

Report of: Executive Member for Health and Social Care

Meeting of:	Date	Ward(s)
Executive	18 th March 2021	All
Delete as appropriate		Non-exempt

Appendix 1 to this report is exempt and not for publication
SUBJECT: GLL Leisure Contract – Proposal to extend the Leisure Service Support Arrangements with GLL.
1. Synopsis

- 1.1 The second wave of Covid and the resulting tightening restrictions which has culminated in the current lockdown has had a significant impact on the recovery of the Leisure contract and has meant that GLL the Leisure operator have been unable to work towards re-building the business and the recovery plan has been severely disrupted. Although the support available from the Government’s Job Retention Scheme and the Income Recovery Grant has meant that the overall level of financial support under the open book has been less than was originally projected for this financial year, the period for which this support will be required now needs to be extended beyond 31st March 2021.
- 1.2 It was always anticipated that additional financial support would be required in 2021/22 to allow for recovery of the contract, however that recovery period will now need to be for a longer period of time. The Council also needs to consider the long term financial impact on the contract position.
- 1.3 This report sets out the performance to date to the end of December 2020 and the projected financial position to the end of March 2021 and assuming the pandemic lockdown continues. It sets out the financial projections and implications for the 2021/22 financial year.

2. Recommendations

- 2.1 To agree to provide further financial support to GLL for the period to 31 March 2022 based on the financial projections set out in Exempt Appendix [1], to facilitate GLL’s continued provision of the services at the leisure centres when they are permitted to re-open. This would be a further deferral of rent for 2021/22 reflecting projected income and costs in the financial business plan reconciled through the open book process.

- 2.2 To authorise the Corporate Director of Environment & Regeneration following consultation with the acting Director of Law and Governance to give effect to the above additional financial support for GLL by varying, as necessary and extending the second deed of variation to 31st March 2022.
- 2.3 To note the projected end of year debtor position for 2020/21 as set out in Appendix [1], following the increased restrictions and two further lockdowns that have closed the Leisure Centres for an additional four months of this year meaning the contract has been unable to trade for 8 out of 12 months of the year.

3. Background

- 3.1 Since the leisure centres were able to re-open on the 25th July 2020 there has been a 'slow and steady' recovery of the contract. Progress was always behind the original projections in terms of income, but this has been balanced with reductions in expenditure and greater than expected support from the Job Retention Scheme. This had meant that by September and October with the re-opening of all the centres (except Finsbury leisure centre), the contract had been building and moving into a surplus trading position.
- 3.2 However, Covid -19 cases began to rise again and the introduction of the local Tier system initially with London going into Tier 3 and then Tier 4 with Lockdown 2.0 between November 5th and the 5th of December 2021, dented customer confidence and eradicated the small signs of growth. The Centres re-opened on the 6th December and were able to trade for a few weeks at what is traditionally always a very quiet month for the leisure industry. Plans had been prepared and GLL were ready to re-start many of the remaining programmes in January but then Lockdown 3 was announced and the leisure centres closed once again on the 6th January 2021 and remain closed with no date yet for when they may re-open.
- 3.3 This has clearly prevented the planned recovery from achieving the original projections which were calculated on the basis that pandemic restrictions would have been lifted from January 2021 and that the contract would be starting to return to close to 'normal' trading levels by the end of March 2021. The recent government announcement of the road map out of lockdown gives a re-opening date of the 12th April for gyms and swimming pools. Outdoor sports can commence from the 29th March so the Council will review with GLL the feasibility of re-starting the formalised outdoor sports provision at Market Road and other sites. Indoor sports and group exercise will not be able to recommence until stage 3 which will be no earlier than the 17th May 2021.

4. Financial Performance to Date

- 3.4 Income levels had been building from opening to a peak in September but then with the case levels rising, income plateaued in October to a very similar figure before falling again with the November lockdown. This was offset to some extent by furloughing staff but resulted in a further loss on the contract for November. As it was only a short lockdown it was not possible to fully 'hibernate' the centres and reduce costs to the same level as previously.
- 3.5 December saw an improvement in income but well short of original projections. However, reductions in utility costs and support from the Job Retention Scheme meant that overall the contract delivered a surplus trading position for December which has helped to offset the impact of the November lockdown.

So overall, deficit trading position (excluding rent and including management fee) remained within the support payment thresholds agreed by Executive.

- 3.6 Lockdown 3.0 has been longer so it has been possible to put the centres into 'deep hibernation', placing the majority of staff on furlough including the management team on flexible furlough, leaving a small skeleton staff to carry out all of the required building checks and inspections.

- 3.7 Further financial support for the leisure contract has now been obtained. The Council has secured support for the lost rental income from the leisure contract from the Government's lost income scheme so has been able to recover a proportion of that rental payment. This equates to 75% of 95% of the lost income. Under the terms of the Deed of Variation with GLL this amount will be deducted from the total of deferred rent.

The Council has also applied to the National Leisure Recovery Fund from the DCMS which has been put in place to support public leisure contracts through the December 2020 to March 2021 period. We are awaiting the outcome of this application.

- 3.8 The centres will remain closed for the remainder of the 2020/21 financial year with zero income. The forecasted financial position by the end of the financial year accounting for the government support is set out in Exempt Appendix [1].

5. Financial Projections for 21/22

- 3.9 GLL have produced financial projections for the 2021/22 financial year. This is going to be a more challenging year financially now than 2020/1. The contract is starting effectively from square one and is also going to miss what is for the Leisure industry in sales terms, the peak period. Once centres are allowed to re-open the weather will have improved and this may have a significant influence on whether customers choose to return to indoor leisure provision or will continue to use outdoor venues and an on-line offer that has developed significantly during lockdown. It is likely that there will be a surge in demand for swimming and outdoor facilities as we saw for tennis after the first lockdown but everything else is much harder to predict.
- 3.10 As things currently stand the Job Retention Scheme is due to end at the end of April 2021 and the income recovery scheme to the end of June 2021. So without further targeted government support and restrictions remaining in place it will be very tough for the leisure industry.
- 3.11 GLL have based their model on centres re-opening in April 2021 which is roughly in-line with the proposed re-opening date. Their initial assumption is that trading will be at about 30% pre-covid levels. Initially only individual gym exercise and swimming will be allowed, indoor sports and group exercise will not commence until 17th May at the earliest. Restrictions, such as social distancing are still likely to remain in place for the majority of the year, limiting capacity and therefore of course income. GLL have predicted that income levels will rise steadily to about 60% by the end of 2021 and then improve in the last quarter of January to March 2022 to reach 80%.

GLL's projections show that if they can open they can quickly move to a surplus position based on the assumptions above. The detailed financial projections for 2021/22 are set out in Exempt Appendix [1].

3.12 Financial Position of GLL

One of the ongoing concerns is the financial position of GLL as an organisation. If GLL were to fail as an organisation then the Leisure provision would have to move in-house initially which would pose a significant financial risk to the Council.

The Council continues to monitor the financial status of GLL as an organisation. They have provided the Council a copy of their Company Overview Statement and Finance Projections which has been subject to an initial review to assess the robustness of their projections and overall financial standing. This is set out in Exempt Appendix [1].

6 Longer Term Impacts on the Contract position

- 3.13 The closures of the leisure centres and the intervening restrictions imposed under the various Covid-19 Regulations under the terms of the leisure contract constitute Qualifying Change of Law events. These are events that have directly impacted on the operator's ability to deliver the contract.
- 3.14 Islington, however, has agreed with GLL two contract deeds of variation that set out how the Council and GLL will deal with the impact of the Covid-19 pandemic on the contract. Under the terms of the Deed of Variation that has been negotiated we acknowledge and recognise that the Covid 19 regulation constitute Qualifying Change of Law events but have agreed to follow the process set out in the Deed of Variation to manage the impact through an open book approach with deferral of the rental payment to be paid from further contract surpluses.
- 3.15 However, as the lockdown and restrictions are now lasting much longer than originally anticipated, it is likely that there may be a longer term impact on the contract recovery and the longer term financial position for the Council. A lot will depend on how quickly and to what level people return to using Leisure Centres. Details of the implications of the qualifying change of law in relation to the contract are set out in Exempt Appendix [1].

Pre-Covid the contract delivered £1.72 per user visit of funding to the Council based on 2.2m user visits per year. The pandemic has affected the surplus but the contract will continue to generate a surplus albeit in the short term a reduced one, this short term impasse will need to be taken into context as the long term return for this sector is that of growth and one that will increase over time.

7. Leisure Recovery Strategy

- 3.16 A Leisure Recovery Strategy is being developed to help support both the recovery of the leisure contract and the recovery of the health and well-being of Islington's residents following a year of lockdown and restrictions with the consequent impact upon people's physical and mental wellbeing.
- 3.17 The strategy will also look at how the Council can use this opportunity to support the Physical Activity Strategy to improve physical activity levels, particularly amongst the borough's most inactive groups. Lockdown over the last year is having a profound impact on the health and wellbeing of the boroughs residents and that impact will be disproportionately impacting those already suffering from health inequalities. It is vital that in trying to recover from the financial impact of Covid on the leisure contract that the sports development and community outreach work that has been delivered is sustained and developed. The strategy will look at how we can best achieve that through the Leisure contract, where a lot of the current resource is contained.
- 3.18 Sport and physical activity has a fundamental role to play in restoring the health and well-being of all of Islington's residents but in particular, children and young people, older people, disabled people, women, black, Asian and minority ethnic people and those from low socio-economic backgrounds, all of whom will be disproportionately impacted.

At the recent launch of the Sport England Strategy, Dr Jenny Harris the Deputy Medical Officer for England in her speech stated that "Physical activity is the single most important thing you can do to support your health and wellbeing."

If we want Islington's residents to start well, live well and age well and be able to recover from the longer term impacts of the Covid pandemic then physical activity is absolutely essential to that and supporting the principles of early intervention and prevention.

4. Financial Implications

- 4.1 The council and GLL have claimed for all available government support initiatives to minimise the cost to the council and to GLL. Additionally the council has provided support to GLL throughout 2020/21 in terms of deferred rental payments and additional expenditure support. This amount will become repayable from future profits over the remainder of the contract. Further support in terms of deferred rent will be required after any additional government support has been claimed.

Should the deferral become a cost to the council, it will be met firstly from the Covid19 contingency or alternatively the council's overall contingency fund.

It is likely that the current contract will require a substantial re-basing of the rental payment assumptions for the remainder of the contract to account for the long-term implications of this change in law event. Any re-basing will need to be factored into the Medium Term Financial Strategy.

The summary financial implications are set out in Exempt Appendix [1].

4.2 Legal Implications:

The leisure contract is a concession contract whereby GLL has the right to operate the council's leisure centres in accordance with the council's specification until end of March 2029 in return for paying the council a guaranteed net rental each financial year. The Covid-19 legislation requiring the closure of the leisure centres and allowing their reopening subject to compliance with social distancing requirements are Qualifying Changes of Law under the contract which enable modification of the base Financial Model to take account of changes in costs and income whilst leaving GLL in 'no better and no worse' financial position. This enables the council to modify the leisure contract to provide support to GLL as an 'at risk' supplier to ensure that it remains viable and therefore able to continue delivery of leisure services for the council and its residents following the reopening of the leisure centres.

The detailed legal implications are set out in the Exempt Appendix to this report including the relevant considerations that the Executive will need to take into account when deciding whether to approve the recommendations

4.3 Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:

None

8.4 Resident Impact Assessment:

The Council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The Council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The Council must have due regard to the need to tackle prejudice and promote understanding.

An RIA has been completed and is attached at Appendix 2. A review of the usage levels of young people, women, black, Asian and minority ethnic communities has been carried out. Underrepresented groups across the country have been affected by the pandemic. Usage levels amongst black, Asian and other minority ethnic groups as well as women when the service

reopened were noticeably reduced and this will need to be addressed as part of our Leisure recovery work to ensure that targeted approaches are made to ensure that this is redressed, coupled with the fact that the economic situation has worsened which will reduce disposable income for a large section of the community in Islington.

Unfortunately the devastating impact of the COVID-19 pandemic on physical activity levels amongst children has been revealed in the latest Active Lives Children and Young People Survey, published by [Sport England](#) (14 January). Worryingly, 31 per cent (a total of 2.3m children) did less than an average of 30 minutes a day physical activity. This again will need to be a key focus of the recovery plan.

5. Conclusion and reasons for recommendations

- 5.1 The current Executive decision allows for GLL to an agreed level consisting of a support payment and the deferral of a portion of the rent which was based on the original projection to the 31st March 2021. The government financial support through the Job Retention Scheme, the Income Recovery grant and the potential National Leisure Recovery Fund allocation means that GLL are still well within the authorised financial limit of support but they are going to need supporting for longer.
- 5.2 Instead of being in a position where the contract is operating without restrictions and trading has returned to close to pre-Covid trading levels as was projected in the original recovery model the leisure centres remain closed with no income and membership levels significantly lower than pre-lockdown. A further period of support is required to allow GLL to be able to open the leisure centres when they are able to. Once the centres are allowed to open GLL will not require further direct financial support as they will be able to operate at a surplus but require further deferral of a portion of the rental payment which would be determined under the open book arrangement.

Appendices:

Appendix 1 – Exempt Appendix
Appendix 2 – Resident Impact Assessment

Background papers: None

Final report clearance:

Signed by:



8 March 2021

Executive Member for Health & Social Care

Date

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