



**POLICY & FINANCE COMMITTEE
24 SEPTEMBER 2020**

UPDATE REPORT 1 APRIL – 31 AUGUST 2020

1. REPORT PURPOSE

- 1.1 To provide the Policy & Finance Committee with an update of the business of Active4Today, since 1 April 2020, which includes the re-opening plan for the Company and the draft forecast of income and expenditure for the remainder of the 2020-2021 financial year. Members should note, however, that the impact of the closure to date will not be fully understood until later within the 2020-2021 financial year and whilst the figures contained within the report provide a forecast based on known information to date, these may alter, as the business continues to operate.

2. BACKGROUND

- 2.1 The committee will be aware that the Active4Today operation to customers, ceased at close of business on 17 March 2020. This followed an unprecedented lockdown of the United Kingdom, with many businesses only just beginning to emerge from a position of closure.
- 2.2 Following the closure, all staff were furloughed, with the exception of the Systems Manager, Company Accountant and Managing Director. Throughout the furlough period, all legislative checks were undertaken weekly at all facilities, the membership and communications were continued to all staff and customers, the financial position of the Company was monitored weekly and the development of re-opening plan was undertaken, in readiness for the eventual opening of the facilities.
- 2.3 The Company is currently in the process of claiming its fourth furlough payment, which will be for the month of July. Throughout the closure period, Active4Today has paid all staff 100% of their salary for April, May and June and paid 80% only in July. Those staff, however, who returned to work on 25 July when the centres re-opened, have returned to their full contractual payment. Currently there remain approximately 8 staff still on full, or part furlough. This is due to their activities not forming part of the re-opened business at this current time. It is expected however, that all contracted staff will return to their substantive roles shortly.
- 2.4 Support has been received to-date in the form of £140K management fees from NSDC and a £25k Government grant to support small businesses. From 1 April 2020 to 31 March 2021, it is estimated that £1.35M, in total, will be lost in membership and pay and play income, based on the 2020 - 2021 forecasted budget. This is made up of known losses whilst the centres were closed and estimated losses for the remainder of the year, based on a reduced membership size, reduced sales and a lower starting point, when the direct debit collection re-commences.

- 2.5 As a result of the closure of the leisure centres, memberships reduced by approximately 1,200, as customers cancelled their direct debits, either with the Company, or directly with their bank. As a result of this, the Company worked hard to speak to each and every cancelled member and in turn as many other members who remained 'live'. The Company froze all customer memberships and asked those who had cancelled, to re-instate their membership, as no payments would be taken from their accounts during the closure period (several private organisations continued to collect their customer's direct debits). This resulted in over 15,000 forms of communication going out to customers and the offer of a free month, on re-opening, being provided, if members stayed with Active4Today during the closure and returned when the centres re-opened.

3. CURRENT PERFORMANCE

- 3.1 For the purposes of preparing a revised forecasted position to the committee, for the remaining part of the year, a re-opening date of 1 August 2020 has been used. Whilst the facilities did open on 25 July 2020, the pay and play income for the 6 days of July is minimal and no direct debit income was collected.
- 3.2 As part of the process, the committee are asked to note that the forecasts have been prepared providing the first month free of charge to all returning members of the direct debit scheme, as set out in the previous end of year report. This was agreed as part of the retention of members and assisted with not having to undertake a schedule amendment of 12,000 members, who may have claimed a 'part month' back, due to closing mid-month. This free month has increased the loss on the largest cash generator e.g. adult fitness and junior memberships, however, conversely, this may improve member retention, which in the long term, may provide a greater net income.
- 3.3 As part of the forecasting process, the estimates have been prepared acknowledging that the environment which customers have returned to, has several new operating procedures in place e.g. reduced occupancy in classes, reduced activities available on the programme, increased staffing, increased cleaning costs, reduced children's membership offer, less pay and play opportunities, reduced club usage (as advised by the National Governing Bodies), reduced outside hirers e.g. Tumble Tots and potentially several vulnerable groups not returning for the foreseeable future, due to their continued concern regarding their health (Individuals/groups currently shielding).
- 3.4 As part of the process, an exercise has been undertaken to re-calculate all adult and junior direct debits for the remaining 8 months of the year, which in effect will provide only 7 months income, as a result of the free month. This has assumed a starting position for the membership of 10% less, which is the current position of the membership base at this time. The Company has factored in to the forecasts, seasonal variations and predicted new sales for the remainder of the year, based on historical information and feedback from various leisure advisory groups. This will begin to start developing a new membership base, to add to the existing customers which the company are hoping to retain.
- 3.5 The above forecast predicts a net loss of 10%, even though the industry is predicting a loss of approximately 40% in the sector. To date no finance is being collected from customers and their first direct debit payment will not be taken until 1 September 2020. As a result, September and October will be crucial months for the Company, as it will understand if the estimated 10% loss is accurate or not. This net position will be impacted on further, by the Government's Job Retention Scheme, which comes to an end on 31 of October.

- 3.6 In addition to the above, a line by line review has taken place on all other income and expenditure, with current information known at this time fed into the process e.g. the schools are currently aiming to return in September. These lines have also been adjusted for seasonal variations and where possible, expenditure has been reduced completely, in a bid to try and cushion the financial impact to the bottom line e.g. repairs and renewals have been significantly reduced; VAT has been reduced to reflect the reduction in repairs; savings have been made in licensing, as these have been re-negotiated with suppliers; recharges have been reduced to the Council, in view of the reduced services used e.g. asset management; finally, savings have been made on equipment purchases.
- 3.7 Currently there are still unknown areas which are being developed; one of these being staffing. Rotas have been aligned to new operating programmes, however, this may increase or reduce depending on the success of the re-opening and the seasonal variations in the business. In addition, staff who are used for junior coaching, (which is operating as a reduced programme) have remained on part furlough (as set out above), however, this may change as the programme develops over the next month. Finally, freelance instruction has also reduced, as employees of Active4Today have delivered several classes, historically taken by freelance instructors.
- 3.8 As part of the process for re-opening, the Company has developed new policies and procedures, risk assessments, codes of practise, rotas, activities and many other new operating processes, in a bid to try and reassure staff and customers that the business is operating in a Covid Secure environment. This has subsequently been developed into one overarching document, which gathers specific operating processes into one area. Whilst the document itself does not contain great detail, it is a reference document, which signposts the reader to other specific documentation. This document with its extensive list of attachments will develop further as new guidance becomes available and the environment surrounding Covid changes.
- 3.9 Being one of the last industries to open, the Company has used best practise from other organisations, in a bid to develop a safe and enjoyable environment for customers and staff to return to.
- 3.10 This has involved discussion with Newark and Sherwood District Council, Nottingham City Council and Nottinghamshire County Council Local Outbreak team, Sport England, Active Notts and other local authorities across the county. This is to try and develop a robust and consistent approach to re-opening, which aligns to other organisations and practises, which customers are already used to, as part of their new day to day lives e.g. queuing, reading signage, having to accept different instructions for using services, one-way systems and front of house staff, operating a meet and greet service.
- 3.11 In addition to the above, the Managing Director attends the Council's Responsive Recovery group, which co-ordinates 'lessons learnt', from the other industries, which have opened as part of the phased re-opening approach following lockdown. This group also includes advice and support from public health, who are one of the leading professional advisors supporting companies with advice on becoming Covid secure.

4. **FINANCIAL HEADLINES**

- 4.1 As a result of Covid-19 and the subsequent closure of the business on 17 March, the Company has, as stated above, undertaken comprehensive financial modelling, in order to determine the impact on the income and expenditure of the Company from 1 August 2020 to 31 March 2021.
- 4.2 Below is a summary of the review and forecasted position:
- 4.2.1 **Other Income** – the Company has currently received 3 furlough payments from the Government and has estimated the payment not yet received for July. In totality, the Company is expecting to receive approximately £320K in furlough payments. In addition, the Company has received £25k under the Government's business grants support scheme. Finally, the Company is forecasting to receive a further £55K additional income from the Government, as part of their initiative for Companies to re-engage employees following furlough. To qualify for the £1K per employee, the employee must work for 3 months and earn over £520 per month.
- 4.2.2 **Other Income (management fees)** – the Company has received an upfront payment from the Council of 50% of the expected management fee for 2020-2021, which totalled £60,610; in addition, the Council paid 100% of the management fee, associated with the services the Company provides to the Southwell Leisure Centre Trust.
- 4.2.3 **Total Income** – in total, the Company has forecasted a net income loss for the year of approximately £890k. This is just under a third of the expected income, which was originally budgeted for in 2020-2021. This is made up of the loss of income, as set out in 2.4 above and the income collected including, furlough payments, grant from the Government and management fees from the Council.
- 4.2.4 To support the loss in income, the Company has worked hard to off-set this cost by reducing expenditure. Below are several areas where the Company has instigated reductions.
- 4.2.5 **Staffing** – this has reduced by £162k, based on the reduction of staffing in the first quarter e.g. no relief staffing required, no holiday cover required and no sickness cover required. This line does not take into account the income received from furlough, as this is represented in 'other income', as set out above. In addition, an estimate has been made on the expected use of relief staff until March 2021, which is lower than usual; this is due to reduced programmes in operation.
- 4.2.6 **Premises** – this section of the budget has been reduced by £170k, over various budget lines e.g. repairs and maintenance and utilities. These reductions have been made due to the closure for Q1 and assumptions going forward regarding reduced repairs, due to lower usage in the sites. Utilities had significantly reduced from 1st April to the middle of July. Utilities since mid-July have returned to normal usage.
- 4.2.7 **Supplies and Services** – this section of the budget has been reduced by £133k, over various budget lines e.g. contractual services, reduced equipment costs, reduced printing and stationary, reductions in VAT as set out above and reductions in support services, due to reductions in associated codes, as set out above.

- 4.2.8 **Total Expenditure** – in totality, there has been a reduction in expenditure over all codes of £466k, to support the loss of income.
- 4.2.9 **Transfer from Balances** – this line represents the expected shortfall between income and expenditure (after all of the above measures) for the Company, for the financial year 2020-2021. This is currently being forecasted at £690k short for the year.
- 4.2.10 **Reserves** – currently the Company holds £396,819 in reserve, which can be used to support this shortfall; however, it is considered prudent not to use the full amount of this reserve, as this would leave the Company with no resilience to meet any unforeseen expenditure, and any repairs and renewals. In addition, Members will be aware that the Dukeries Leisure Centre is currently commencing a development of a new 20 metre swimming pool. As part of the agreement with the Council, Active4Today are responsible for elements of the fit out for the new reception area and this will require an element of draw down on the reserve.
- 4.2.11 Therefore, Company is proposing to use £200K of its reserve to support the shortfall of circa £690K, set out above. This would leave the Company with £196,819 left in its reserve, to support further areas, which require support during the year. The Company, therefore, requests that the Council make up the remaining balance of the forecast shortfall of £490K.
- 4.2.12 As stated, however, earlier within this report, Members should note that these headline figures are estimates, based on the information currently known at period 5. However, as the impact of Covid-19 is not known fully at this stage, these figures may alter as usage either increases or decreases, which will impact on the current estimated deficit position.

5. **PROPOSAL**

- 5.1 Based on the information set out above, it is proposed that the Company use £200K of its reserve to support the estimated shortfall, which is currently being forecasted at £690K.
- 5.2 It is proposed that the Company request that the Council make provision within its finances to support the current estimated remaining deficit (currently estimate at £490K), which based on the forecasted financial modelling, would leave the Company in a balanced position.
- 5.3 It is proposed that the Company provide monthly updates to the Senior Leadership team of the Council, in order they are fully appraised of the financial position of the Company and the level of deficit funding support required. The full amount of £490K will not be drawn down immediately but will follow as the outcome of the monthly review meetings.

6. **BUDGET IMPLICATIONS**

- 6.1 There are significant budget implications within this report which are highlighted in the body of the report. This will be reported regularly to the Senior Leadership team of the Council, in order they are fully appraised of the most recent financial position of the Company.

- 6.2 In summary, the Company faces a forecast deficit for the 2020-2021 financial year of £0.690m which it proposes to meet by using £0.200m of its reserves and by further support from the council to bridge the remaining £0.490m shortfall. Without this support, from the Council the provision of leisure centre services by the company will not be sustainable.
- 6.3 The Council received £1.483m of additional funding from MHCLG in relation to additional costs as a result of COVID-19. The Council has allocated the required funding as indicated within this report against the allocation, to ensure that the funding that Active require to maintain their sustainability is set aside.

7. EQUALITY & DIVERSITY IMPLICATIONS

- 7.1 There are no equality or diversity issues. All information will continue to be available in a number of formats in line with Active4Today's access requirements and those set out in the equalities and diversity policy.

For further information please contact Andy Carolan – Managing Director via email on andy.carolan@active4today.co.uk or via telephone by calling ext.