



SOUTH
KESTEVEN
DISTRICT
COUNCIL



Culture and Leisure Overview and Scrutiny Committee

30 November 2023

Report of Nicola M^cCoy-Brown,
Chairman of LeisureSK Ltd

LeisureSK Ltd Management Fee 2024/2025

Report Author

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Purpose of Report

For the Culture and Leisure Overview and Scrutiny Committee to consider the level of management fee required to support LeisureSK Ltd for financial year 2024/2025.

Recommendations

The Culture and Leisure Overview and Scrutiny Committee is requested to:

- 1. Recommend a budget allocation of £454,422 is included in the Budget proposals for the financial year 2024/2025 to support the trading operation of LeisureSK Ltd.**
- 2. Agree to receive and analyse the Business Plan for LeisureSK Ltd for financial year 2024/2025 at the scheduled meeting of the Overview and Scrutiny Committee on 9 January 2024.**

Decision Information

Does the report contain any exempt or confidential information not for publication?

Appendix One to this report is not for publication by virtue of paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 – financial information.

What are the relevant corporate priorities?

- Growth and our economy
- Healthy and strong communities

Which wards are impacted?

Two or more wards

1. Background to the Report

- 1.1 The Council's Corporate Plan (2020 – 2023) sees the sustainability of public sport and leisure facilities as key to supporting the health of the district, tackling health inequalities and driving both local economic and social value to communities.
- 1.2 The Council has been providing financial support for LeisureSK Ltd in the form of a management fee since it began operating the Council's leisure facilities in January 2021. The management fee payment equates to the actual net deficit incurred in the operation of the service after taking into account the income generated and expenditure incurred.
- 1.3 For the current financial year a management fee of £500,000 was provided to LeisureSK Ltd to support the company with the increased costs in relation to staffing and utilities, the two largest areas of expenditure.
- 1.4 As part of the Council's annual budget setting process, and in consideration of the ongoing financial challenges being experienced by LeisureSK Ltd, it has been considered prudent at an early stage to undertake an assessment of the level of support which is likely to be required by the company for financial year 2024/2025.
- 1.5 To support this, the Board of Directors has considered a draft budget for LeisureSK Ltd and have agreed this is an accurate reflection of how the business is expected to perform in 2024/2025. The draft budget has identified the level of management fee which will be required and is attached to this report at **Exempt Appendix One**.
- 1.6 The budgeted bottom line for LeisureSK Ltd for 2024/2025 is a deficit of £454,422. Whilst it is disappointing to be budgeting for a deficit, this represents a significant improvement on the company's performance in the current financial year where LeisureSK Ltd are forecast to require a management fee payment in the sum of £738,942, although this has subsequently been offset by the receipt of £344,659 from the Swimming Pool Support Fund.

- 1.7 The budget for LeisureSK Ltd for 2024/2025 demonstrates a total increase in projected income of 5.5%, when compared to the current financial year. Paragraphs 1.8 to 1.12 demonstrate the significant changes in key income lines together with some of the increased costs the company is facing.

Fitness

- 1.8 Total fitness income is projected to grow by 9.6% as a result of a review of membership prices and predicted growth in membership numbers.

Swimming

- 1.9 Total swimming income is projected to grow by 6.6% when compared to the current financial year. Included within the income projections is a 10% price increase on casual swimming and pool hire fees which were agreed by the Board of Directors to offset the increased costs of running swimming pools. In addition, the Directors approved a £1 per month increase for Swim School lessons from September 2025.

Staffing Costs

- 1.10 Total staffing costs are budgeted to increase by 6.9% when compared to the current financial year. Although this seems high, there is an expectation the National Living Wage will increase by 7.1% in April 2024 which will impact the majority of employees.
- 1.11 The LeisureSK Ltd Board of Directors remain committed to mitigating the increased costs of operating the three leisure centres without impacting upon the levels of service delivery and customer experience. In the current year, this has included a management restructure which has directed resources to where they are needed operationally, rather than supporting a top-heavy management structure.

Utilities

- 1.12 Total utilities have been budgeted to reduce by 9.6% when compared to the current financial year. This has been calculated in line with the expectation that gas prices are likely to reduce by circa 20% in April 2024. However, the cost of utilities is still considerably higher than they were two years ago.

Funding Opportunities

- 1.13 Following the successful receipt of £344,659 from the Swimming Pool Support Fund, a further application to Phase 2 of the funding has been submitted in the sum of £647,957. If successful, this will provide a range of energy conservation improvements at all three leisure centres.

- 1.14 In addition to this, Council Officers, working in partnership with LeisureSK Ltd, have applied to the Public Sector Decarbonisation Scheme (Phase 3c). If successful, the resulting £4.08 million project will see the installation of an air source heat pump at Grantham Meres Leisure Centre, which will reduce carbon emissions.

Condition Survey Works

- 1.15 The Council are continuing to undertake the necessary repairs and maintenance as identified in the condition surveys which were undertaken in 2022. Planned remedial works include repairs to the roof at Bourne Leisure Centre which suffers from periodic rainwater leaks.
- 1.16 It is anticipated these works will take place in Spring 2024. However, until these works are procured, it is unclear whether a full or partial closure of Bourne Leisure Centre will be required. Should a closure be required, this would have a significant impact on the company's financial performance, and therefore it may be necessary to reprofile the budget and request additional financial support.

2. Key Considerations

- 2.1 The receipt of funding from Phase One of the Swimming Pool Support Fund will be utilised to offset the increased level of management fee it has been necessary for the Council to provide in financial year 2023/2024. It is currently unknown whether further funding streams will be available to support the operation of leisure centres in 2024/2025.
- 2.2 The Culture and Leisure Overview and Scrutiny Committee will receive a Business Plan for LeisureSK Ltd for financial year 2024/2025 at the meeting of the Committee scheduled for January 2024. This will set out the company's aims and direction for the next financial year and can be used by the Committee to monitor the ongoing performance of the company.

3. Other Options Considered

- 3.1 The main driver for the establishment of LeisureSK Ltd was to secure the ongoing provision of leisure across the district. Without the requested management fee of £454,422 for financial year 2024/2025, LeisureSK Ltd will suffer cashflow problems and may need to cease trading, resulting in the loss of leisure provision across South Kesteven. Therefore, the 'do nothing' option was discounted.

4. Reasons for the Recommendations

- 4.1 The recommendations within this report provide a budget framework to support LeisureSK Ltd. The management fee would be limited to the operational deficit of the company.

5. Background Papers

- 5.1 *LeisureSK Ltd Draft Accounts for 2021/2022 and consideration of a Management Fee for 2023/2024* – Report to Companies Committee, published 1 December 2022, available online at:
<https://moderngov.southkesteven.gov.uk/documents/s36255/LeisureSK%20Ltd%20-%20Accounts.pdf>

6. Appendices

- 6.1 **Exempt Appendix One** - The identified level of management fee which will be required.