassess the business rate liability for LeisureSK Ltd. When the company was originally established, the Council received advice on the optimal company structure which would allow the company to take advantage of tax and business rate savings. As a result of this advice, it was originally envisaged that the company would apply to the Council for 100% discretionary business rate relief on the basis that the company was not for profit and was engaged in the delivery of leisure and physical activity within the district.
- 1.14 However, the budget in March 2021 provided an extension of the business rates holiday for the leisure centres until the end of June 2021, after which time, the rates liability was discounted to one-third. If LeisureSK Ltd were liable for the full business rates liability, in the current year this would be £580,000. Considering the measures announced in the budget, this reduced the liability to £148,000.
- 1.15 The Council's S151 Officer undertook financial modelling to establish the impact of the reduced business rates liability and determine the most financially advantageous outcome for the Council. As 40% of any business rates payable are retained by the Council, this work concluded that the optimum scenario for 2021/22 was for LeisureSK Ltd to pay the business rates liability. An assessment will be made for future years, and if appropriate, the company will apply for 100% discretionary relief.
- 1.16 The amount set aside in the Council's budget for the management fee payable to LeisureSK Ltd for April 2021 to March 2022 was originally £500,000. However, this did not include any management fee payments for the three-month period January 2021 to March 2021.
- 1.17 On 18 May 2021, Cabinet considered a report detailing the impact of receipt of the grant from the National Leisure Recovery Fund and the payment of the residual business rate liability. This is demonstrated below:
- | | |
|-----------------------------|------------|
| Management Fee | £780,722 |
| Leisure Recovery Fund award | (£320,597) |
| Business rate liability | £148,000 |
| Revised management fee | £608,125 |
- 1.18 In consideration of the report, Cabinet formally agreed to accept the award from the National Leisure Recovery Fund and approved an additional budget of £108,125. Furthermore, delegated authority was provided to the Director of Growth and Culture, in consultation with the Council's S151 Officer, to determine the final amount of management fee payable to LeisureSK Ltd for the period January 2021 to March 2022. The final amount claimed by LeisureSK Ltd will be subject to a full reconciliation of the income and expenditure of the company.
- 1.19 The following table demonstrates the current financial position for LeisureSK Ltd. The information provided covers the year-to-date position (January to July 2021).

	January to July 2021		
	Budget	Actual	Variance
Grantham	137,680	218,825	81,145
Bourne	113,731	127,422	13,691
Stamford	23,578	73,467	49,889
Deepings	41,460	75,871	34,411
Central	244,976	164,255	(80,721)
	561,425	659,840	98,415
Management Fee	(375,000)	(375,000)	0
Business Grants	0	(144,856)	(144,856)
Furlough	0	(207,952)	(207,952)
	(375,000)	(727,808)	(352,808)
Total	186,425	(67,968)	(254,393)

- 1.20 As shown in the table (above), during the period January to July 2021, LeisureSK Ltd benefitted from the small business grant scheme. These were provided by Central Government and administered by InvestSK, and a total of £144,856 was received.
- 1.21 In addition, £207,952 has been received in furlough payments, and the Council has made a total management fee payment year to date of £375,000.
- 1.22 For the period January to July 2021 LeisureSK Ltd are currently behind the budget position by £98,415. However, the small business grants and furlough payments received have created a surplus which will support the business over the remainder of the financial year.
- 1.23 Work is currently ongoing with the Council's Finance Team to assess any further budget adjustments necessary to account for the payment of the business rates liability for 2021/22, and the receipt of the grant from the National Leisure Recovery Fund.
- 1.24 Now that that leisure centres have fully reopened, and no further grants are anticipated, the Directors of LeisureSK Ltd will be closely monitoring the income and expenditure of the company against the budget. How the recovery of the leisure centres compares with wider leisure sector performance will also be assessed to ensure that all opportunities to maximise income are explored.
- 1.25 Following the temporary closure of Deepings Leisure Centre, it has been necessary to assess the impact of this on the business plan and the Council's anticipated management fee liability.
- 1.26 Sport and Leisure Consultancy (SLC) have undertaken some work to revisit the financial projections previously prepared to assess the impact of the closure whilst refurbishment options are being explored. SLC were also requested to provide a view on the impact of any migration by customers to the other facilities in the Council's leisure portfolio.

- 1.27 This work has included a review of alternative facilities available for the customers of Deepings Leisure Centre and has identified that nearly 70% of current Deepings Leisure Centre members have another LeisureSK Ltd facility as their closest alternative.
- 1.28 Feedback has been received from LeisureSK Ltd on their capacity to accommodate additional users, and a set of assumptions has been developed on the level of income to be retained within the contract.
- 1.29 An assessment has also been made on any additional costs. This has included an increase in swim school and children's activity staff costs at Bourne and Stamford which have been amended in line with the projected rise in income in these areas. Redundancy costs have not been included as these are currently unknown, and it is hoped that most of the staff will be redeployed into other roles.
- 1.30 Grounds maintenance costs totalling £13,000 have been added to the Deepings Leisure Centre business plan accounts. This relates to the cost of maintaining the Linchfield Road Playing Fields which, together with the income from outdoor activities, are the only items which have been retained in the baseline business plan for Deepings Leisure Centre whilst the centre remains closed.
- 1.31 An appropriate business plan for Deepings Leisure Centre will need to be developed as part of the consideration of options for refurbishment and redevelopment of Deepings Leisure Centre. These are due to be considered by a joint meeting of Companies Committee and the Culture and Visitor Economy Overview and Scrutiny Committee later this year.
- 1.32 The table below details the original projections previously provided by SLC for year one and year two of the contract (these are for the periods January to December each year and do not take account of the initial fifteen-month trading period previously agreed):

	Year 1 2021	Year 2 2022	2 Year Total		Year 1 % of baseline	Year 2 % of baseline
Sales	1,761,659	3,551,845	5,313,504		48%	97%
Cost of Sales	(48,972)	(123,451)	(172,423)		38%	96%
Gross Profit	1,712,688	3,428,393	5,141,081		49%	97%
Staff Costs	(1,009,859)	(1,693,115)	(2,702,973)		58%	98%
Utilities	(586,259)	(747,142)	(1,333,400)		78%	100%
Premises Costs	(118,663)	(163,201)	(281,864)		72%	99%
Marketing & Comms	(79,216)	(71,522)	(150,738)		109%	98%
Central Costs	(231,394)	(309,805)	(541,199)		72%	97%
Total Operating Costs	(2,025,391)	(2,984,784)	(5,010,175)		67%	98%
Operating Surplus (Deficit)	(312,703)	443,610	130,906		-66%	93%
Support Costs & Depreciation	(432,840)	(443,000)	(875,840)		98%	100%
Total Surplus (Deficit)	(745,543)	610	(744,934)		-2240%	2%
NNDR Cost to Council	(87,088)	(116,118)	(203,206)		100%	100%
2020/21 NNDR Holiday	-25%					
Total including NNDR	(832,632)	(115,508)	(948,139)		1547%	139%

- 1.33 The table to follow, reflects the updated position resulting from the closure of Deepings Leisure Centre and a projected impact of the increased revenue and costs from August 2021. For consistency this reflects trading periods of January to December each year.

	Year 1 2021	Year 2 2022	2 Year Total	Year 1 % of baseline	Year 2 % of baseline
Sales	1,631,012	3,157,770	4,788,782	47%	97%
Cost of Sales	(46,108)	(112,172)	(158,280)	38%	96%
Gross Profit	1,584,904	3,045,598	4,630,502	48%	97%
Staff Costs	(904,974)	(1,434,951)	(2,339,925)	56%	97%
Utilities	(515,594)	(567,617)	(1,083,211)	78%	100%
Premises Costs	(111,644)	(144,130)	(255,773)	72%	99%
Marketing & Comms	(72,607)	(57,046)	(129,653)	112%	100%
Central Costs	(210,833)	(249,205)	(460,038)	73%	97%
Total Operating Costs	(1,815,651)	(2,452,950)	(4,268,601)	66%	98%
Operating Surplus (Deficit)	(230,747)	592,648	361,901	-42%	95%
Support Costs & Depreciation	(424,090)	(422,000)	(846,090)	98%	100%
Total Surplus (Deficit)	(654,837)	170,648	(484,189)	-555%	84%
NNDR Cost to Council	(81,059)	(100,041)	(181,100)	100%	100%
2020/21 NNDR Holiday	-25%				
Total including NNDR	(735,896)	70,607	(665,289)	-1997%	69%

- 1.34 A significantly improved financial position for LeisureSK Ltd is demonstrated, with a total deficit over the two-year period of £484k, compared to £745k in the original business plan. Work is currently being undertaken to align these projections with the previously agreed financial years, year one being a fifteen-month period. As part of this work, the impact on year two will be established and included in the LeisureSK Ltd Business Plan for 2022/23.

2 Consultation and Feedback Received, Including Overview and Scrutiny

- 2.1 Companies Committee have previously committed to undertake scrutiny on the performance of LeisureSK Ltd against the company's Business Plan twice yearly. This is the first report of this nature.
- 2.2 Culture and Visitor Economy Overview and Scrutiny Committee remain responsible for assessing the progress of LeisureSK Ltd against the contract outcomes and key performance indicators. A report detailing the first six months performance was considered at a meeting of the Committee on 8 September 2021.

3 Available Options Considered

- 3.1 Not applicable.

4 Preferred Option

- 4.1 That Companies Committee note the progress of LeisureSK Ltd against the 2021/22 Business Plan and provide feedback on the level of information required in future reports.
- 4.2 That a Business Plan for 2022/23 is presented to a future meeting of Companies Committee for consideration and endorsement.

5 Reason for the Recommendation

- 5.1 This report details the progress of LeisureSK Ltd against the 2021/22 Business Plan which was endorsed by Companies Committee in February 2021.

6 Next Steps – Communication and Implementation of the Decision

- 6.1 The Directors of LeisureSK Ltd remain responsible for the operational and financial performance of the company.
- 6.2 Work is ongoing to assess the impact of the temporary closure of Deepings Leisure Centre and the resulting impact on the budget for LeisureSK Ltd for April 2022 to March 2023. This will be included in the Business Plan for LeisureSK Ltd 2022/23 which will be considered at a future meeting of Companies Committee prior to the commencement of the financial year.
- 6.3 At the end of the current financial year, a full reconciliation of all income and expenditure will be undertaken to determine the final amount of management fee to be paid to LeisureSK Ltd.

7 Financial Implications

- 7.1 In the current environment, difficulty remains in accurately predicting the income and expenditure of LeisureSK Ltd. SLC have provided consultancy support to assess the impact of the temporary closure of Deepings Leisure Centre on the business plan for LeisureSK Ltd and the Council can therefore be reasonably comfortable with the overall approach. A summary of the current trading financial information is included in this report.
- 7.2 The information received from SLC will need to be aligned with the previously agreed financial year periods, the result of this work will be included in the Business Plan for LeisureSK Ltd for 2022/23. This will determine the amount of financial support, if any, will be required by the Council during the next financial year.

Financial Implications reviewed by: Richard Wyles, Assistant Director of Finance and s151 Officer

8 Legal and Governance Implications

- 8.1 This report provides an update on the progress of LeisureSK Ltd against the Business Plan for 2021/22 which was previously endorsed by Companies Committee in February 2021. The Committee will need to satisfy itself that management arrangements are suitably robust and appropriate.

Legal Implications reviewed by: Mandy Braithwaite, Legal Executive

9 Equality and Safeguarding Implications

- 9.1 LeisureSK Ltd has an Equality and Diversity Policy and a Safeguarding Policy which have been adopted by the Board of Directors and embedded into the company.
- 9.2 The Board of Directors are responsible for ensuring that these policies are fully implemented and that the staff employed in the leisure centres, and the customers that use them, are kept safe and not disadvantaged in any way.

10 Risk and Mitigation

- 10.1 The Board of Directors maintain and regularly review a Risk Register for LeisureSK Ltd. This includes all known and emerging risks to the business and any mitigating actions.
- 10.2 The Council's Head of Leisure is responsible for ensuring that all risks are appropriately recorded and managed to protect the Council's interests.

11 Community Safety Implications

11.1 None arising from this report.

12 How will the recommendations support South Kesteven District Council's declaration of a climate emergency?

12.1 The Council's leisure facilities currently account for 41.5% of the Council's carbon emissions. The Board of Directors and management of LeisureSK Ltd remain committed to the efficient management of carbon emissions and will explore any future opportunities that arise to establish the associated costs and benefits.

12.2 As part of the Council's leisure improvement plans the introduction of carbon efficient measures will be considered as part of the planned improvements to the leisure centres.

13 Other Implications (where significant)

13.1 None arising from this report.

14 Background Papers

14.1 *LeisureSK Ltd Performance Report, September 2021* - Report to Culture and Visitor Economy Overview and Scrutiny Committee, published 8 September 2021, available online via:

<http://moderngov.southkesteven.gov.uk/documents/s30751/LeisureSK%20Ltd%20Performance%20Monitoring%20Report.pdf>

14.2 *LeisureSK Management Fee* - Report to Cabinet, Published 18 May 2021, available online via:

<http://moderngov.southkesteven.gov.uk/documents/s29616/LSK%20Management%20Fee.pdf>

14.3 *LeisureSK Ltd Business Plan 2021/22* - Report to Companies Committee, published 23 February 2021, available online via:

<http://moderngov.southkesteven.gov.uk/documents/s29153/LeisureSK%20Ltd%20Business%20Plan%20202122.pdf>