

Date: **29 June 2020**

Report Title: **Freedom Leisure Covid-19 impact: ongoing requested support to maintain the business and contract**

1. Summary

For Cabinet to consider a further request for financial assistance from Freedom Leisure in line with the Council's leisure contract.

2. Key Issues

In December 2018 Freedom Leisure, a charitable trust, took over the operation and management of the Council's four leisure centres with a 15 year agreement.

This arrangement, after Hudson Leisure Centre capital costs and gym equipment replacement costs, has saved FDC £351,000 p.a. Additionally, a staff review of contract management staff as a result of the new Freedom contract added £49,000 p.a to the annual savings, equating to a total of £5.6 million of savings over the life of the contract.

The first 15 months of the contract have proceeded better than either partner, the former FDC staff in the centres and leisure centre customers could have hoped for. Whilst not perfect, the customer feedback, as well as customer and income growth, demonstrates that Freedom has been doing a very good job on the Council's behalf.

As with any business, Freedom is dependent on income and cash flow to manage the business. As a large organisation, they have capacity to absorb market conditions and respond in a more agile manner than a Council might. The business is, however, dependent on income from paying customers.

Following the change in law and the necessity to close leisure centres on 23 March, all income to Freedom became negligible immediately preceding the rise in the Covid 19 pandemic. The contract the Council has with Freedom Leisure requires that we support them financially in these types of situation and therefore the Leader agreed on behalf of Cabinet an initial support package on 1st May 2020 to fund costs that could not be further mitigated whilst the centres were closed and deferral of the management fee Freedom usually pays us on a monthly basis. The management fee is to be repaid in years 5-15 of the contract.

The Phase I support package consisted of:

Deferred Management Fees	£112,680
Cash support	£164,988
Total Phase I support	£277,668

The Council has received £1.1m from Government to support costs due to the current coronavirus crisis.

The improving Covid outlook indicates that leisure facilities may be allowed, subject to social distancing measures, to reopen from late July or August 2020. This paper uses industry research to model anticipated income. Levels of income will rise after re-opening, but are not expected to achieve 2019 levels until 2 - 3 months AFTER all social distancing measures are removed. Income levels remain extremely uncertain. When the

centres reopen we will be able to more accurately predict income levels. Therefore, the figures included in the report, albeit based on customer attendance expectations from industry surveys of leisure users nationally, should be treated with caution.

This situation means that there will remain a significant financial gap within the Freedom contract, albeit with modelling indicating a month on month reduction. Without the Council's continued financial support, the contract between Freedom Leisure and Fenland District Council is unlikely to remain viable and the Council would need to explore alternative options to deliver leisure centre services, all of which have their own financial challenges.

The support package contained within this report is for July - September 2020. A further support package and Cabinet report is likely to be required, dependent on predicted income levels for October 2020 onwards. A best case expectation is the continued deferral of management fees until April 2021. The support package can be provided within the terms of the Contract and should not give rise to concerns under The Public Contracts Regulations or in breach of the general prohibition against State Aid.

The Council has been proactively lobbying the government through the LGA, District Council Network, District Council Treasurers, and local MP Stephen Barclay to highlight the financial difficulty that the leisure sector is facing and the financial impact on Councils to support their local facilities. The Department for Culture, Media and Sport is currently considering proposals to put to Treasury and MHCLG regarding potential future funding to Local Authorities, in addition to the £1.1 million coronavirus support already received by FDC.

Fenland has a contract with Freedom Leisure that is in the second full year of a 15 year contract. The significant efficiencies and savings that the contract has allowed FDC are expected to return during its term.

3. Recommendations

It is recommended that:

- 3.1 Fenland District Council ("FDC") notes Freedom's intention to resume service provision on a phased basis at the earliest opportunity the government will allow, possibly late July or early August 2020 and provides the financial relief set out in these recommendations contingent upon its compliance with Government guidance and Covid secure risk assessments being completed and appropriately reviewed.
- 3.2 FDC defers the monthly management fee of £37,560 per month for July - September 2020, at a cost to the Council of £112,680 repayable in accordance with the terms set out at paragraph 3.5 of these recommendations.
- 3.3 FDC continues to support Freedom Leisure on an open book basis by providing them with an interest free loan payable monthly up to the amounts set out below and repayable in accordance with the terms set out at paragraph 3.5 and varied according to paragraph 3.4 of these recommendations:

July	£32,235	(closed cost)
August	£63,825	(1 st opening month)
September	£59,021	(2 nd opening month)
Total cash support:	£155,081	

With an actual opening date uncertain (see [Appendix III](#) – UKActive Statement of 23 June), it should be noted that these costs are unlikely to fall into specific months, but may be spread across the period pro-rata, depending on opening dates.

- 3.4 That Cabinet authorises the Leader of the Council, in discussion with the Portfolio Holder for Leisure and the Section 151 Officer, to supplement the interest free loan described at paragraph 3.3 up to a maximum total value of £200,000 in the event that predicted income fails to meet the committed outgoings for the period. Such additional payments to be assessed on a monthly basis with any requests for additional relief having been made by no later than the 3rd Monday of each month and repayable in accordance with the terms set out at paragraph 3.5 of these recommendations.
- 3.5 Repayment of the £267,761 described in paragraphs 3.2 to 3.3 of these recommendations together with any supplementary amount in accordance with paragraph 3.4 shall become payable through an annual deduction of 75% of any profit generated in excess of the levels predicted in the LOBTA. This is a change from the current 50/50 profit share, and will be subject to the performance of the business over the contract period.
- 3.6 The Monitoring Officer and s.151 Officer are authorised to put in place all of the necessary arrangements to give effect to the agreed recommendations to include entry into the necessary legal arrangements and expenditure of the amounts described from existing budget provisions.

Wards Affected	All Wards
Portfolio Holders	Cllr Chris Boden, Leader of the Council and Portfolio Holder for Finance Cllr Sam Clark, Portfolio Holder for Leisure
Report Originators	Phil Hughes, Head of Leisure Services Carol Pilson, Corporate Director Peter Catchpole, Corporate Director Amy Brown, Chief Solicitor

<p>Contact Officers</p>	<p>Paul Medd, Chief Executive paulmedd@fenland.gov.uk</p> <p>Carol Pilson, Corporate Director cpilson@fenland.gov.uk</p> <p>Peter Catchpole, Corporate Director and Section 151 Officer petercatchpole@fenland.gov.uk</p> <p>Phil Hughes, Head of Leisure Services phughes@fenland.gov.uk</p> <p>Amy Brown, Chief Solicitor abrown@fenland.gov.uk</p>
<p>Background Papers</p>	<p>Urgent Decision Notice and Supporting Documents 1/5/20 Cabinet office; Procurement Policy Note – Recovery and Transition from COVID-19. June 2020</p> <p>UK Active Covid Impact Report June 2020</p> <p>Post Lockdown Recovery survey</p> <p>Freedom Specific customer information from UK Active Survey</p> <p>Modelling reopening of Freedom Leisure Facilities - FDC expected approach to the business</p> <p>Swim England draft Covid Secure operating regime</p> <p>Customer Insights; My Customer lens feedback</p> <p>UKActive Press Statement 23 June 2020</p> <p>Confidential Freedom Leisure letter to FDC regarding financial viability.</p> <p>Confidential Freedom Leisure modelled income and expenditure</p> <p>Confidential Revised modelled income and expenditure based on UKActive survey data</p> <p>Confidential Leisure Operators base trading account</p> <p>Confidential Leisure operators 2020 / 2021 projected accounts</p>

2 Pre-Covid Financial Summary

- 2.1 Expected income for 2020/21 for the Fenland leisure centre contract was budgeted at approximately £3.5m - an average of just under £300,000 per month. Staffing costs are around £149,000 per month.
- 2.2 Freedom Leisure pays the Council a management fee of £450,717 p.a. (£37,560 per month).
- 2.3 Savings from Freedom's operation and management of the leisure centres are approximately £400,000 p.a. with 14 years left of the contract to run this equates to £5.6m in savings for FDC over that period, when compared with the previous in-house management and delivery costs.

3 Key Issues; Covid19 Business Impact

- 3.1 The impact of Covid19 on the leisure sector has been profound and immediate. Customers have been unable to attend due to the change in law. Freedom has furloughed most staff. Income since closure has been negligible. Limited Freedom Head Office staff are not furloughed, but have taken a 25% salary reduction to support the business.
- 3.2 Independent leisure operators have written to clients requesting support. Freedom is not the only national leisure contractor in this position. Across the District Council's Network approximately £305m is required by Councils to support leisure service Covid costs. Sport England is reporting a deficit in excess of £1bn across the sport and physical activity sector. Of Freedom Leisure's 19 council clients, all have supported the business in Phase I of the Covid crisis in broadly a consistent manner.
- 3.3 In Phase I of the Covid crisis, Freedom was facing 'extreme viability challenges' and without the prompt support from clients Freedom's assessment is that the company would have failed by this point.
- 3.4 FDC's contract with Freedom includes a change of law clause stating that in the event of a change in law, Freedom should be no better and no worse as a result of such a change. FDC is obliged by the contract and Government guidance to provide support during the Coronavirus crisis.
- 3.5 It is anticipated that further financial support may be required following the initial reopening period of leisure centres. Once income levels are back to original contracted levels or legal restrictions on business operations are lifted, the Council would then expect to see the management fee back to its original contracted level, possibly by April 2021.
- 3.6 It is proposed that the financial support package between Freedom and the Council is structured as a long term loan unless and until the current contract is varied so that;
 - When income performance levels reach those agreed in the original LOBTA, profit generated above the LOBTA level will then be shared 25:75, with the Council receiving the larger share as the loan repayment of Phase II support monies (including deferred management fees) and the deferred management fees from Phase I.
 - Should the support payments loan (including deferred management fees) be settled prior to the end of the contract, the contract shall revert to the original profit share mechanism.

- 3.7 It should be noted that the Council is ambitious to regain the financial support identified in this report using this mechanism. However, the Council recognises that repayment levels are uncertain due to the nature of future income levels, determined by customer demand.

4 Options and Risks

- 4.1 Members agreed prior to the outsourcing process that they wished leisure centres to continue to run in each town.
- 4.2 Freedom is providing the service of managing the leisure centres on Fenland's behalf, but this arrangement it is very much a partnership. Whilst Freedom Leisure is an expert in this field, it is important for both organisations to work collaboratively to achieve the common objective of reinstating and continuing to improve leisure services.
- 4.3 If Freedom fails, then FDC's short term costs will increase by at least £500,000 p.a. and FDC would be taking back the health and safety risk, staff management, accountancy and payroll functions, administrative functions and human resources of over 100 staff. Staff restructures took place in back office teams to reflect leisure being outsourced. These additional costs would have to be added back into the FDC budget to support any in-house change. It will not be possible to find an alternative provider of the Service at short notice.
- 4.4 Should Freedom fail as a result of Covid 19, FDC will not realise the £5.6m of savings over the outstanding period (14 years) of the contract. FDC's current MTFS highlights the requirement to find £1.1m in savings by 2024/25 as well as consideration of the added uncertainty of Covid 19, fairer funding, new homes bonus and business rates retention. If the Freedom contract ceases and FDC brings the service in-house this will add an additional revenue cost of £500,000 per annum to the Council.
- 4.5 Further to paragraph 4.1, should Freedom fail and the planned savings of the Freedom contract are not possible, the Council may need to reconsider the strategic approach to leisure centre provision in Fenland. Such a review may mean that the current level of provision across the four towns would need to be re-visited reflecting financial challenges.
- 4.6 Fenland District Council is one of 19 Councils who have a contract with Freedom Leisure. Financial relief packages have been agreed with each of the 19 Councils for varying periods of time and values commensurate with the value and length of the respective contracts. Similarly to FDC, each other Council is also keeping the circumstances of support under review and to an extent, the success of any individual Council's contribution is contingent upon the support being given by others. This remains a potential risk factor which will need to be monitored and this has been factored into the overall assessment of financial risk appended at Confidential Appendix II.
- 4.7 Due to the unprecedented nature of the current situation and the overall fragility of the industry and this stage in recovery process, the Council faces inevitable risks whatever decision it takes.

Contractual Options Appraisal:

- 4.8 If FDC withdraws its support to Freedom it will be in breach of contract entitling Freedom to give notice and claim any associated penalties in addition FDC will face the financial costs of the service brought back in house or retendered.

- 4.9 If FDC itself serves notice under the contract there would again be financial implications associated with assuming responsibility for the service or retendering together with a penalty of up to 12 months loss of opportunity payable to Freedom.
- 4.10 If the Council attempts to negotiate a reduction in the currently proposed relief package such that only partial support is provided, it will impact on the services that can be delivered and would therefore put Freedom in a disadvantageous position in terms of re-establishing its competitive position in the market and ultimately the level of profit required to offset the payments made.
- 4.11 If the Council provides the relief package on the terms identified, due diligence suggests that this will put Freedom in the best possible position to reopen and react to increasing demand and competition. Nevertheless, it is acknowledged that there remains a possibility that trends will not evolve as predicted which could result in a requirement to remodel the proposed operational model and / or ultimately to revisit the relief package. Of all the options however, this is the one which provides Freedom and the Council with the best opportunity to work towards the realisation of the originally predicted savings and programme of improvements originally planned for the benefit of our community.
- 4.12 In conclusion, whilst we remain in a position of uncertainty, a further relief package will provide an opportunity to maintain the status quo until more informed decisions can be made about the future of the leisure industry following the relaxation of the restrictions and as people adjust to the new normal. Whilst it is recognised that the recommendations have a significant budgetary impact, every effort will be made to recoup the costs through government funding and as part of the proposed amendments to the contract by way of loan repayments. It also avoids the wider implications of taking the leisure centre service back in house where the effect would be evident not only in budgetary terms but also in relation to the level of service that could be provided.

5 Options Appraisal; reopening leisure centres; August - September 2020

- 5.1 Freedom Leisure has always been clear with the Council; the leisure centre service is managed by Freedom on behalf of the Council, and as our service to the community, Freedom is keen to carry out the Council's requests.
- 5.2 The remobilisation of the facilities is a complex situation with income levels based on survey data and modelling. There is a potentially wide variation in income levels with FDC retaining financial liability at this point.
- 5.3 The degree of uncertainty is not familiar to the Council; a usual approach is to work within tight tolerances, with minimal risk levels. The level of uncertainty in the current situation is unusual.

To assess and mitigate the risk to the Council, FDC has received information from Freedom regarding;

- Freedom Leisure's ongoing financial situation, including reserve levels, provided in the [Appendix](#) to this report.
 - An assessment of the approach of other Freedom Leisure Local authority clients. All 19 clients supported the business in Phase I of lockdown. This information is coming from other Councils directly as their own situations evolve.
 - FDC has secured a small Sport England grant to engage a third party consultant to support the ongoing work with Freedom. This gives the Council a window on other contractors approaches, as well as other Council's approaches to remobilisation and gives the Council a third party view on the approach that we are taking.
- 5.4 The Council, working with Freedom Leisure and our independent consultant, FMG Consulting has determined that the following approaches are possible when considering the reopening of the facilities. These options, other than Option A, are all subject to Covid 19 Risk Assessments and operational procedures being in place for each facility, sufficient staff training having taken place and that management of the facilities is as safe as is reasonably possible for both customers and staff. Such risk assessments and operational procedures are currently being developed and will depend on Government guidance - yet to be published.
- Option A: Continue to mothball the facilities until the end of the Job Retention Scheme.
 - Option B: Reopen all leisure centres as soon as possible, back to their original opening hours.
 - Option C: Reopen certain facilities, whilst keeping others closed to reduce costs.
 - Option D: Phase reopening hours, led by expected demand.
 - Option E: Phased reopening hours, coupled with a phased activity reopening.

5.5 Option A: Continue to mothball the facilities until the end of the Job Retention Scheme (JRS)

This approach has been considered, as demand initially is expected to be low and potentially customers will be nervous of re-engaging with the service. Coupling lower demand with the certainty of the Job Retention Scheme will give the Council cost certainty.

When comparing the expected cost of remaining closed in August and September with Option E (a phased reopening of activities and facility opening hours) it is clear that, due

to the changing nature of the JRS with employers having to part fund furlough, the difference in financial situation is immaterial as demonstrated in the table below;

	August	September
Closed cost	93,455	93,455
Open cost (using a phased approach described in Option E)	101,385	96,581
Difference (negative is an increased cost to FDC)	-£7,930	-£3,126

The Council recognises that opportunities to be active are important to reduce health inequalities that exist across the County, particularly in Fenland. It is important for the physical and mental health of our communities that the leisure centres reopen, giving the community the opportunity to increase their activity levels, as well as giving them the opportunity to begin to bring their lives back to the 'new normal.'

Although remaining closed appears slightly more attractive financially, this is a short term financial gain that is likely to then lead to longer term costs for the Council. It is considered that reopening facilities when the Government allows, will represent best value to the Council, despite a short term higher cost.

If competing facilities open in August, the Freedom facilities will lose members. Additionally, members who may have decided to return might then decide to leave, not due to a competitor, but due to the facilities remaining closed. Within the business keeping members is much easier than attracting back old members or encouraging new members.

It is considered that remaining closed would prove more costly in the following months than a phased reopening approach. The impact of losing excess direct debit members from the leisure centre business can be highlighted with the following analysis;

Membership costs £33.50 per month with a membership average lifespan of 20 months.

If, by remaining closed for 1 month, Freedom loses an extra 100 members per facility, this is a 1 month cost to the business of £13,400 – considerably more than the cost of reopening in August.

Direct debit membership is key to the successful financial management of the leisure facilities. Enhancing or protecting direct debit membership levels is critical to the longer term success of the business and the contract.

5.6 Option B: Reopen all facilities as soon as possible, back to their original opening hours.

As demand will take some weeks to ramp up, reopening facilities immediately to their original opening hours, with all facilities open will cost the Council considerably. Demand

and income levels will be reduced, whilst costs (staffing, heat and light) will rise dramatically on reopening.

Whilst JRS is available, continuing to furlough some staff, whilst re-activating others in a phased manner makes financial sense.

It is considered that this option is not viable and would add considerable costs to the Council - to open lightly used facilities.

5.7 Option C: Reopen certain leisure centres, whilst keeping others closed to reduce costs.

It is considered that the rationale for opening specific leisure centres in certain towns whilst keeping others closed would be difficult to justify to the community. In addition, keeping specific centres closed will also impact on the membership incomes once those centres reopen (as covered in Option A). Phasing the reopening of each facility at the same time mitigates these two issues, and as a result this option is discounted. The differences in individual centres running costs per month may be reviewed in section 6.13.

5.8 Option D: Phase reopening hours, led by expected demand or

Option E: Phase reopening hours, coupled with a phased activity reopening - led by expected demand

These two options are more tailored to the market and service, and as such are expected to deliver best value to the Council with regard to both short term costs and the longer term financial performance of Freedom Leisure through membership retention and growth.

Option D would mean an opening of all available activities within the centres during specific, busier opening hours, with the opening hours expanding as demand grew. This would mean un-furloughing many staff to ensure all activities could open. This approach then adds staff cost at a time of lower demand when income will not approach the levels of cost.

Additionally, the Freedom Team needs to be confident delivering a Covid secure service and this confidence must be reflected to customers. Opening all facilities initially is considered a difficult proposition. Staff confidence issues and any errors would reflect poorly on the service and impact on the confidence of customers - leading to a slower rate of increase in membership and income after reopening.

Given these concerns, Option D - opening all activities initially - is also discounted.

Option E appears to be a more realistic choice. This option allows for all centres to reopen, initially during busier periods, with opening hours expanding as demand increases. Additionally, the activities available in each centre will also re-open in a phased manner as described in more detail under 5.12), targeting the more easy to manage activities initially, and adding other activities on a weekly basis. This approach allows for judicious use of staff, keeping costs low. It also ensures that the teams in place build confidence in working in a new manner, passing that confidence onto clients allowing the business to grow income and membership levels.

5.9 Following the assessment of the potential options, modelled costs have been developed for Option E, as well Option A - the continued closure of the leisure centres.

As well as managing the four leisure centres, Freedom provides an Active communities officer. During the furlough period it is considered prudent to keep the post furloughed at a low cost to FDC - see 6.13).

5.10 Remobilisation

Remobilisation is a complex task with both parties committed to getting the leisure facilities up and running again, earning income, but as efficiently as possible. This being the case a phased approach is to be taken initially based on limited facilities and limited opening hours. More facilities open week on week and if customer numbers rise as expected, then opening hours will become longer to accommodate those customers.

5.11 Opening hours will initially be restricted to:

- **Week 1 opening hours:**

	Morning	Mid-day	Evening	Hours per weekday	Weekends	Hours per weekend day
All centres	7.00am – 10.00am	Closed	4.30pm – 8pm	6.5	8am – noon	4

Subject to Government guidance, the facilities are expected to open as follows;

Pre-booking for some activities may be necessary to ensure limited queuing and that staff teams can plan what to expect.

The facilities available and the opening hours are likely to be flexible, depending on demand, but will not be fewer than those described here.

Soft play and sauna and steam rooms to remain closed.

- **Week 1:**

All 4 gyms to open to encourage members back in and raise confidence in the service. Social distancing in place per guidance, with capacity in each facility limited accordingly.

Sports halls open for badminton (subject to classes below) & managed activities where social distancing is possible

Classes (including spin) to reopen, socially distanced, and only the popular classes during the opening hours.

Consider relocation of Hudson classes to gym 'extension' and Sports Hall

Consider locating classes outside where possible, weather dependent.

Costa @ Hudson open

Swimming Clubs return

Potential for pool use either side of swimming club use - subject to demand

- **Week 2 (or when permitted by Government)**

Open for formal opening of managed swimming sessions

- **Week 3**

Add limited casual swimming sessions in week 3

Managed numbers and only more popular sessions initially.

There remains uncertainty around the resumption of the learn to swim programme following reopening.

- 5.12 It is possible to model **costs** of the service to some certainty as they are a known quantity.
- Approximations of costs have been made in month 1 of opening, as actual requirements for heat, light repairs etc will not be certain.
 - Staffing costs are certain in week 1, but will be altered as the number of activities increase and the facilities open for longer. This will be dependent on demand. Opening the facilities to limited numbers of customers will add cost to the Council, so tight monitoring of the customer demand by Freedom and FDC contract monitoring staff will be required to ensure that a balance is made that is as efficient as possible.
- 5.13 Consideration has been made of keeping facilities closed whilst the furlough scheme is available in August and September. Whilst this approach is marginally cheaper for the Council, it is considered that a longer term view of the business will be a more financially beneficial approach - as highlighted in 5.5. Opening and recouping members as soon as possible from when Government allows reopening will be preferable to the risk of having customers either cancel memberships or worse, move to competitors if the facilities do not open. This also allows Fenland's community to start their journey back to the new normal, enjoying exercise once again and improving their mental health, in a safe and well-managed environment.
- 5.14 Modelling income levels is far more difficult than expenditure. UKActive has carried out a large survey (65,000 people) to determine the level of visits to leisure facilities once they open again. The results are as follows, with this throughput data used to model income levels in the Fenland facilities.
- 5.15 It should be noted that this is **modelled income**, based on a national survey. **The degree of certainty is low, with this being the best information available to the industry on which to model income.**

6 Freedom Leisure / Fenland District Council – Business Recovery modelling

6.1 This work uses modelled income levels to predict the financial impact of a phased reopening of the Freedom Leisure centres in Fenland from August 2020. This work is based on information in the UKActive COVID-19 Impact Report that expected a reopening in July 2020. As a result of the 23 June Government statement, re-opening is now expected later in July or early August (See [Appendix III](#)).

The charts below have had the reopening month altered from the original chart date of July. The week numbers across the years 2020 and 2021 have not been altered; please take this into account when considering the charts.

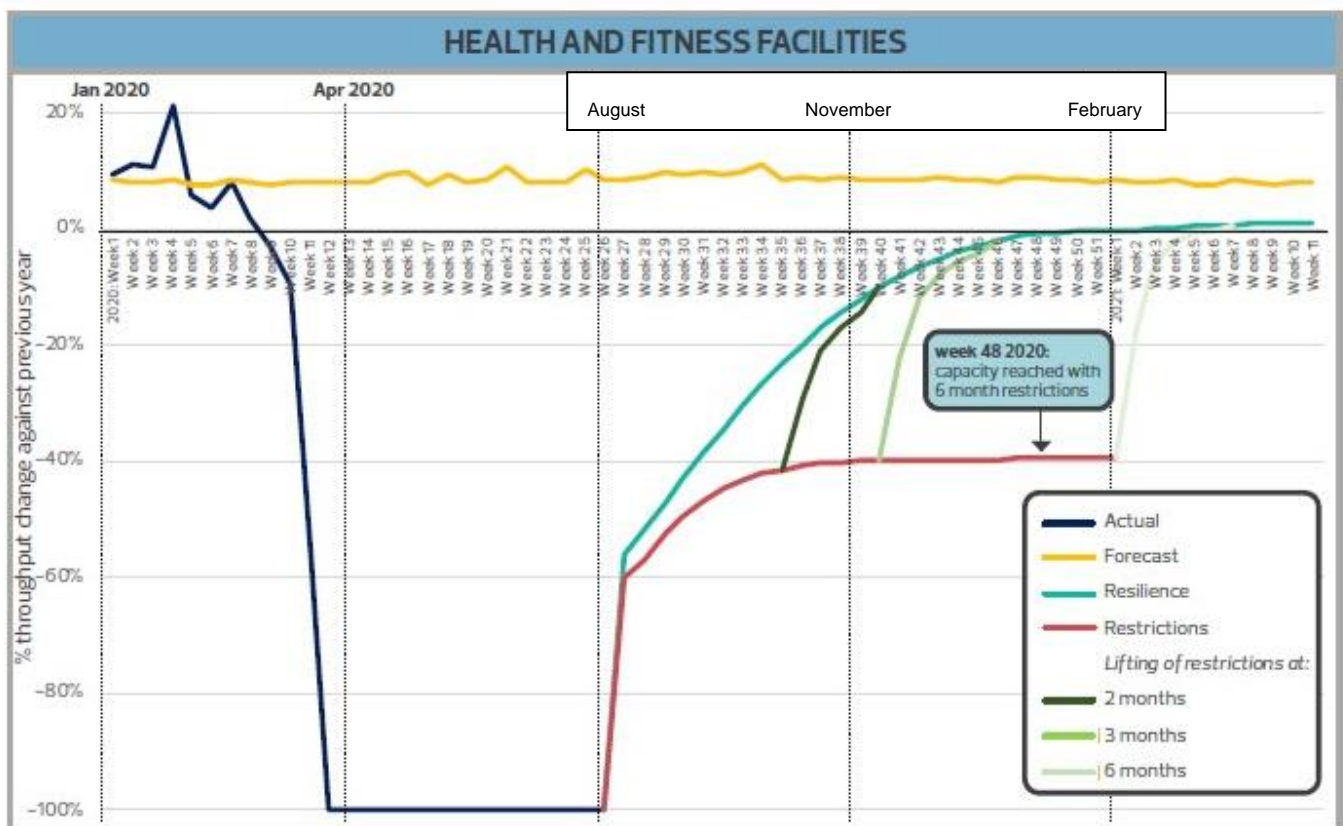
The original report is embedded in this document as an [Appendix](#).

6.2 Throughput (i.e. attendances) growth in the leisure industry was predicted to be 5.7% in 2020 when compared with 2019 levels.

6.3 With no restrictions (i.e. social distancing) in place within facilities, the expectation is that throughput (i.e. number of attendees) would recover along the blue line on each chart (below). However, restrictions for social distancing will be in place throughout all facilities and will be fine-tuned as the Freedom team and their customers understand how to operate the restrictions as efficiently as possible.

6.4 To be prudent, Fenland will use the middle option for restrictions being lifted – i.e. they will be lifted after month three of being open – i.e. marked as early October on the charts, but following the government announcement of 23 June, now expected to be as much as a month later – i.e. early November. Recovery for each key aspect of the leisure business is therefore expected to recover initially along the red line, then branching up the green line with the change in restrictions.

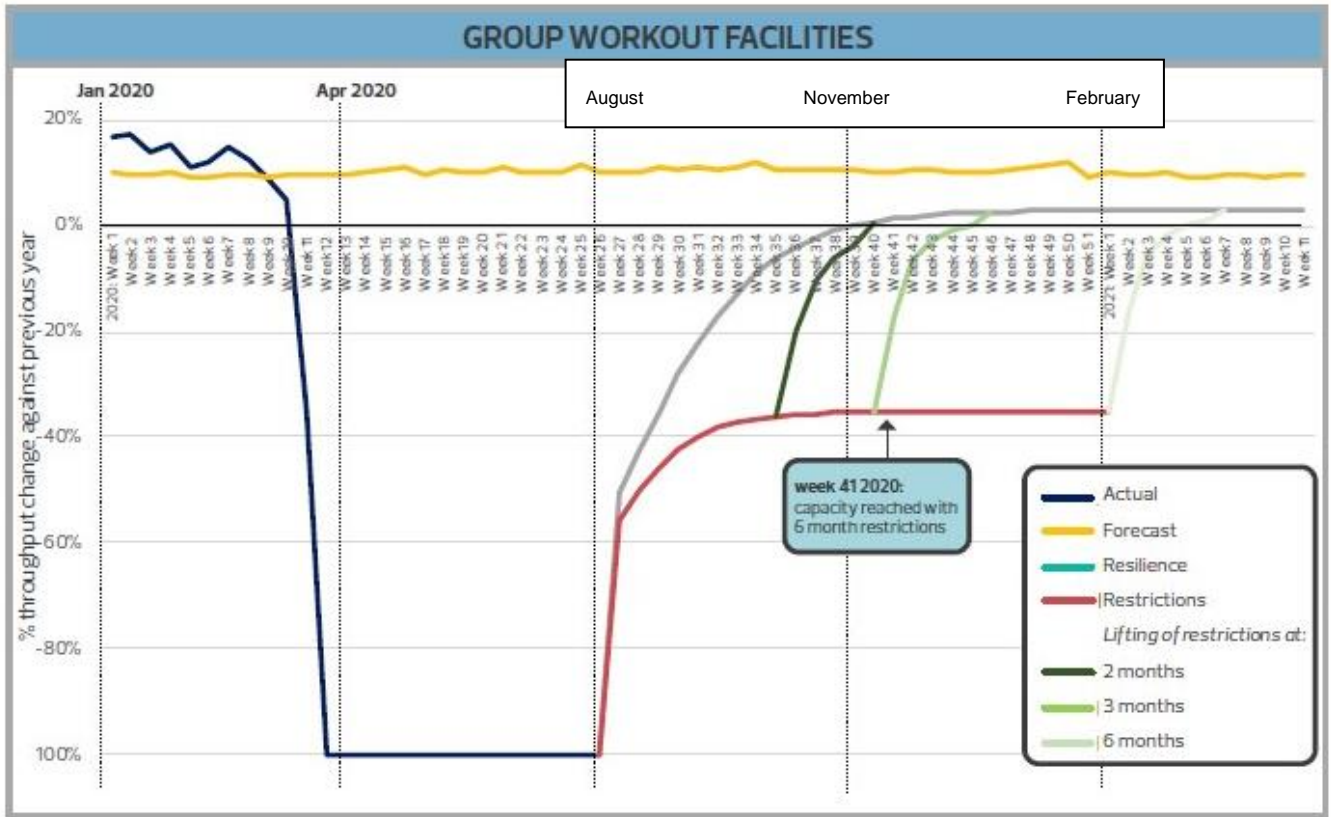
6.5 Gym Recovery profile



6.6 Gym Recovery profile – August 2020 to September 2020

	Weeks 1 -2	Weeks 3 – 4	Weeks 5 – 8	Weeks 9-12
% income received	40%	47%	57%	61%

6.7 Fitness Class Recovery profile

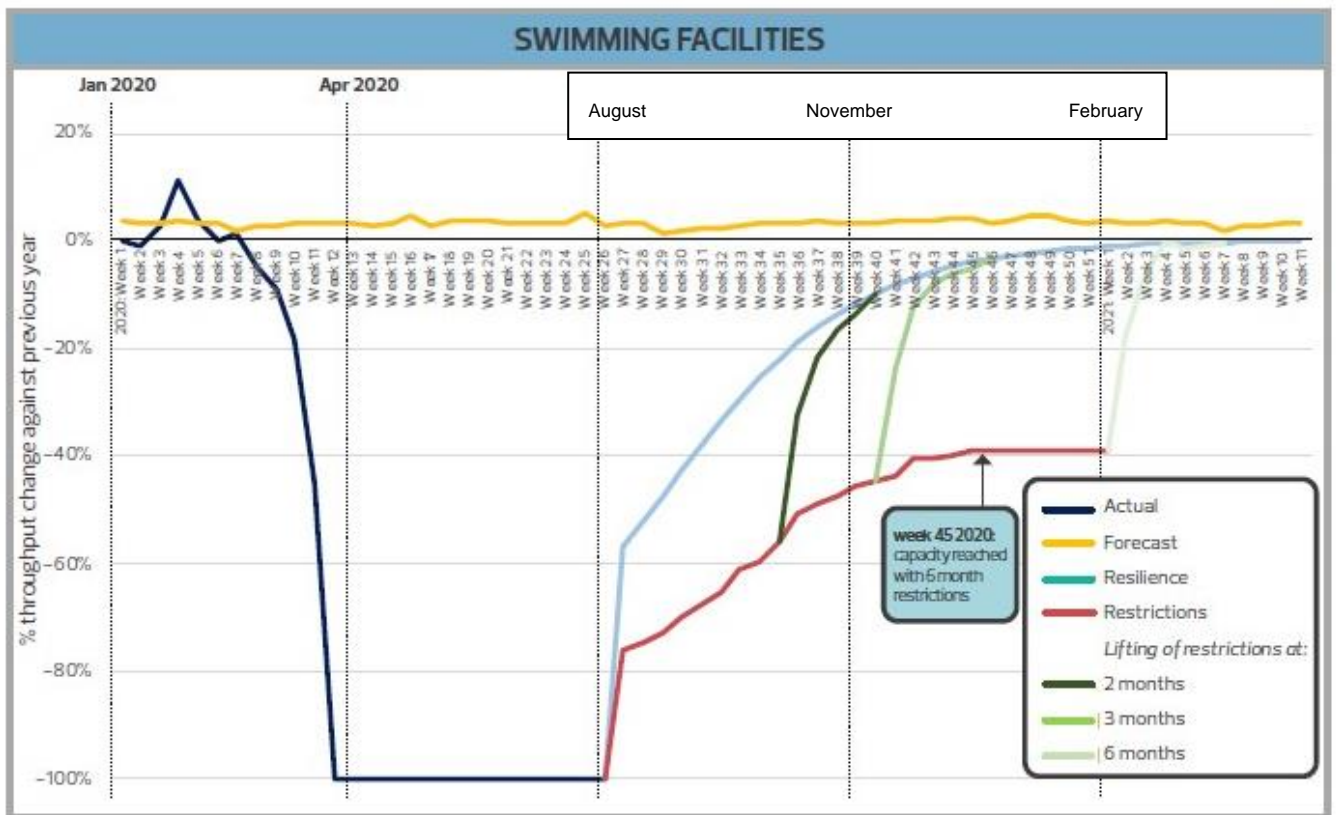


6.8 Fitness Classes Recovery profile – August 2020 to September 2020

	Weeks 1 -2	Weeks 3 – 4	Weeks 5 – 8	Weeks 9-12
% income received	44%	52%	60%	62%

6.9 **Swimming Recovery profile:**

6.10 Model is based on restrictions for people aged 70+ and the removal of swimming lessons due to changing room issues. It is anticipated that swimming lessons may be able to run on opening, improving the recovery profile considerably, but data is not available to support that assumption at this time.



6.11 Recovery profile – August 2020 to September 2020

	Weeks 1 -2	Weeks 3 – 4	Weeks 5 – 8	Weeks 9-12
% income received	20%	28%	34%	46%

6.12 Financial impact on Fenland District Council

Assumptions;

- Using the attendance data (above) from the UKActive modelling as income levels in the Fenland contract
- No lift in social distancing restrictions within the timeframe for this report
- Opening date: August 2020
- Phased approach to re-opening both in terms of opening hours and activity availability to keep costs as low as possible as demand ramps up

Freedom initially modelled costs of the phased re-opening approach. Fenland has adjusted those initial estimates based around the modelled attendance figures from UKActive. Despite the re modelling, both estimates are within 10% of each other. This adds limited assurance that both parties expect similar results in Phase II.

The assumptions above and the previously expected performance of the contract has allowed the modelling of costs and income based on the phased reopening plan. FDC has reviewed Freedom's expected costs and cost assumptions and considers that the table below is a realistic financial model based on information available. Depreciation has been removed from this modelling.

The impact of the modelling on the expected budget for the Fenland contract is as follows:

Fenland Contract - Variance to Normal Trading				
Phased reopening from August Variance to a neutral position	Jul-20	Aug-20	Sep-20	Total
Hudson	Closed	- 19,087	- 18,445	
Manor	Closed	- 21,129	- 20,924	
Chatteris	Closed	- 10,125	- 7,309	
George Campbell	Closed	- 17,138	- 15,543	
Active Communities	Closed	- 41	- 496	
Variance to Budget	35,930	67,520	62,716	166,166
Insurance, irrecoverable VAT, head office overheads	33,865	33,865	33,865	101,595
Total	69,795	101,385	96,581	267,761
FDC Funded by;				
Management Fee Deferred	£37,560	£37,560	£37,560	£112,680
Loan of a cash payment	£32,235	£63,825	£59,021	£155,081
	£69,795	£101,385	£96,581	£267,761

6.13 It should be understood that this information is based on modelling, that itself is based on customer surveys. It is the best current information on which we have to base estimates but we will not know true income levels until the centres reopen. The Council should be clear that there is a risk that these costs could be higher than anticipated.

6.14 It should be noted that the exceptional operational costs are expected to reduce month on month, and with the anticipated increase in income levels as a result of restrictions being lifted, the cost to the Council of the contract in future months are likely to be significantly lower than those for July – September. This lifting of restrictions is, of course, dependent on Government and Covid levels.

6.15 The total value of financial support comprises:

Phase II Freedom support summary July - September 2020;

Deferred Management Fees (para 3.1) £112,680

Cash support (para 3.3) £155,081

Total £267,761

Phase I support costs (April - June) £277,668

Total Phase I and Phase II costs £545,429

FDC has an ambition to recover this Phase II support loan by entering into a variation to the original agreement as described in the recommendations. The deferred management fees of £112,680 from Phase I are to become repayable on a monthly basis at a rate to be agreed between years 5 and 15 of the contract.

6.16 It should be noted that the Council is ambitious to regain the financial support identified in this report using this mechanism, but repayment is uncertain due to the uncertainty surrounding future income levels and customer demand.

6.17 It is also worth noting that Freedom is a not for profit trust. Any 'profit' from the Fenland contract is reinvested in the business. Reduced profit levels, due to repayment of the financial support will have an impact on reinvestment in the business over the period of the contract.

7 **Appendix I**

UkActive Covid 19 impact on the leisure centre industry



ukactive-COVID-19-I
mpact-Report.pdf

8 **Confidential Appendix II**

FDC Internal Audit financial risk assessment of Freedom Leisure

9 **Appendix III**

UKActive Statement of 23 June 2020



ukactive statement on
gyms reopening date.;