

Report to Cabinet
09 September 2020
Report of Director of strategy, communications and culture
Subject City council leisure provision

Item

13

KEY DECISION

Purpose

To outline the impact of Covid 19 on the councils' contract with Places Leisure (PL) for the management of Riverside Leisure Centre and to provide information on the financial implications of reopening the centre on the 1 September.

Recommendation

To pay Places Leisure negotiated costs associated with the enforced closure of Riverside Leisure Centre and estimated recovery costs in this financial year, subject to an open book reconciliation.

Corporate and service priorities

The report helps to meet the corporate priority People living well

Financial implications

General fund revenue costs estimated at £445,609 which are to be funded from the £1,818,177 of Emergency Covid-19 grant funding received from Ministry Housing, Communities and Local Government.

Loss of management fee income of £80,214. The first 5% of the loss is expected to be borne entirely by the council, with 75% of the remaining loss being claimable from central government under the Covid income reimbursement scheme.

Ward/s: Thorpe Hamlet

Cabinet member: Councillor Packer - Health and wellbeing

Contact officers

Martine Holden, Leisure and sport development manager 01603 989416

Greg Rowland, Leisure development officer 01603 989552

Background documents

None

Report

Background

1. This report sets out the impact Covid-19 has had on the leisure industry and how the council has worked to address the issue in relation to the reopening of Riverside Leisure Centre (RLC) owned by the city council and contracted out to Places Leisure (PL) to manage.
2. Many local authority leisure centres are run by leisure operators or trusts, PL manage 35 centres. The sector often operates on low margins (1 to 5% income relative to contracts) and are reliant on income for cash flow. PL reinvests its profits back into the centres and RLC has recently benefitted from refurbishment of the upstairs changing facilities, fitness gym and the dance studio.
3. The centre prior to Covid-19 had 3,600 members and 465,000 attendances in 19/20. It directly employs 79 staff who all but one were furloughed until shortly before the reopening of the centre on the 1st September.
4. The contract is in its seventh year of an 11 year contract and was performing well until the Government required all leisure centres to close from midnight on the 20th March. The Government then enabled them to reopen again from the 25th July providing they complied with Covid secure guidance. However, this means significant restrictions would need to be in place due to social distancing and cleaning requirements, resulting in reduced footfall and therefore considerable loss of income for the operator whilst expenditure remains high.
5. Sport England recognised early on that the leisure industry was at significant risk due to costs associated with the closure period and recovery phase. To assist councils ascertain a fair and reasonable approach to addressing the issue it offered councils financial support to engage leisure consultants to work with councils and leisure operators. The consultant's role was to challenge costs and to help identify whether these costs were reasonable. The city council successfully applied for this funding and commissioned The Sports Consultancy (TSC) to undertake this work.
6. TSC assisted council officers with the complex negotiations that took place with PL and enabled costs to be independently scrutinised and challenged. The consultants reviewed 3 key aspects – closure costs incurred by PL during lockdown, recovery costs whilst operating under social distancing restrictions and alternative options if an agreement could not be reached for PL to reopen the centre.
7. Following the enforced shutdown, the Government issued two procurement policy notes (PPN) 02/20 and 04/20 which strongly encouraged councils to work with providers to ensure service continuity during and after the crisis. They included advice on supporting suppliers with cash flow and payments (if appropriate).
8. Legal advice was sought at an early stage from NPLaw who advised that the Covid 19 situation was viewed as a Qualifying Change in Law.

9. Later the Secretary of State for Local Government announced support for councils who were experiencing significant loss of income as a result of the crisis. The Government will compensate councils for 75p in every £1 (with councils absorbing the first 5% of losses). From the information received to date the council is not able to claim for any other associated costs of supporting its leisure centre.
10. The councils contract requires PL to pay the council a monthly management sum, this amount varies on a yearly basis and in this current period up until end of February 2021 is £80,214.
11. Following detailed discussions with council officers, PL, and with advice from NPLaw a cost was proposed for the closure period along with a cost for the recovery period.

Financial implications for the council

12. To enable the centre to reopen the following proposal was put forward to PL on the understanding that costs as set out below would need to be approved by Cabinet. On this basis and at risk, PL agreed to reopen the centre on the 1 September.
13. The proposed costs payable to PL whilst the centre was closed are estimated at a maximum of £225,619. The payment if approved will be subject to a final open book reconciliation, with an initial payment of £200k with any reconciling payment by the end of September 2020.
14. In recognition of the challenging financial and operational situation Riverside Leisure Centre will be operating in following reopening, the proposal is to pay PL the net costs of running the centre in this financial year, estimated sum is £219,990. This would include payment of £126,178 for the period September to November. Following which a formal review of the situation would take place to assist in forecasting the costs from December until 31st March 2021. As with the closure costs this would be reconciled on a quarterly open book basis.
15. In addition to the above costs, as the situation is identified as a Qualifying Change in Law within the contract the council would forego the current management fee of £80,214.
16. The council understands that PL has insurance for business interruption. However, this issue is currently being litigated through the High Court and at the time of writing, is unresolved. Officers will keep this matter under review and should PL's claim be successful will review costs accordingly.

Options

17. Five options were put forward for consideration:

- Status quo - continuation of the current contractual arrangement with PL taking into account the closure and recovery costs as noted above
- In house - the council brings the management of the centre in-house
- Disposal – the council disposes of the centre to a commercial operator on a long lease
- Mothballing - the council closes and mothballs the centre for an indefinite period
- Retendering – the council retenders the management contract and selects a new operating partner

The financial and contractual implications of each option are outlined in more detail in the exempt appendix to this report.

Risks

18. Whilst the status quo option is the most cost effective it does not eliminate financial risk for the council. Challenges going forward include there could be further spikes in Covid-19 resulting in an additional closure period and PL requiring financial support into the new financial year. A slow trading recovery could also negatively impact on net running costs to the council.

19. There are commercial risks for PL in terms of trading in an uncertain environment during the Covid -19 pandemic. Once the centre is open again for a period PL could decide the contract is not financially viable and hand back the keys. This would result in the council having to decide on another option which would incur further costs. There is also a risk that PL business model could be unviable if collectively councils do not cover Covid-19 costs and recovery takes longer than budgeted for. This would require the council to consider other options for the centre which would result in the council incurring considerable additional expenditure.

20. Closure of RLC whether intended or due to circumstances beyond the council's control could negatively impact on the council's reputation for delivering services.

Conclusion

The centre is well used and positively contributes to the health and wellbeing of Norwich residents and visitors. It is the council's only leisure centre with swimming provision and has a pricing policy that is affordable to those on low income. It offers employment opportunities for over 70 people and therefore contributes to the local economy. Considerable work has been undertaken to reach the best negotiated position, that is in line with the decisions being made nationally by other councils who have contracts of a similar nature.

Integrated impact assessment



NORWICH
City Council

Report author to complete

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|-----------------------------------|--------------------------------|
| Committee: | Cabinet |
| Committee date: | 9 September 2020 |
| Director / Head of service | Nikki Rotsos |
| Report subject: | City council leisure provision |
| Date assessed: | 21 August 2020 |

| | Impact | | | |
|---|-------------------------------------|-------------------------------------|--------------------------|--|
| Economic (please add an 'x' as appropriate) | Neutral | Positive | Negative | Comments |
| Finance (value for money) | <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | Most cost effective option to maintain the service for residents |
| Other departments and services e.g. office facilities, customer contact | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| ICT services | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| Economic development | <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | |
| Financial inclusion | <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | Go4Less is used at riverside |
| | | | | |
| Social (please add an 'x' as appropriate) | Neutral | Positive | Negative | Comments |
| Safeguarding children and adults | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| <u>S17 crime and disorder act 1998</u> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| Human Rights Act 1998 | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| Health and well being | <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | |
| | | | | |

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|--|-------------------------------------|--------------------------|--------------------------|----------|
| | Impact | | | |
| Equality and diversity (please add an 'x' as appropriate) | Neutral | Positive | Negative | Comments |
| Relations between groups (cohesion) | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| Eliminating discrimination & harassment | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| Advancing equality of opportunity | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| | | | | |
| Environmental (please add an 'x' as appropriate) | Neutral | Positive | Negative | Comments |
| Transportation | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| Natural and built environment | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| Waste minimisation & resource use | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| Pollution | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| Sustainable procurement | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| Energy and climate change | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| | | | | |
| (Please add an 'x' as appropriate) | Neutral | Positive | Negative | Comments |

| | Impact | | | |
|------------------------|--------------------------|-------------------------------------|--------------------------|---|
| Risk management | <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <p>Good for the reputation of the council to provide affordable leisure provision.</p> <p>Possible risk to service if further spike in Covid-19</p> |

| Recommendations from impact assessment | |
|--|--|
| Positive | |
| Retention of affordable service contributing to the leisure and cultural offer of the city offering support for residents to maintain health and wellbeing | |
| Retention of jobs for 70+ leisure centre staff | |
| Supporting the local economy | |
| Negative | |
| | |
| Neutral | |
| | |
| Issues | |
| Continued presence of Covid-19 | |