



**SOUTH
KESTEVEN
DISTRICT
COUNCIL**

Council

26 November 2020

Report of: Councillor Barry Dobson

The Deputy Leader of the Council



Formation of LeisureSK

This report requests additional Director appointments to complete the Board of LeisureSK Ltd. Council is also asked to approve the level of management fee which may be required to be provided to the company for the period January 2021 to December 2021, and that an element of this is provided upfront to LeisureSK Ltd as working capital to cover any necessary costs.

Report Author

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

Reviewed by:	Paul Clarke, Finance Lead – Housing Delivery	12 November 2020
Approved by:	Karen Bradford, Chief Executive	17 November 2020
Signed off by:	Councillor Barry Dobson, The Deputy Leader of the Council	17 November 2020

Recommendation (s) to the decision maker (s)

The Council is asked to:

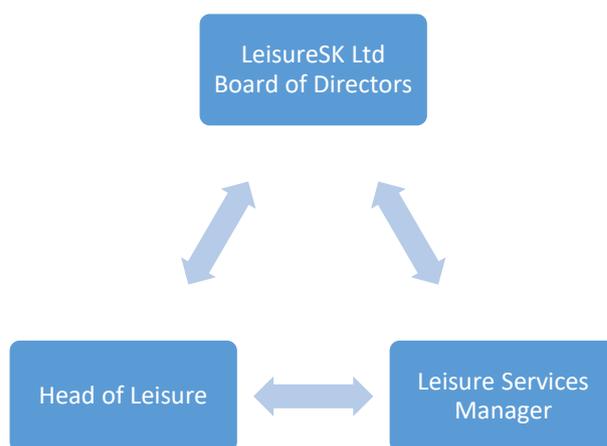
1. **Appoint the following as Directors of LeisureSK Ltd:**
 - a) **The Leader of the Council, Councillor Kelham Cooke**
 - b) **The Cabinet Member for Finance and Resources, Councillor Adam Stokes**
 - c) **The Cabinet Member for Culture and Visitor Economy, Councillor Rosemary Trollope-Bellew**

- 2. Approve the appointment of the Director of Growth and Culture and a Non-Executive Director to the Board of LeisureSK Ltd upon the successful conclusion of the Council's recruitment process in this regard.**
- 3. That delegated authority is provided to the Chief Executive, in consultation with the Directors of LeisureSK, to appoint a Non-Executive Director to the Board on the successful conclusion of the recruitment process in this regard.**
- 4. Approve a budget not exceeding £500,000 for the management fee to be provided to LeisureSK Ltd for the period January 2021 to December 2021, and that delegated authority is provided to the Chief Executive of the Council, in consultation with the Section 151 Officer to agree the final amount, noting that the payment will be subject to a reconciliation to show the impact of Covid-19 on income and expenditure.**
- 5. Approve an upfront payment of £250,000 of the annual management fee to provide for working capital for LeisureSK Ltd to enable the company to have sufficient cash flow to cover any necessary expenditure.**

1 The Background to the Report

- 1.1 A report was presented to Cabinet on the 18 August 2020 which set out the options available to the Council on the expiry of the current contract arrangements on the 2 January 2021. As a result, Cabinet decided 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 Since that time LeisureSK Ltd has been incorporated as a company and the Council have been working towards ensuring the necessary infrastructure is in place to support a smooth transition to the new arrangements from 3 January 2021.
- 1.3 At a meeting of the Council on the 1 October 2020 a budget not exceeding £500,000 was approved to cover the necessary upfront costs to support the formation of LeisureSK Ltd, and delegated authority was provided to the Strategic Director of Growth, in consultation with the S151 Officer, to assess and approve any necessary expenditure.
- 1.4 To date approximately £370,000 of this budget has been committed to provide:
- a) A dedicated point of sale system which will cover payments and bookings both on-line and in the leisure facilities.
 - b) Implementation of a direct debit collection system which will handle monthly payments for memberships and swimming lessons.
 - c) Legal and tax advice to ensure the company has been set up in the optimal way to take advantage of business rate and fiscal savings.
 - d) The purchase of existing fitness equipment, fixtures and fittings and IT equipment which is currently in use at the sites and was been purchased by 1Life after the commencement of the current contract.
 - e) Development of policies and procedures for the operation of the sites including HR, Finance and Health and Safety.
 - f) An independent health and safety audit of the leisure facilities to ensure that they are being operated in a safe manner and the correct procedures and checks can be established.
- 1.5 Furthermore, at the meeting on the 1 October 2020 Council approved the appointment of Cllr Barry Dobson, the Deputy Leader of the Council as the sole Director of LeisureSK Ltd and agreed to receive a further report to consider the appointment of additional Directors.
- 1.6 The following additional Director appointments for LeisureSK Ltd are now proposed:
- The Leader of the Council, Cllr Kelham Cooke;
 - The Cabinet Member for Finance and Resources, Cllr Adam Stokes;
 - The Cabinet Member for Culture and Visitor Economy, Cllr Rosemary Trollope-Bellew;
 - The Director of Growth and Culture (vacant post).
- 1.7 The Council is currently undertaking a recruitment process to fill senior management roles. The recommendation within this report therefore requests that, once appointed, the Director of Growth and Culture will join the Board as a Director of LeisureSK Ltd.

- 1.8 The Council has also commenced a recruitment process to identify a suitably qualified and skilled Non-Executive Director to complement the Board of Directors. Upon the successful conclusion of this process the recommendation within this report requests that the successful applicant also joins the Board of Directors for LeisureSK Ltd.
- 1.9 The Council is currently consulting with the existing employees of 1Life under the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE). The successful transfer of this team will ensure LeisureSK Ltd retains the operational knowledge of skills of the specialist leisure facility teams. The team will be managed by a Leisure Services Manager who will be responsible for the financial and operational performance of the company and will report to the Board of Directors.
- 1.10 The Council's Head of Leisure, supported by the leisure officer team will perform the client role for the Council and will monitor the contractual relationship with LeisureSK. This will ensure that the leisure facilities are operated in line with the specification provided as part of the contract, that contract KPIs are delivered and will also provide a challenge to ensure that sales and financial targets are achieved. The Head of Leisure will also report into the Board in this regard.
- 1.11 The relationship between the Board of Directors, the Council's Head of Leisure and the Leisure Services Manager is demonstrated below:



- 1.12 The Council has retained the services of Sport and Leisure Consultancy Ltd (SLC) to assist in the development of a five-year business plan for LeisureSK Ltd. This has enabled the Council to identify the likely management fee that will be required by the company of an annual basis.
- 1.13 In compiling the five-year business plan SLC has taken account of the previous trading history of the centres and benchmarked this against comparable leisure centres nationally. They have also used industry benchmarked information in relation to Covid recovery and have had the benefit of assessing the financial support claims the Council have received from 1Life on a monthly basis.
- 1.14 Table One below demonstrates the high-level five-year business plan for LeisureSK Ltd, based upon calendar years.

Table One

	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)

- 1.15 This includes the potential impact of Covid-19 during 2021 and demonstrates that the Council will likely need to provide a management fee of £472,607 to LeisureSK Ltd during the period January to December 2021, based upon the best estimate of the impact of Covid-19 and the recovery of income to steady state levels. Income is projected at approximately 75% of expected levels in 2021, raising back to normal trading levels in 2022. The reduction is based upon trends observed across multiple local authorities in the past year and is based upon the assumption that leisure centres will be allowed to open throughout 2021.
- 1.16 The management fee required for January 2021 to December 2021 principally relates to the projected impact of income losses due to Covid-19. However, it should be remembered that under the current leisure contract arrangement the Council is providing significant financial support to 1Life to cover operational losses. In a similar manner to 1Life it is expected that LeisureSK Ltd will need to demonstrate the financial impact of Covid-19 and the management fee will be capped at this level and subject to a monthly reconciliation process.
- 1.17 Due to uncertainties remaining around the ability to trade and customer demand levels once the leisure centres have re-opened, it is recommended within this report that delegated authority be provided to the Chief Executive, in consultation with the Section 151 Officer, to agree the final level of management fee to be provided to LeisureSK Ltd for 2021. This is to be capped at £500,000 and will be based upon a reconciliation of income and expenditure compared to the expected performance as detailed in the Table One above.
- 1.18 As the financial performance of LeisureSK Ltd is heavily reliant on income the company will require some upfront working capital to cover necessary expenses. Therefore, it is proposed that £250,000 of the management fee is provided upfront and the remaining amount is provided on a quarterly basis in advance.

2 Consultation and Feedback Received, Including Overview and Scrutiny

- 2.1 At a meeting of Companies Committee on the 22 September 2020 Members endorsed the establishment of LeisureSK Ltd and recommended that Council should approve an initial budget not exceeding £500,000.
- 2.2 At the subsequent meeting of the Council on the 1 October 2020 a budget not exceeding £500,000 was agreed to cover the upfront expenditure required to establish LeisureSK Ltd.
- 2.3 On the 1 October 2020 Council also endorsed the appointment of Cllr Barry Dobson, the Deputy Leader of the Council as a Director of LeisureSK Ltd and agreed to receive a further report to consider the appointment of additional Directors.
- 2.4 At a meeting of Companies Committee on the 21 October 2020 the Committee considered a report detailing the optimum company structure for LeisureSK Ltd. Companies Committee endorsed the draft Articles of Association, Members Agreement and Resourcing Agreement as the main governance documents for LeisureSK. At this meeting Companies Committee also endorsed a high-level five-year business plan for LeisureSK Ltd and the additional Director appointments contained within the recommendations of this report.

3 Available Options Considered

- 3.1 The proposed Director appointments in paragraph 1.5, together with a Non-Executive Director with specific leisure industry knowledge, will provide the necessary political and strategic support to the operation of LeisureSK Ltd.

4 Preferred Option

- 4.1 As detailed within the body of this report

5 Reasons for the Recommendation (s)

- 5.1 The report recommends nominated Directors who, together with the proposed Non-Executive Director will provide the political and professional focus to allow the company to maximise performance.
- 5.2 The Council will provide an annual management fee payment to LeisureSK Ltd which will be paid quarterly in advance. However, it will be necessary to ensure that the company has sufficient working capital to commence operations on the 3 January 2021.
- 5.3 As it is currently unknown how long Covid-19 will continue to have an impact it has been necessary to build contingency into the budget for the management fee. The reconciliation process will ensure the Council only pays for the actual impact of Covid-19 and to the extent it cannot be offset from relief funding or expenditure savings such as the Governments furlough scheme.

6 Next Steps – Communication and Implementation of the Decision

- 6.1 The Director appointments will be communicated to Companies House to ensure up-to-date information is being held for the company.
- 6.2 This will include the Non-Executive Director appointment once the recruitment process has been successfully concluded and the appointment has been considered by Council.

7 Financial Implications

7.1 In the current environment it is difficult to accurately 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 assured with the 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 an extended 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 Two) and changes to underlying assumptions which have an ongoing basis (Table Three) – some of these are dampened in year one due to the impact of Covid-19 on demand and staffing overall:

Table Two

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

Table Three

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 Ltd. 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 Ltd 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 Ltd 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.

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

8 Legal and Governance Implications

- 8.1 The appointment of additional Directors is important to ensure the board can function properly and the business of LeisureSK Ltd can be effectively carried out.
- 8.2 Articles 4.2 (xi) and 17.17 of the Council's Constitution lists as a local choice function for determination by Council, the appointment of any individual a) to any office other than an office in which he or she is employed by the authority; b) to anybody other than the authority or a joint committee of two or more authorities; or c) to any committee or sub-committee of such a body and the revocation of any such appointment.

Legal Implications reviewed by: Shahin Ismail, Director of Law and Governance

9 Equality and Safeguarding Implications

- 9.1 There are no equality and safeguarding implications arising as a result of this report.

10 Risk and Mitigation

- 10.1 Risk has been considered in the preparation of this report. The most significant risk would be created by failing to appoint additional Directors to the board of LeisureSK Ltd. By only having one Director this would be a single point of failure and would not bring a varied range of skills and experience to the Board.

11 Community Safety Implications

- 11.1 There are no community safety implications arising as a result of this report.

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

- 12.1 There are no carbon footprint implications as a result of this report.

Report Timeline:	Date of Publication on Forward Plan (if required)	N/A
	Previously Considered by: Companies Committee	21 October 2020
	Final Decision date	26 November 2020