



**SOUTH
KESTEVEN
DISTRICT
COUNCIL**



Council

25th January 2024

Report of Councillor Ashley Baxter,
Deputy Leader of the Council

Budget Framework Amendments 2023/2024

Report Author

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Purpose of Report

This report seeks approval for in-year amendments to the Budget Framework for the financial year 2023/2024.

Recommendations

Council is asked to approve the following budget amendments to the 2023/24 Budget Framework:

- a. Subject to a successful outcome of the Phase 3c Public Sector Decarbonisation Scheme, increase the Capital General Fund Decarbonisation Scheme contribution to £492,500.**
- b. To delegate authority to the Deputy Chief Executive in consultation with the Deputy Leader of the Council to accept the Phase 3c Public Sector Decarbonisation Scheme funding if the grant application is successful.**
- c. Provide an additional management fee of £123,000 to LeisureSK Limited for the current financial year 2023/24 only.**

Decision Information

Is this a Key Decision?	Council decision
Does the report contain any exempt or confidential information not for publication?	No
What are the relevant corporate priorities?	Growth and our economy Housing that meets the needs of all residents Healthy and strong communities Clean and sustainable environment High performing Council
Which wards are impacted?	All wards

1. Implications

Taking into consideration implications relating to finance and procurement, legal and governance, risk and mitigation, health and safety, diversity and inclusion, safeguarding, staffing, community safety, mental health and wellbeing and the impact on the Council's declaration of a climate change emergency, the following implications have been identified:

Finance

- 1.1 The additional budget requests for this financial year as detailed in the report are not currently included in the 2023/24 approved Budget Framework. Should these proposals be supported then the additional funding for the Decarbonisation Fund contribution will be funded from the Local Priorities Reserve. In respect of the additional leisure management fee then the funding can be financed from the Budget Stabilisation Reserve or from the recently received Swimming Pool Support Fund.

Completed by: Richard Wyles, Deputy Chief Executive and s151 Officer

Legal and Governance

- 1.2 Any amendments to the Council's budget as recommended in this report requires the approval of Full Council.

Completed by: Mandy Braithwaite, Legal Executive

Climate Change

- 1.3 The allocation of funding to the decarbonisation scheme for Grantham Meres Leisure Centre would allow the Council to significantly reduce the energy consumption and carbon emissions from the site if the bid is successful.

Completed by: Serena Brown, Sustainability and Climate Change Officer

2 Background to the Report

Decarbonisation Fund

- 2.1 South Kesteven District Council conducted an analysis of the Council's carbon emissions in 2020, including the operation of the leisure centres within the district. The carbon emissions arising from the centres were found to account for 41% of the Council's operational carbon emissions, representing the single largest area. This is principally a result of energy used for heating and hot water, as well as electricity to power the centres.
- 2.2 Grantham Meres Leisure Centre, as the largest centre in the district, has a number of facilities including a 25m pool, learner pool and two leisure pools, alongside a gym facility, exercise studios, sports hall and outdoor facilities including 3G football pitch and outdoor running track.
- 2.3 The Centre also has significant utility costs as a result of energy used on site. Under current tariff rates for gas and electricity, an annual cost of over £500k is anticipated for the main Centre for the 2023/2024 financial year.
- 2.4 A detailed energy review of the Council's leisure facilities was undertaken by LeisureSK Ltd in July 2023, providing an analysis of on-site energy consumption for each of the three centres operations and recommendations for various energy conservation measures and decarbonisation of heating systems.
- 2.5 To achieve a significant reduction in a centre's carbon emissions, all gas consumption for heating systems will need to be replaced. The predominant technology to facilitate this is heat pumps. The high efficiencies of electric heat pumps enable a net reduction in energy consumption and carbon emissions. Nevertheless, as the technology is electrically powered and electricity remains around four times more expensive (per kWh) than gas, efforts need to be made to design a new system optimally to reduce running costs.
- 2.6 Phase 3 of the Public Sector Decarbonisation Scheme (PSDS), worth £1.425bn, was launched by Salix on behalf of the Department for Energy Security and Net Zero in 2021. Phase 3c has up to £230m available for 2024/2025.
- 2.7 Leisure Energy were commissioned to support the Council in developing a detailed application into PSDS, targeting the Grantham Meres Leisure Centre as the site with highest energy consumption. The focus of the bid is on complete removal of the existing gas boilers and Combined Heat and Power (CHP) units,

and installation of a new Air Source Heat Pump (ASHP) system with supporting design, infrastructure and project management.

- 2.8 Applicants are expected to provide a minimum co-funding contribution of at least 12% or equivalent to the cost of installing a new fossil fuel based heating system. The application developed includes only the measure of the new air source heat pump system and no other energy efficiency upgrades for the site.

Total grant funding request	£3,587,500
Applicant funding contribution	£492,500
TOTAL project value	£4,080,000

- 2.9 An application to phase 3C of PSDS was made in November 2023 for a total project value of £4,080,000. Applicants were advised to expect an announcement of the outcomes of bids in late January or February 2024, following technical review of all applications submitted. The increase in the allocation will only be implemented should the grant application be successful.

- 2.10 An existing provision to support a decarbonisation scheme has been made for the 2023/24 budget. In order to support a successful application to phase 3C of PSDS, an additional contribution is required:

2023/24 decarbonisation scheme budget	£261,000
Total PSDS applicant contribution for successful bid	£492,500
Required increase to existing decarbonisation scheme	£231,500

LeisureSK Ltd

- 2.11 In the latter months of 2022, the Board of Directors of LeisureSK Ltd made the Council aware of the difficult trading conditions and the financial challenges being experienced. These were predominantly related to increased utility costs and staffing costs. Following consideration and recommendation by the Council's (then) Companies Committee on 1 December 2022, on 7 February 2023 Cabinet agreed to financially support LeisureSK Ltd by circa £500,000, all of which related to the forecast increase in utility costs which could not be offset by income generation (see **Background Papers**).
- 2.12 Leisure SK Limited presented a report to the Culture and Leisure Overview and Scrutiny Committee (OSC) on 30th November which confirmed there was a management fee requirement of £738,942 ([LeisureSK Ltd Management Fee Request 2024 2025 Report.pdf \(southkesteven.gov.uk\)](#)) for the current financial year (which is partly offset by the approved £500k fee). This projected deficit has since increased to £772,949 and was included in the latest report to the OSC presented on 9 January 2024. This deficit is primarily due to the impact of utility costs, the amount of irrecoverable VAT, software and professional fees and minimum wage increases. This has led to LeisureSK Ltd requesting an additional management fee of £273k.

- 2.13 Although the request for 2023/24 has increased, the request from LeisureSK Ltd for 2024/25 is set at £447k (and therefore lower than the current financial year) due to the following assumptions: an additional £238k of income expected from fitness and swimming activities and a projected utility cost decrease of £136k. Once these are accounted for, along with an expected staff costs increase of £129k, the result is a reduced overall deficit of £245k when compared to 2023/24.

3. Key Considerations

- 3.1 Leisure SK Ltd was established to secure the ongoing provision of leisure centres across the District. Without the requested increase to the management fee, LeisureSK Ltd will suffer severe cashflow problems and may need to cease trading, which could result in the loss of leisure provision across South Kesteven. This may also have implications on funding awarded by the Swimming Pool Support Fund of £344k, with a consequent risk of the Council having to return the funding.

4. Other Options Considered

- 4.2 The current contract with LeisureSK Ltd is nearing its end. A thorough options appraisal will be undertaken to establish the most appropriate delivery model.

5. Reasons for the Recommendations

- 5.1 The creation of a budget of £492,500 of matched funding for the Decarbonisation Fund will ensure that the Council is able to accept the funding if the bid is successful.
- 5.2 The allocation of an additional management fee to LeisureSK Ltd will ensure leisure centres can continue to operate.

6. Background Papers

- 6.1 *Swimming Pool Support Fund (Phase One – Revenue)* – Report to Cabinet, published 7 November 2023, available online at:
<https://moderngov.southkesteven.gov.uk/documents/s39436/SPSF.pdf>
- 6.2 *Budget Proposals for 2023/24 and indicative budgets for 2024/2025 and 2025/26* – Report to Cabinet, published 7 December 2023 and available online at:
<https://moderngov.southkesteven.gov.uk/documents/s36830/Cabinet%20Budget%20Report%202324.pdf>