



Council – 24 November 2022

ADDITIONAL FUNDING FOR FREEDOM LEISURE DUE TO THE INCREASED COST OF ENERGY

Report of Director of Community & Environmental Services

Report Author and Contact Details

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Wards Affected

District-wide

Report Summary

A request for additional funding for Freedom Leisure to operate the 4 leisure centres across the district due to the increased cost of energy up to 31 March 2023.

Recommendations

1. That approval be given to a supplementary revenue budget, financed from the General Reserve, to support the partnership to the value of 75% of the significant increase in energy costs to the value of £204,000
2. That this support is to be ring-fenced to the Derbyshire Dales contract and will be paid on a monthly basis through open book accounting and monthly meetings with the contract managers up until 31st March 2023
3. That further investigation be undertaken of options in January 2023 to mitigate costs and to review further information or support provided by central government
4. That an update report be submitted to Council in March 2023.

List of Appendices

Appendix 1 Expected utility increase by venue

Background Papers

N/A

Consideration of report by Council or other committee

N/A

Council Approval Required

Yes

Exempt from Press or Public

No

Additional funding for Freedom Leisure due to the increased cost of energy

1. Background

- 1.1 The District Council has four leisure centres. These are sited in Ashbourne, Bakewell, Matlock and Wirksworth. These leisure centres provide vital health, leisure and wellbeing services to our local communities, with over 755,000 total centre participation in 2021/22.
- 1.2 Following a review and options appraisal in 2018, the management and development of the service was out sourced to Freedom Leisure, a not for profit organisation. Freedom Leisure are not a private company therefore they don't have a lot of reserves as all funds are put back into the organisation.
- 1.3 Freedom Leisure is one of the UK's leading charitable and not-for-profit leisure trusts. They manage leisure and cultural services on behalf of over 25 local authority partners and operate more than 100 leisure and cultural venues across England and Wales, including over 60 swimming pools – teaching over 62,000 children to swim on a weekly basis.
- 1.4 Freedom Leisure have operated sustainably, improving lives through leisure for over 20 years. Their programmes are designed to support rehabilitation, active ageing, the prevention of physical, mental and social ill health, and addressing health inequalities, obesity, and support long term health conditions. The services they provide influence both the medical and social determinants of health.
- 1.5 As a not for profit trust, they are fully dedicated to providing an affordable, accessible and inclusive health and wellbeing offer to the local communities, including providing vital life skills to children and adults learning to swim. These vital services are now under threat.
- 1.6 As a result of outsourcing the service the original projection was that there would be a saving to the District Council of circa £4.9m over the 10 year contract life.
- 1.7 The contract with Freedom Leisure has a management fee payable each year and for the first 5 years the District Council pays Freedom Leisure a decreasing fee. In the remaining 5 years of the contract the District Council will receive funds from Freedom Leisure for delivering the service. These costs are reducing each year, year 1 the management fee was £441k whereas for the current financial year, the management fee is only £177k.
- 1.8 In addition to this, if there are any profits beyond break even for the Derbyshire Dales contract there is a surplus share agreement which is split 50/50 with Freedom Leisure and the District Council.
- 1.9 During the Covid-19 pandemic, Freedom leisure were forced to close for 9 months of the year which had a huge impact on the leisure service. In August and November 2020 the Council approved £366,613 in support for the continuation of services.

- 1.10 Following the relaxation of Covid-19 restrictions, Officers worked closely with Freedom Leisure through monthly meetings and open book accounting. Due to a recovery in the performance of the business, the district council was not required to provide as much financial support to Freedom Leisure as was originally anticipated and approved. As a result, there was an underspend of circa £180,000 which the Council transferred back into reserves.
- 1.11 Due to the extraordinary increase in utility costs nationally, the fitness and leisure sector is finding it extremely challenging to cover these costs. This comes at a time when facilities are still recovering from major losses incurred during forced closures and reduced footfall caused by the Covid-19 pandemic.
- 1.12 Freedom Leisure was in a 3 year fixed contract for both gas and electricity. The gas contract ended in September 2022 and the electricity contract ended in October 2022.

2. Key Issues

- 2.1 Following the government announcement of the Energy Bill Relief Scheme (EBRS) Freedom Leisure can confirm that the total impact of latest energy price increase is **£272,397** this financial year and **£578,693** for next financial year. The latter assumes the continuation of the central government support 'cap' after April 2023 however this has yet to be confirmed.
- 2.2 There is currently uncertainty over support from Government beyond March 2023. It is hoped and expected that utility rates will start to decrease over the next 18 months which will require less support and ideally tariffs will return to a sustainable level which will require zero support from partners beyond the 18-month period.
- 2.3 Freedom Leisure has made reasonable provision for uplifts on Energy Contract Inflation and is able to contribute up to a maximum of 25% of these costs. It is incredibly challenging for a Not for Profit organisation to absorb liabilities of this proportion, especially when the increases are linked to global economic shocks as a result of Russia's invasion of Ukraine.
- 2.4 For this financial year Freedom Leisure are forecasting a deficit after the utility increases of £325,000 and this is compounded by the effect of the lack of full income recovery after the Global Covid-19 Pandemic and the subsequent inflationary rises in wages, goods, supplies and services.
- 2.5 When the additional utility costs are included in the projections for next year Freedom Leisure is predicting a deficit of £739k in the financial year 2023-24. See appendix 1 for the breakdown of expected utility increases.

Work undertaken to date

- 2.6 Freedom Leisure has enacted a range of previous actions, mitigations and support measures in order to reduce the risks of disruption, reduction and potentially loss of service. These include:

Ashbourne

- LED lighting upgrades to Gym, Pool Hall & Sports Hall
- Smart metering gas and electricity
- £13,500 investment, £1,600 annual saving, 8.2 year payback
- Savings on Electricity 14,242 KWH 5% & CO2 6 Tonnes 2%

Bakewell

- LED Lighting upgrades throughout the centre
- Test water recycling
- Complete replacement of Pool Hall AHU
- Cleaning of existing duct work
- Smart metering gas and electric
- £88,500 investment, £8,500 annual saving, 10 year payback
- Savings on Gas 243,814 KWH 63%, Electricity 22,829 KWH 14%, CO2 55 Tonnes 38% & Water 420 M3 9%
- Replaced old inefficient single 500kw boiler for 2 x 150kw high efficiency modulating boilers (2019)

Arc Leisure Matlock

- LED lighting upgrades to Sports Hall, Pool Hall & Cycle Studio
- Pool Sentry System for increased day time speed control of circulation pumps
- Test water recycling
- Kelda Eco Showers to Wet and Dry Change
- Smart metering gas and electric
- £116,100 investment, £16,100 annual saving, 7.2 year payback
- Savings on Gas 21,778 KWH 0.7%, Electricity 123.935 KWH 14%, CO2 59 Tonnes 6% & Water 840 M3 10%
- LED upgrade phase 1 completed August 2022 to fitness suite, reception lobby, café seating area and management office
- LED upgrade phase 2 – in the process of completing phase 2 to include change village, WC's all other changing facilities and plant rooms

Wirksworth

- Smart metering pas and electric

In addition to the above works Freedom Leisure have been implementing good housekeeping measures to include:

- Weekly meetings to review weekly and monthly gas and electricity data
- Regular review and tightening of all BMS time schedules
- Reduction in stored hot water temperatures by 1 degree
- Reduction in boiler temperatures by 2 degree except Arc due to CHP
- Reduced pool water temperatures where possible
- Air Conditioning minimum set points increased to 20 degree
- Implementation of Energy Non-Negotiable guidelines for staff and information for customers

3. Options Considered and Recommended Proposal

3.1 Despite the above mitigations and actions taken, Freedom Leisure have made 7 proposals, listed below, to be considered by Derbyshire Dales District Council in support of its community leisure portfolio and associated services. Should the council not be in a position to support the officer recommendation in 3.2, the operation of leisure centres, as currently delivered, will be placed at serious risk.

1. DDDC to support the partnership to the value of 75% of the significant increase in energy costs to the value of £204k in 2022/23 and £434k in 2023/24

2. Support the temporary reduction/removal of the Active Communities role saving approximately £25k per annum

3. Support the temporary reduction in establishment across the 4 leisure centres, saving potentially £70k per annum

4. The temporary pool closure of Arc, Ashbourne & Bakewell with immediate effect. Arc c£16k a month saving, Ashbourne c£14k a month saving and Bakewell c£1k a month

5. Consider reduced opening hours at Bakewell and Wirksworth

6. Explore further DDDC capital funding opportunities to generate energy and reduce consumption at sites

7. Support further services reviews to be brought forward in mitigation of the significant challenges ahead

Officer recommendations

3.2 In light of the above proposals by Freedom Leisure it is recommended that approval is granted to proposal 1, however it is amended to DDDC to support the partnership to the value of 75% of the significant increase in energy costs to the value of £204k up until 31 March 2023. This support is to be ring-fenced to the Derbyshire Dales contract and will be paid on a monthly basis through open accounting and monthly meetings with the contract managers. To finance this level of support utilisation of the general reserve will be required.

3.3 This support will only be until 31st March 2023 due to the uncertainties around the Council's own financial position, at which point there will be more clarity on what support will be provided by central government and investigations into further mitigations will be considered through regular meetings with Freedom Leisure.

3.4 The leisure centres are invaluable to local residents in the community and any reduction of hours or closure could have an impact on resident's health and wellbeing.

Additional information

3.5 Since drafting this report Freedom Leisure has continued to review the services they provide, including the reduction of services, costs and workforce. Freedom have already or will be removing the following senior roles from their establishment:

- Reduction in Regions from 4 to 3 resulting in a removal of a Regional Manager role
- Reduction in the number of Area Managers from 19 to 14
- Removal of Head of Healthy Communities
- A further 10 central support roles are being removed along with a reduction in Business Development hours and associated costs.
- The Executive Team have also agreed to a temporary reduction in salaries whilst leading and navigating the organisation through these very challenging times.

3.6 Over the past several months officers have been in regular discussions with Freedom Leisure to understand the impact and the severity of this utility crisis. Officers have also liaised with other local authorities who are in contracts with Freedom Leisure and 5 out of the 6 local authorities contacted have responded and are all providing a high level of financial support to Freedom Leisure. The 6th authority has not responded.

Freedom Leisure's requirement from the government

3.7 The wider leisure sector needs meaningful and long-term support now in order to secure its future as outlined below:

- Public Sector leisure must be identified as a vulnerable sector in the upcoming January review to put in place support beyond the 31st March 2023
- Support should be bespoke to the sector and be more 'generous' than the current cap position which still results in unsustainable losses
- Urgent government backed liquidity loans, as were put in place during Covid, are needed to secure the viability of the sector and prevent catastrophic failure of organisations with consequent loss of service and jobs (Freedom employ 5,000 people)
- More direct support for energy management scheme would also assist in the medium term
- Freedom Leisure are members of UK Active and Community Leisure UK that have worked tirelessly to lobby government about the plight of the leisure industry and in particular the trust sector for more support.

4. Consultation

4.1 A Leaders Advisory Group meeting took place on Friday 28 October to discuss this recommendation. Engagement has also been undertaken with Sarah Dines MP.

5. Timetable for Implementation

5.1 As soon as possible following Council meeting

6. Policy Implications

- 6.1 There are no immediate links to the Council's Corporate Plan, but consideration will need to be given to broader implications set out elsewhere in this report in relation to financial impacts.

7. Financial and Resource Implications

- 7.1 This report recommends that the District Council provides additional financial support to Freedom Leisure in 2022/23 up to the value of 75% of the significant increase in energy costs i.e. to the value of £204,000. There is no provision in the 2022/23 revenue budget for this amount. Therefore, approval is sought for a supplementary revenue budget of £204,000 in 2022/23. The additional spending could be financed from the General Reserve as the Council's Medium Term Financial Strategy allows the General Reserve to be used for "one-off" expenditure. The General Reserve currently has a balance of circa £3m. The financial risk is assessed as Medium.
- 7.2 The report states that Freedom Leisure has requested financial support for 75% of the significant increase in energy costs to the value of £434,000 in 2023/24. It is recommended that officers investigate further options to mitigate costs and to review further information or support provided by central government, with the intention of reporting back to Council in March 2023. This potential cost pressure and financial risks will need to be assessed at that time and considered alongside other cost pressures, which are being assessed by officers as part of a revision of the Medium Term Financial Plan.

8. Legal Advice and Implications

- 8.1 This report is requesting additional funding for Freedom Leisure to operate the 4 leisure centres across the district due to the increased cost of energy up to 31 March 2023.
- 8.2 There are 4 recommendations put forward and due to the uncertain climate and volatility of the energy market the legal risk at the current time has been assessed as medium. Further investigations are required as detailed within this report to ensure the contract with Freedom Leisure is complied with.

9. Equalities Implications

- 9.1 Public authorities are required to have due regard to the aims of the Public Sector Equality Duty (Equality Act 2010) when making decisions and setting policies. There are no specific equalities implications arising from this report.

10. Climate Change Implications

- 10.1 Whilst there are considered to be no direct climate change impacts as a result of the recommendations of this report it is worth noting that:

- Some of the proactive measures undertaken by Freedom Leisure to reduce energy consumption should reduce carbon emissions from all sites
- Reduction in opening hours or closures would similarly reduce emissions temporarily

11. Risk Management

- 11.1 There is a risk that if support isn't given to Freedom Leisure there will be a reduction in the service or potential closure of sites.

Report Authorisation

Approvals obtained from:-

	Named Officer	Date
Chief Executive	Paul Wilson	16/11/2022
Director of Resources/ S.151 Officer (or Financial Services Manager)	Karen Henriksen	13/11/2022
Monitoring Officer (or Legal Services Manager)	James McLaughlin	16/11/2022