



SOUTH
KESTEVEN
DISTRICT
COUNCIL



Culture and Leisure Overview and Scrutiny Committee

9 January 2024

Report of Nicola McCoy-Brown,
Chairman of LeisureSK Limited

LeisureSK Limited Management Fee and Business Plan 2024/2025

Report Author

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Purpose of Report

For the Culture and Leisure Overview and Scrutiny Committee to reconsider the level of management fee required to support LeisureSK Limited and to receive the Business Plan for financial year 2024/2025.

Recommendations

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

1. Recommend a budget allocation of £446,672 is included in the Budget proposals for the financial year 2024/2025 to support the trading operation of LeisureSK Limited.
2. Endorse the Business Plan for LeisureSK Limited for the financial year 2024/2025.

Decision Information	
Does the report contain any exempt or confidential information not for publication?	Appendices one, two, three and four to this report are not for publication by virtue of paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 – financial information.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?	<ul style="list-style-type: none"> • 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 Limited 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 Limited 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 Limited, 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 and as reported to 30 November 2023 Culture and Leisure Overview and Scrutiny Committee, the Board of Directors considered a draft budget for LeisureSK Limited and have agreed this is an accurate reflection of how the business is expected to perform in 2024/2025. However, Members in attendance during the November Committee, felt unable to recommend a budget allocation relating to the management fee due to the lack of information provided and agreed to postpone and defer the management fee request to their 9 January 2024 meeting.
- 1.6 It is prudent to note, as part of a historical lease arrangement, South Kesteven District Council has been providing a subsidy and priority use to Grantham Town Football Club (GTFC), the Grantham Sports Academy Ltd and GTFC Catering Ltd in relation to their operations at the Stadium in Grantham. This has given users access to facilities which can be used all year round, providing the private limited

company and its subsidiaries with vital amenities needed to promote a stronger sense of community and a more active lifestyle.

- 1.7 The lease expired on 31 December 2021, as part of lease negotiations, a formal valuation concluded a commercial rent should be charged to the football club. However, GTFC have made representations, the unsubsidised sum is unaffordable. Negotiations are currently ongoing to agree Heads of Terms to form the basis of a new 30-year lease. However, despite continued efforts and the offer of significant discounts, GTFC are currently accruing a significant amount of debt in relation to the hire of facilities at Grantham Meres Leisure Centre.
- 1.8 This situation with GTFC is continuing to have an impact on the performance of LeisureSK Limited and is out of the company's control. In future, the LeisureSK Limited Board will receive budget forecast statements with GTFC being shown separately.
- 1.9 The draft budget can be found at **Exempt Appendix One**, along with a budget forecast report to October 2023 (which is the same information shared with the LeisureSK Limited Board) which can be found at **Exempt Appendix Two**, along with the accompanying budget forecast statements to 31 October 2023 at **Exempt Appendix Three**. The inclusion of this information directly relates to the request made by elected Members for more information after 30 November 2023 Culture and Leisure Overview and Scrutiny Committee meeting.
- 1.10 The budgeted bottom line for LeisureSK Limited for 2024/2025 is a deficit of £446,672. 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, as detailed in the report presented to this Committee on 30 November 2024, LeisureSK Limited are forecast to require a management fee payment in the sum of £772,949 (as forecast at 31 October 2023 – **Appendix Two**) which is primarily due to the impact of utility costs, the amount of irrecoverable VAT, software and professional fees and minimum wage increases. The forecast outturn for the current financial year will result in an additional management fee request, details of which will be presented to a meeting of Cabinet on 18 January 2024.
- 1.11 The budget for LeisureSK Limited for 2024/2025 demonstrates a total increase in projected income (Total Sales) of 12.3%, when compared to the budget for the current financial year. Paragraphs 1.12 to 1.16 demonstrate the significant changes in key income lines, together with some of the increased costs the company is facing against the budgeted position for 2023/2024.

Fitness

- 1.12 Total fitness income is projected to grow by 21.4% as a result of an annual price increase being applied from January 2024 of £3 per month and predicted growth in membership numbers.

Swimming

1.13 Total swimming income is projected to grow by 13.5% 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. It is currently proposed an annual price increase will be applied to the Swim School fees from September 2024. Agreement on this will be finalised with the Board of Directors for LeisureSK Limited following a review of the first quarter of financial year 2024/2025, and consideration of a competitor analysis of alternative Swim School programmes in the local area.

Staff Costs

1.14 Total staff costs are budgeted to increase by 14.8% when compared to the current financial year. This is because of the Government's announcement to increase National Minimum Wage in April 2024 which will impact the majority of employees.

1.15 The LeisureSK Limited 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

1.16 Total utilities have been budgeted to reduce by 7.6% when compared to the current financial year. This has been calculated in line with the expectation that gas prices are likely to reduce in April 2024. However, the cost of utilities is still considerably higher than they were two years ago.

Funding Opportunities

1.17 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 (i.e. Bourne, Grantham and Stamford).

1.18 In addition to this, Council Officers, working in partnership with LeisureSK Limited, 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

- 1.19 South Kesteven District 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.
- 1.20 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.

Business Plan

- 1.21 The latest Business Plan for LeisureSK Limited covering the period April 2023 to March 2024 was approved by South Kesteven District Council's (then) Companies Committee on 24 January 2023 (see **Background Papers**).
- 1.22 The Business Plan for LeisureSK Limited to cover the financial year 2024/2025, is attached at **Exempt Appendix Four** to this report. The Business Plan has been developed by the Contract Manager for LeisureSK Limited, in collaboration with the Board of Directors.

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.
- 2.2 It is currently unknown whether further funding streams will be available to support the operation of leisure centres in 2024/2025.
- 2.3 The Outturn position for LeisureSK Limited for financial year 2022/2023 was presented to the Culture and Leisure Overview and Scrutiny Committee on 5 September 2023 and included the draft accounts for this period. The level of information provided was consistent with the budgeting information shared through the Council's monitoring process (see **Background Papers**).
- 2.4 Since then, Duncan & Toplis, an independent accounting and business advisory firm, have provided their unqualified opinion, with no changes being made to the final audited accounts. The LeisureSK Limited financial statements for the year ended 31 March 2023 were published on the Companies House website on 22 December 2023 (see **Background Papers**).
- 2.5 The contract between the Council and Leisure SK Limited was set up in such a way, the Council fund the deficit via management fee payments. Should the company

move to a surplus position, monies will be returned to the Council, in line with these contractual arrangements.

3. Other Options Considered

3.1 The main driver for the establishment of LeisureSK Limited was to secure the ongoing provision of leisure across the District. Without the requested management fee of £446,672 for financial year 2024/2025, LeisureSK Limited will suffer cashflow problems and may need to cease trading, resulting in the loss of leisure provision across South Kesteven. This may also have implications on funding awarded by the Swimming Pool Support Fund, with the risk of the Council having to repay funding awarded. Therefore, the 'do nothing' option has been discounted.

4. Reasons for the Recommendations

4.1 The recommendations within this report provide a budget framework to support LeisureSK Limited. 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>

5.2 *LeisureSK Ltd Business Plan, Accounts and Appointment of Directors* – Report to Companies Committee, published 24 January 2023, available online at:
<https://moderngov.southkesteven.gov.uk/documents/s36648/LeisureSK%20Ltd%20Report.pdf>

5.3 LeisureSK Limited Business Plan 2023/24, published 24 January 2023, available online at:
<https://moderngov.southkesteven.gov.uk/documents/s36650/LeisureSK%20Ltd%20Business%20Plan%202324.pdf>

5.4 *Outturn 2022/23 position for LeisureSK Ltd* – Report to Culture and Leisure Overview and Scrutiny Committee, published 25 August 2023, available online at:
<https://moderngov.southkesteven.gov.uk/documents/s38851/Outturn%20202223%20position%20for%20LeisureSK%20Ltd.pdf>

5.5 *LeisureSK Ltd Management Fee 2024/2025* – Report to Culture and Leisure Overview and Scrutiny Committee, published 30 November 2023, available online at:

<https://moderngov.southkesteven.gov.uk/documents/s39725/LeisureSK%20Ltd%20Management%20Fee%20Request%202024%202025%20Report.pdf>

5.6 *LeisureSK Limited Accounts for a small company made up to 31 March 2023*, published on 22 December 2023, available online under the 'filing history' tab at: <https://find-and-update.company-information.service.gov.uk/company/12888724/filing-history>

6. Appendices

6.1 **Exempt Appendix One** - 2024/2025 Consolidated Budget Summary detailing the identified level of management fee which will be required.

6.2 **Exempt Appendix Two** – Budget Forecast Report – October 2023

6.3 **Exempt Appendix Three** – LeisureSK Limited Budget Forecast Statements to 31 October 2023

6.4 **Exempt Appendix Four** – Business Plan for LeisureSK Ltd for financial year 2024/2025.