



**SOUTH
KESTEVEN
DISTRICT
COUNCIL**

Companies Committee

21 October 2020

Report of: Councillor Barry Dobson

The Deputy Leader of the Council



LeisureSK Company Structure and Business Plan

This report follows the decision by Cabinet, and the subsequent endorsement of Companies Committee, to transfer the leisure service to LeisureSK on the expiry of the current leisure contract on the 2 January 2021. The report details the further work which has been undertaken to establish the company and develop a high-level five-year business plan for LeisureSK.

Report Author

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Corporate Priority:	Decision type:	Wards:
Agility	Administrative	Two or more Wards

Reviewed by:	Paul Clarke, Finance Lead – Housing Delivery	8 October 2020
Approved by:	Karen Bradford, Chief Executive	13 October 2020
Signed off by:	Councillor Barry Dobson, The Deputy Leader of the Council	13 October 2020

Recommendation (s) to the decision maker (s)

1. Notes the further work undertaken to establish the optimal company structure for LeisureSK which will ensure that the company is financially efficient and can benefit from savings in relation to VAT and business rates.
2. Endorses the draft Articles of Association, Members Agreement and Resourcing Agreement detailed within the report as the main documents which will govern the Council's relationship with LeisureSK.

3. **Endorses the five-year high-level business plan provided within the report for the purposes of allowing the Council to make appropriate budget allocations to support the ongoing operation of LeisureSK.**
4. **Agrees to receive a detailed business plan from the Directors of LeisureSK at the earliest opportunity once the company has been fully established and the Directors have been appointed.**
5. **Endorses the commencement of a recruitment process to identify a suitably qualified and skilled Non-Executive Director to sit on the Board of Directors for LeisureSK.**
6. **Recommends to Council that the Leader of the Council and the Director of Growth and Culture be appointed as Directors of LeisureSK.**
7. **Notes that LeisureSK may require working capital in advance of the company being operational in order to ensure a smooth transition to the new arrangements.**

1 The Background to the Report

- 1.1 On the 18 August 2020 Cabinet made a decision to transfer the leisure service to a wholly-owned Council company on the expiry of the Council's leisure contract with Leisure in the Community Ltd (trading as 1Life) on the 2 January 2021.
- 1.2 Due to the short timescale, and the urgent nature of the work, Companies Committee considered a report on the 22 September 2020, and as a result endorsed the establishment of LeisureSK and recommended to Council that a budget not exceeding £500,000 should be established in order to support the associated upfront costs of forming the company.
- 1.3 Since the meeting of Companies Committee on the 22 September 2020 work has been undertaken to establish the optimal company structure for LeisureSK, and on a mobilisation plan to ensure a smooth transition of the leisure service to the new arrangement on the 3 January 2021.
- 1.4 This has included the development of a five-year business plan, preparing draft Articles of Association and associated legal documents, and the consideration of the appointment of additional Directors.
- 1.5 Work has also continued with regard to consulting with the existing leisure centre staff on their transfer to LeisureSK and to identify the necessary equipment, IT arrangements and supplier agreements that will be necessary to ensure the continued operation of the leisure facilities.

Establishment of LeisureSK:

- 1.6 As detailed within the report presented to Companies Committee on the 22 September 2020 LeisureSK had already been established as a 'shell' company in order to protect the company name. This has also allowed the Council to start to put the necessary infrastructure in place including applying for a bank account.
- 1.7 LeisureSK has been set up as a not for profit Teckal company limited by guarantee. Teckal is a term derived from a European case that enables a public body to set up a company for which at least 80% of its activities are on behalf of that public body. The Teckal status of the company enables the Council to directly award the leisure services contract without going through a competitive tender process. In turn, it also means that the company has to procure goods and services through EU procurement law.

- 1.8 To ensure that LeisureSK can benefit from the optimum VAT position and take advantage of any National Non-Domestic Rate (business rate) relief, the Council has received independent advice from PS Tax and Bevan Brittan on the optimum way to structure the company.
- 1.9 As a result of this advice LeisureSK has been established as a non-profit distributing organisation (NPDO). This will allow the company to qualify for VAT exemptions in Group 6 (Education) and Group 10 (Sport, sports competitions and physical education) of Schedule 9 to the VAT Act 1994.
- 1.10 The NPDO status will allow LeisureSK to apply a VAT exemption to the majority of the services it offers including gym memberships, casual gym use, swimming, personal training sessions, hire of sports facilities and coaching/training sessions. This will avoid LeisureSK either having to absorb the VAT element of the fees and charges or having to increase the cost of activities by 20% to cover the VAT.
- 1.11 Although LeisureSK is a wholly-owned Council company, in order to achieve the maximum VAT savings it will be necessary to ensure that there are formal arrangements between the two organisations which clearly establish their relationship and demonstrate that LeisureSK is sufficiently independent from the Council. This will be necessary in order to satisfy the requirements relating to independence as set out by HMRC.
- 1.12 It will be necessary therefore to put in place legal arrangements between the Council and LeisureSK. The Council will define its relationship with LeisureSK through a combination of the following key documents:
- Leisure Management Contract:**
- 1.13 This document will provide a formal basis for the operation of the leisure service and will detail the Council's expectations on how the leisure facilities will be managed. The contract will also contain a leisure services specification which will set the operating parameters of the facilities and the key performance indicators the Council will expect LeisureSK to achieve on its behalf.
- 1.14 The leisure management contract is currently being developed and it is proposed that the initial term will be for two years with the ability to extend this term annually up to a maximum total of five years from the 3 January 2021.
- 1.15 The Council's leisure team will be responsible for the management of the leisure contract with LeisureSK, ensuring that the facilities are being operated safely and to a high standard in line with the Council's requirements.
- Leases and Alternative Arrangements:**
- 1.16 As Grantham Meres Leisure Centre and Stamford Leisure Pool are owned by the Council, it is proposed that the Council will grant a lease to LeisureSK for each of these two facilities. As Deepings Leisure Centre and Bourne Leisure Centre are dual use facilities, and therefore not under the Council's ownership, alternative appropriate arrangements will need to be in place to provide LeisureSK with the authority to run these two facilities on the Council's behalf. The Council is currently working with legal advisers to finalise the arrangements; for Bourne this is likely to be a licence to operate the facilities, and in the case of Deepings Leisure Centre all parties will sign up to a letter of agreement.
- 1.17 In line with the contract it is proposed that the leases and alternative arrangements are also for an initial term of two years which will be reviewed annually up to a maximum of five years in total.

Resourcing Agreement:

- 1.18 A draft Resourcing Agreement is attached to this report at Appendix One. This document details the support services the Council will provide to LeisureSK including finance, HR, asset management and IT support. The Council will recharge the company for any services provided in this regard, which again demonstrates independence from the Council in order to benefit from the VAT exemption.

Articles of Association:

- 1.19 Draft Articles of Association are attached to this report at Appendix Two. This document sets out the Council's relationship with LeisureSK and, together with the Members Agreement, will form the governance arrangements for the company.
- 1.20 LeisureSK has been established as a company limited by guarantee with the Council being the sole shareholder. The Council's liability is limited to £1 which is the amount that it undertakes to contribute to the assets of the company in the event of it being wound up.
- 1.21 The objects of the company are:
- a) to provide leisure, sports and cultural facilities and services;
 - b) to liaise and co-operate with all interested groups within the community to develop and deliver this service;
 - c) to promote and enter into partnerships or arrangements of all kinds to improve or extend the facilities and services offered;
 - d) to explore all avenues of funding and finance for such services;
 - e) to improve health and wellbeing through a range of outcomes, including reduced obesity, reduced anti-social behaviour and narrowing the health inequality gap;
 - f) to increase jobs, strengthening the local economy and enable children, young people and adults to learn and be ready for work;
 - g) to carry on any other trade or business which in the opinion of the Directors is in the best interest of the company or the Council; and
 - h) without prejudice to any of the objects listed above to carry on any trade or business of a general commercial company.
- 1.22 Subject to the provisions of the Articles of Association the Directors of LeisureSK will be responsible for the management of the company's business. However, included within the Articles is a provision that the Council may by special resolution direct the Directors to take, or refrain from taking, specified action.
- 1.23 The Articles of Association include the procedures for meetings, decision making and resolutions by the Board of Directors. The numbers of Directors shall be a minimum of one and a maximum of five and the quorum for the transaction of business of the Directors shall be two.
- 1.24 As owner of the company and sole shareholder the Council will have the right to appoint and remove Directors at any time.
- 1.25 The Articles of Association provide that the Directors will be able to purchase and maintain insurance which will protect the Directors from any losses.

Members Agreement:

- 1.26 A draft Members Agreement is attached to this report at Appendix Three. This is a legally binding document which sets out the Council's requirements of LeisureSK and how the company will be managed.
- 1.27 The Members Agreement details the information and reports the Council will be entitled to receive and also identifies the process of receiving and agreeing the company's business plan.
- 1.28 Schedule One of the Members Agreement sets out the Reserved Matters which details a list of actions the company must not undertake without having the express consent of the Council. These include preventing the company from varying the Articles of Association, undertaking any borrowing, or engaging in any activity other than that agreed within the business plan.
- 1.29 Due to the size of LeisureSK, and the nature of the business, it is proposed that the Council recruits a Non-Executive Director to the Board of LeisureSK. The successful person will have in-depth leisure industry knowledge and will represent the Council's interests, providing independent oversight and constructive challenge to the Board of Directors. This is seen as best practice for local authority companies, as highlighted in the recent public interest report into Robin Hood Energy.
- 1.30 The Non-Executive Director will not be responsible for the day-to-day management of LeisureSK but will provide advice and direction to the Board.
- 1.31 It will be necessary to ensure that the Non-Executive Director has significant industry knowledge, and appropriate skills and experience. Therefore, it is proposed that the Council undertakes a thorough recruitment process to identify a suitably qualified candidate. A draft recruitment pack has been provided with this report at Appendix Four.

LeisureSK Five-year Business Plan:

- 1.32 The Council has retained the services of Sport and Leisure Consultancy Ltd (SLC) to help develop a five-year business plan for LeisureSK. As the basis for this work SLC has further refined the financial model it has previously provided to the Council which was used to assess the Covid-19 recovery plans provided by 1Life. This was then compared against the option of transferring the leisure service to a wholly-owned Council company and formed the basis of the decision by Cabinet on 18 August 2020.
- 1.33 SLC has also used the pre-lockdown trading information previously supplied by 1Life, again this was used previously to assess the level of financial support the Council should provide as a result of the closure of the leisure facilities due to Covid-19 and the subsequent recovery period.
- 1.34 The aim of the further work undertaken has been to identify the level of support the Council may need to provide to LeisureSK and to set initial performance targets for the company. A copy of the report provided by SLC is attached to this report at Exempt Appendix Five.
- 1.35 Whilst developing the business plan it has been necessary to establish the baseline performance of the leisure service under normal trading conditions, but then consider how this may be impacted by Covid-19 and the Council's leisure improvement plans.
- 1.36 Table One provided as part of the exempt papers demonstrates the baseline performance of the leisure centres under normal trading conditions. This has subsequently been used as the basis upon which to build the five-year business plan for LeisureSK.

Please refer to Exempt Appendix Seven

- 1.37 This trading information has then been adjusted to account for the operation of the facilities under LeisureSK. The adjustments made include the potential that LeisureSK will achieve lower levels of income than a commercial operator. Staffing costs have been increased to include the additional roles that the company will require to account for the loss of head office centralised support, including a Leisure Contract Manager and Marketing Officer. Purchasing costs, including utilities, have also been increased as LeisureSK will not benefit from the economies of scale that larger leisure providers have.
- 1.38 Provision has been made within the business plan for the support cost recharges which the Council will provide to LeisureSK and receive payment for. These include finance, ICT, asset management and HR. Costs have also been included for the external support that will be required including provision for payroll and pension services and health and safety.
- 1.39 The trading information previously provided by the Council's leisure provider included fees and recharges relating to centralised costs and head office recharges. These have been removed from the business plan but costs in relation to reactive maintenance and depreciation have been included. As these costs were not clearly identifiable from the information previously provided, appropriate allowances have been made by benchmarking leisure facilities of a similar age and size. These costs are included in the Central Costs line together with irrecoverable VAT, insurance, professional fees and licences.
- 1.40 Within the business plan it has been assumed that LeisureSK will be eligible to receive 100% discretionary rate relief as a not for profit company. Under the current leisure contract 1Life is eligible for 80% mandatory rate relief and the Council covers the remaining 20%. Under this arrangement the Council currently pays £116,000 in business rates, but receives £232,000 from the business rate pool, thus benefits from approximately £116,000 of net income from business rates (as Central Government pays a grant for the mandatory relief). Although the granting of 100% discretionary relief is of benefit to LeisureSK this does represent a net loss to the Council, therefore this figure has been included in the business plan as a below the line consideration.
- 1.41 As the business plan covers a five-year period it has been necessary to assess the impact of any possible changes in relation to the Council's leisure improvement programme on this baseline, and in addition consider the impact of Covid-19 and social distancing guidelines.
- 1.42 As part of the leisure improvement programme the Council is currently undertaking feasibility work on how the leisure centres should be improved. Although this has not yet been concluded, the work undertaken to date has identified how the leisure facilities can be improved to cater for unmet demand and to meet modern customer expectations. To support the necessary capital investment required, detailed financial modelling is currently taking place to assess the affordability and financial impact of these improvements to the leisure facilities across the district.
- 1.43 The feasibility work has identified that Deepings Leisure Centre is fast approaching the end of its useful life, and therefore the baseline five-year business plan has been amended to include indicative figures for a new centre being operational from April 2023. Without this investment there are significant concerns whether Deepings Leisure Centre can remain operational past this date.
- 1.44 Once the leisure improvement feasibility work and the associated business cases have been finalised, the five-year business plan will need to be revisited again to take account of any

decisions the Council may make in this regard. This will also need to include the impact of any financing arrangements in relation to the capital investment required.

- 1.45 Further amendments to the baseline business plan have been made to reflect the likely impact of Covid-19. As a result of the ongoing impact of the pandemic on customer demand and financial performance, the Council is currently providing deficit funding to its leisure provider on a monthly basis. As SLC is continuing to support the Council in assessing and reconciling the financial support provided, this work has provided a useful insight when developing the business plan for LeisureSK. It has also provided up to date intelligence on how the leisure centres are recovering, the levels of customers that have been retained, and new customers who have taken up activity.
- 1.46 As it is currently envisaged that Covid-19 will continue to have an impact well into 2021, Year one of the business plan has been amended to include the potential impact on trading figures. In assessing this impact, the following key assumptions have been used which are in line with the current performance of the leisure centres.
- 1.47 In line with the Covid-19 recovery plans previously assessed by SLC, income is assumed to reach steady state under social distancing guidelines in April 2021 and then begin to return to pre-Covid levels from September 2021. The income figures for 2021 within the business plan have therefore been adjusted accordingly to reflect current performance and how this may improve into 2021. The assumptions used include:
- Grantham – 75% recovery
 - Bourne – 76% recovery
 - Stamford – 67% recovery
 - Deepings – 77% recovery.
- 1.48 As the operation of the leisure facilities under social distancing guidelines has resulted in lower numbers of users in line with the limited capacity, this in turn has resulted in a reduced number of casual staff being employed within the centres. The revised business plan assumes that staffing levels will return to pre-Covid levels from September 2021 and therefore the following reductions have also been factored into the business plan for 2021:
- Grantham – 74% of baseline costs
 - Bourne – 79% of baseline costs
 - Stamford – 75% of baseline costs
 - Deepings – 75% of baseline costs.
- 1.49 Premises costs have been adjusted to reflect the additional cleaning requirements and materials required to ensure the leisure centres remain Covid-secure. Utility costs have been reduced to take account of reduced capacity and throughput levels.
- 1.50 Table Two below demonstrates the five-year business plan for LeisureSK including the impact of Covid-19 during 2021, and provides for a new leisure centre being operational in the Deepings from April 2023. The business plan will need to be further amended to reflect any decisions the Council may make in the future in relation to the proposed leisure improvements.

Table Two: LeisureSK business plan 2021 – 2025

	Year 1 2021	Year 2 2022	Year 3 2023	Year 4 2024	Year 5 2025	Total
Sales	2,712,123	3,645,483	3,963,415	4,205,176	4,310,609	18,836,806
Cost of Sales	(95,189)	(128,006)	(177,105)	(202,423)	(209,334)	(812,058)
Gross Profit	2,616,933	3,517,478	3,786,309	4,002,753	4,101,275	18,024,748
Staff Costs	(1,306,395)	(1,736,385)	(2,001,876)	(2,090,374)	(2,090,374)	(9,225,403)
Utilities	(758,873)	(747,903)	(798,439)	(815,751)	(816,142)	(3,937,108)
Premises Costs	(188,819)	(164,456)	(193,124)	(202,814)	(202,925)	(952,138)
Marketing & Comms	(72,910)	(72,910)	(88,986)	(85,630)	(83,848)	(404,283)
Central Costs	(319,544)	(319,544)	(360,556)	(385,575)	(395,027)	(1,780,246)
Total Operating Costs	(2,646,541)	(3,041,198)	(3,442,982)	(3,580,143)	(3,588,315)	(16,299,179)
Operating Surplus (Deficit)	(29,607)	476,280	343,327	422,610	512,959	1,725,569
Support Costs & Depreciation	(443,000)	(443,000)	(453,705)	(457,340)	(457,395)	(2,254,440)
Total Surplus (Deficit)	(472,607)	33,280	(110,377)	(34,730)	55,564	(528,871)
NNDR Cost to Council	(87,088)	(116,118)	(131,500)	(136,627)	(136,627)	(607,960)
2020/21 NNDR Holiday	-25%					
Total including NNDR	(559,696)	(82,838)	(241,877)	(171,357)	(81,064)	(1,136,831)

1.51 Table Two demonstrates that during the five-year period the total amount of support the Council will need to provide to LeisureSK by way of a management fee is forecast to be £528,871. However, taking into account the loss to the Council of the income relating to business rates, this increases to £1,136,831 over the five-year period.

1.52 Approximately 40% (£470,000) of this cost results from the projected impact of income losses in Year one due to Covid-19. Although it should be remembered that under the current leisure contract arrangement the Council is providing significant financial support to 1Life to cover operational losses.

1.53 The figures identified within Table Two will allow the Council to set the appropriate budget required to support LeisureSK within the Medium Term Financial Plan. A more detailed presentation of the figures for years 1 and 2 for LeisureSK are presented as Appendix Six, setting out forecast expenditure and income by site and splitting sales by broad category.

Appointment of Directors:

1.54 As detailed in the report presented to Companies Committee on the 22 September 2020, due to the urgent need to establish the company, LeisureSK was initially set up as a 'shell' company with a single Director, being Councillor Barry Dobson, the Deputy Leader of the Council.

1.55 As detailed in paragraph 1.29 it is proposed that a Non-Executive Director be recruited to complement the Board of Directors of LeisureSK, and that this person will have the appropriate skills and knowledge to provide guidance to the Board of Directors.

1.56 It is proposed that there will be a total of four Directors on the Board and that the following be appointed as Directors of LeisureSK:

The Leader of the Council

The Director of Growth and Culture

Non-Executive Director (details to be confirmed).

Should the recommendations within this report be supported, the Council will begin the recruitment process to identify a Non-Executive Director with the suitable level of skills and knowledge.

1.57 At the meeting of Companies Committee on the 22 September 2020 the Committee recommended that Council establish a budget allocation to be capped at £500,000 to cover the upfront expenses in relation to the formation of the company and requested details of any expenditure made be provided to the following meeting of Companies Committee.

1.58 To date £118,569 of that amount has been committed to provide a dedicated point of sale system which will cover payments and bookings on-line and in the leisure facilities. This amount includes the installation of the system, software licences and ongoing support. The early placement of this order will allow for the system to be operational by the 3 January 2020 and without this there would be no method of collecting payments or taking bookings.

2 Consultation and Feedback Received, Including Overview and Scrutiny

2.1 At a meeting of Cabinet on the 18 August 2020 Cabinet decided to transfer the leisure service to a wholly-owned Council company. This decision was made in consideration of the work previously undertaken by SLC which identified the level of financial support the Council would be required to provide to 1Life during the Covid-19 recovery period and how this compared to the option to transfer the leisure service to a Council owned company.

2.2 A report was subsequently presented to a meeting of Companies Committee on the 22 September 2020. As a result, Companies Committee endorsed the decision to establish LeisureSK and recommended to Council that a budget allocation not exceeding £500,000 be approved to support the formation of the company.

2.3 A report was presented to a meeting of the Council on the 1 October 2020 and a budget allocation not exceeding £500,000 was approved. Delegated authority was given to the Strategic Director of Growth, in consultation with the Section 151 Officer, to approve any necessary expenditure.

2.4 At a meeting of the Culture and Visitor Economy Overview and Scrutiny Committee on the 15 September 2020, the Committee received a presentation which detailed the Council's plans to transfer the leisure service to LeisureSK. The Committee was also consulted on the current performance of the leisure centres and how this should be improved under the management of LeisureSK. Valuable information from this discussion has been captured and is being used to inform the leisure services specification which will form the basis of the contractual relationship between the Council and LeisureSK.

3 Available Options Considered

3.1 This report provides an overview of the company structure and a high-level business plan for LeisureSK. The company has been established in the optimum way to ensure it is financially efficient and can attract VAT savings and business rate relief.

4 Preferred Option

4.1 This report details the significant amount of work which has been undertaken to ensure that LeisureSK can be fully established as a company ready to become operational from the 3 January 2020. This will help to facilitate a smooth transfer of the leisure service to the new arrangement.

5 Reasons for the Recommendation (s)

- 5.1 As detailed within the report previously presented to Companies Committee on the 22 September there was an urgent need to establish the company LeisureSK.
- 5.2 This report details the further work that has been undertaken to establish the company with the optimum structure in order to benefit from savings in relation to VAT and business rates.
- 5.3 As the Articles and Association and Members Agreement are the key documents which will govern the Council's relationship with LeisureSK it is vital that these are robust enough to protect the Council's position but also provide the company with sufficient autonomy to make the decisions it will need to make to run the leisure service.
- 5.4 The Council will need to set appropriate budgets which account for the level of support that LeisureSK will need over the duration of the contract with the Council. The high-level five-year business plan provided within this report can be used by the Council as the basis for budget setting.
- 5.5 The additional Director appointments will ensure that the Board of Directors has the appropriate mix of skills and experience necessary to maximise the financial and operational performance of LeisureSK. The proposal to recruit a Non-Executive Director will further strengthen the Board of Directors and will ensure that the Council's best interests are represented on the Board.
- 5.6 It may be necessary for the Council to provide LeisureSK with some funds in advance of it becoming operational to pay for any ongoing costs in relation to the business, for example ICT licenses and insurances. If these payments take the form of a loan, then this can be undertaken in line with our existing Treasury Management Strategy.

6 Next Steps – Communication and Implementation of the Decision

- 6.1 Should the recommendations within this report be supported, a report will be presented to a meeting of the Council on the 26 November 2020 to request that the proposed Director appointments are formalised.
- 6.2 The Council will commence the recruitment process to appoint a Non-Executive Director with specialised in-depth leisure knowledge. On the successful appointment, a further report will be presented to a meeting of the Council at the appropriate time to formalise the appointment.
- 6.3 The five-year business plan will form the basis of an annual business plan which the Directors of the company will need to present to Companies Committee and agree with the Council in accordance with the provisions of the Members Agreement.

7 Financial Implications

- 7.1 In the current environment it is very hard to predict the income and indeed any extra expenditure that will be needed to deal with the ongoing Covid-19 pandemic. Although the Council can be comfortable with the overall approach utilised in developing costs estimates (using the previous suppliers base and adjusting by industry specialists benchmarking across over 15 other local authority areas); it is difficult to predict the short and long-term impact it will have on costs and demands for leisure services. Additionally, the impact of increased restrictions, such as a prolonged second lockdown have not been factored into this analysis.

- 7.2 Therefore, as part of the review of the underlying financial model, various sensitivities have been undertaken. These are split between changes on assumptions due to Covid-19 which have one-off impacts in year one (Table Three) and changes to underlying assumptions which have an ongoing basis (Table Four) – some of these are dampened in year one due to the impact of Covid-19 on demand and staffing overall:

Table Three

Change to assumption	Impact Year One only (£000's)
Increase in recovery assumptions by 5% (see paras 1.47 & 1.48)	89k
Decrease in recovery assumptions by 5% (see paras 1.47 & 1.48)	(167k)

Table Four

Change to assumption	Year one impact (£000's)	Annual impact year two onwards (£000's)
5% Increase in all activities (income)	130	180
5% Decrease in all activities (income)	(130)	180
5% Increase in gym membership	54	73
5% Decrease in gym membership	(54)	(73)
5% Increase in swimming income	69	94
5% Decrease in swimming income	(69)	(94)
5% Increase in staff costs	(65)	87
5% Decrease in staff costs	65	(87)

- 7.3 An assumption has been made that 100% discretionary business rates relief will be granted to LeisureSK. This will be subject to a separate assessment process in line with the Council's discretionary business rates policy. If this is not the case, then LeisureSK will incur an additional £581k in estimated business rates per year, which will have to be incorporated into the management fee paid by South Kesteven District Council.
- 7.4 The above analysis shows that the overall level of funding required to make LeisureSK viable is highly sensitive to changes in demand, particularly swimming income (which makes up the highest proportion of income). Usage measures should therefore form part of the key indicators used to measure performance on an ongoing basis.
- 7.5 It is important to note that the management fee is an entirely new budget cost to the Authority and, particularly for year 1 of the trading projection, is a significant cost. This is against a backdrop of reduced income levels for the Council and other competing financial pressures. Therefore it is important to ensure that the fee is affordable and delivers value for money over the short to medium term. The 5-year projection shows a positive return and any improved trading activities will allow the Council to reduce the fee accordingly. The approval of the fee will be subject to Council decision as it will be a change to the budget framework.

Financial Implications reviewed by: Richard Wyles, Interim Director of Finance

8 Legal and Governance Implications

- 8.1 The Committee will need to satisfy itself that the governance arrangements between the Company and Council are sufficiently clear and appropriate; the member reserved matters within the Members agreement set out the control that is reserved to the Council and should provide the Committee with sufficient comfort. The Council as owner will be able to oversee and scrutinise performance through the Companies Committee, in the same way that Companies Committee does for all other Council-owned companies. Given the challenges

for the Company, it may be that companies Committee requests an update on company activity at every meeting in the first year of the Company's operation.

Legal Implications reviewed by: Shahin Ismail, Monitoring Officer

9 Equality and Safeguarding Implications

- 9.1 Appropriate policies and procedures are being developed and will be adopted by the company in advance of the transfer of the leisure service. These policies include an appropriate Equality and Diversity Policy and a Safeguarding Policy.
- 9.2 LeisureSK will need to ensure that these policies are fully adopted and that both the staff who are employed in the leisure facilities and the customers who use them are not disadvantaged or adversely affected.

10 Risk and Mitigation

- 10.1 The risks associated with the formation of LeisureSK and the transfer of the leisure service have been identified as part of a project risk register together with mitigating actions.

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. Taking direct control of the leisure facilities under a wholly-owned Council company provides the opportunity to assess carbon efficiency measures, particularly as part of the planned improvements to the leisure facilities.

13 Background Papers

- 13.1 Exempt Report to Cabinet 18 August 2020
- 13.2 SKDC Mandatory and Discretionary Rate Relief Policy

14 Appendices

- 14.1 Appendix One – Draft Resourcing Agreement
- 14.2 Appendix Two – Draft Articles of Association
- 14.3 Appendix Three – Members Agreement
- 14.4 Appendix Four – Non-Executive Director Recruitment Pack
- 14.5 Appendix Five – Exempt SLC LeisureSK Business Plan Report – not for publication
- 14.6 Appendix Six – Income and Expenditure Forecast Years One and Two
- 14.7 Appendix Seven – Exempt – not for publication

Report Timeline:	Date of Publication on Forward Plan (if required)	Not applicable
	Previously Considered by: Companies Committee	22 September 2020
	Final Decision date	21 October 2020