

**LEISURE AND ENVIRONMENT COMMITTEE
19TH JANUARY 2021**



UPDATE REPORT 1ST APRIL – 31ST DECEMBER 2020

1. REPORT PURPOSE

1.1 To provide the Leisure and Environment Committee with an update on the business of Active4Today. This includes the period from 25th July 2020, when the leisure centres opened for the first time since March 2020 and ran to 3rd November 2020, when the centres closed again. The centres then re-opened on 2nd December 2020 and have now closed for the 3rd time from 31st December until further notice.

2. BACKGROUND

2.1 The Committee will be aware that the Active4Today closed its leisure centres and sports development service for approximately 18.5 weeks during the first lockdown which commenced in March 2020. This was followed by a further 4 week closure in November 2020 and we are now experiencing our 3rd closure during 2020 and into 2021, with no understanding of when the facilities will re-open.

2.2 In totality, the centres have now been closed for 22.5 weeks since March 2020, 20.5 of which have been within the financial year 2020-2021. In addition, the partner sites operated by Active4Today (school academy facilities) also closed. Finally, Southwell Leisure Centre has closed during these time periods also, which although not operated directly by Active4Today, several services provided by the leisure centre, are provided through A4T.

2.3 As expected, the business has been severely affected by the length and frequency of the closures. During all periods of closure, the majority of staff have been placed on furlough, with only a skeleton structure remaining to support; finance, maintenance, staff communication/human resources, memberships, customer communications, legislative checks and re-opening plans. Whilst most staff have at some point worked during the periods of re-opening, there are approximately 4 members of staff who have yet to return to work since March 2020 and it is doubtful they will return in the near future. Contact has been maintained with all employees throughout the furlough periods to support staff, in what is a very difficult and uncertain period.

2.4 Due to the differing restrictions during the second closure, schools remained open and Nottinghamshire School Swimming bookings took place throughout November at Newark Sports and Fitness Centre, allowing over 500 children to continue to swim weekly. However, this has now ceased with the new lockdown as the majority of schools closed from 4th January 2021.

- 2.5 As previously advised during the previous Leisure and Environment meetings, the largest loss to the Company is through membership income. Up to the end of December 2020, the estimated loss in membership against the original budget forecast was £1,637,710.
- 2.6 The next largest loss was the employee's salaries. The Company is now currently in the process of claiming its 10th furlough payment, to the value of £30k. The total amount of furlough received to date is contained in the table at 4.1, further down the report.
- 2.7 Income has been received to date in the form of 50% (£60,610) of the management fee from NSDC, 100% (£80,850) of NSDC's contribution of SLC's management fee, a £25k Government grant to support small businesses and a £29,500 grant from the government, as a result of the November shutdown.
- 2.8 In addition and as agreed during September, the Council has provided financial support to date to the Company of £490,000, which was a proportion of the Company's estimated annual losses at that time. As part of this agreement, the Company contributed £200,000 of its own reserves, to meet the expected in-year deficit.
- 2.9 Whilst this is a large proportion of the Company's reserves, it is a valid reason for its use and would leave the Company with approximately £200K in reserve, to support future repairs, developments, or other emergencies.
- 2.10 At the stage the Company requested the financial support above, it was expected that the business would open again during July 2020 and remain open for the remaining part of the year. It did however, acknowledge that the operating environments would be more challenging going forwards regarding, reduced occupancy in classes, reduced activities available on the programme, increased staffing and increased cleaning costs. As the Committee will be aware, two further closures have now taken place since the initial financial forecast, with the latest closure providing no re-opening date at this stage.

3. SITUATION UP TO 31ST DECEMBER 2020

- 3.1 Members will be aware that since 25th July, the live membership base was significantly lower than the pre-opening forecast originally expected. Whilst the Company did an excellent job in retaining approximately 70% of its membership base, (which was higher than the industry predictions, which ranged between 40% and 60%), the 30% loss was higher than initially anticipated, with the impact of club and block bookings being high as well as the confidence of certain groups to return, including the 60 plus market, GP referrals and disabled users. On a positive note, memberships began to increase slightly during September and October, as customer confidence grew once again, however, during the second closure period in November, the live membership base declined once again, with a large proportion of cancellations being due to the removal of group exercise classes from the offer, within the tier 3 status of Nottinghamshire.

- 3.2 The staff have worked exceptionally hard to limit the impact of this, offering a ‘free freeze’ option for those members that would like to return once the restrictions are relaxed and classes return. Further information on the breakdown of memberships is presented later within the report, under the performance section. These reduced numbers have once again impacted on the finances of the Company, which is linked to the annual losses in membership.
- 3.3 Members will be aware that nationally UKActive have been raising awareness of the leisure industry and the importance of physical activity in the nation’s recovery against Covid. This has been supported by many National Governing Bodies of Sport, (NGB’s) such as Swim England, campaigning for pools to remain open. UKActive, the leading body representing leisure operators nationally, are maintaining pressure on the Government to ensure that leisure centres and physical activity remain accessible for all during the pandemic and closure of leisure facilities is not beneficial, both physically and emotionally. Whilst discussions continue between the organisations however, the position of the leisure centres remain the same.
- 3.4 In addition to the potential financial loss of memberships, pay and play income has also been lower than expected during the periods of opening, in comparison to previous years. This is mainly due to the initial restrictions from sports governing bodies impacting on block bookings. Whilst this eased during September and October and bookings from clubs began to take place in the pools, sports halls and at partner sites, this stopped once again in November as the second closure took place and has now ceased again until further notice, as the leisure centres and partner sites have closed once again.
- 3.5 To support the losses in income, the Company undertook extensive remodelling of staffing for September, October and December, which realised significant savings for the year to assist in off-setting the losses. These changes took place by changing programmes, reducing activities and rebranding several sessions into structured classes, which reduced the amount of staff required. Savings have been realised in reception, leisure attendant, operations management, fitness instructors and classes, sports development and in the senior management team.

4. FINANCIAL HEADLINES UP TO 31ST DECEMBER 2020

- 4.1 Set out in the table below, A4T has provided the current financial position of the Company, which is monitored by the Board, as part of its role in managing the operations of the Company. The table below shows the original, revised and profiled budgeted income and expenditure up to period 08, set against actual income and expenditure for the same period. However, as stated further in the report, this will now require a further revision, as a result of the latest lockdown in England. The Company is currently undertaking two revisions of its finances based on an opening in March and no further opening during the 2020-2021 financial year. This is due to the highly unlikely position that the centres will be allowed to open before March, due to the next revision by the UK Government not taking place until mid-February:

	Original 2020-2021 budget: income/exp	Full year revised: 31.10.2020	Full Year revised: 30.11.2020	30.11.2020 Variance to 2020-21: original budget
Furlough/ Grant Income	0.00	438,088.00	492,488.00	492,488.00
Other Income	114,750.00	163,860.00	163,360.00	48,610.00
Total income	3,097,920.00	1,992,453.00	1,650,463.00	-1,447,457.00
Staff	2,165,750.00	1,855,853.00	1,805,412.00	-360,338.00
Premises	498,590.00	315,578.00	293,508.00	-205,082.00
Supplies and services	708,700.00	556,417.00	548,647.00	-160,053.00
Total expenditure	3,373,040.00	2,727,848.00	2,647,567.00	725,473.00
Surplus/Deficit	275,120.00	735,395.00	997,104.00	-721,984.00

4.2 Below are the highlights from the financial information, in a bid to provide some narrative for the Committee, including the variances from the original budget.

Furlough/Grant Income – this line represents the furlough payments received by the Company to date, with an estimation of £30k for the payment not yet claimed for in December. In addition, the grant of £25k from the Government is also contained within this line, along with the latest financial support from the Government of £29,500, as a result of the November shutdown.

Other Income (management fees) – this section represents the income which has come into the Company from management fees associated with Southwell Leisure Centre Trust and Newark and Sherwood District Council. As set out above in 2.7, to date the Company has received an upfront payment from the Council of 50% of the expected management fee for 2020-2021, which totalled £60,610 and 100% of NSDC's contribution of SLC's management fee, which totalled £80,850.

Total Income – as the Committee will see, there is a shortfall in the total income expected for the year of over £1.4m. This is a loss of over 46.7% of the expected income, which was originally forecast within the budget. This is due to losing 6 months' worth of income to date, as well as the after effects of a lower than expected starting point, due to the cancelled direct debit members, which began to come through in January, February and March 2020.

Staffing – as set out above in paragraph 3.5, there is an overall expected saving in this group of £360k. This is due to the reasons set out above and also the reduction in relief staffing, due to no holiday cover or sickness cover being required during the centre closures. This line does not take into account the income received from furlough, as this is represented in furlough/grant income, as set out above.

Premises – this section of the budget has been reduced by £205k, over various budget lines e.g. repairs and maintenance and utilities. These reductions have been made due to the closures taken place to date, but does not include the current closure period. Assumptions have been made going forward regarding reduced repairs due to lower usage in the sites.

Supplies and Services – this section of the budget has been reduced by £160k, over various budget lines e.g. contractual services, reduced equipment costs, reduced printing and stationary. Reductions in VAT have also been accounted for, which are intrinsically linked to the repairs and renewals e.g. if there is less spend on repairs and renewals, this translates to a reduction on the VAT associated with the works. Finally the support services has also been reduced, as a large proportion of the repairs and renewals work was facilitated by the Council's asset management business unit, which attracted an associated percentage cost. As less work is being undertaken on repairs and renewals, the support services costs should reflect a saving in asset management costs.

Total Expenditure – in totality, there has been a reduction in expenditure over all codes of £725k, to support the expected loss of income.

Transfer from Balances – this line represents the expected shortfall between income and expenditure for the Company, for the financial year 2020-2021. This is currently being forecasted at £997k short for the year. Based on the shortfall above, the Company would pay £200k towards this from its reserves; this to date is supported by £490k of Council finance. This currently leaves a shortfall of £307k. In the event the remaining £60K of management fee for 2020-2021 is paid by the Council, this will leave £247k as a shortfall. A4T will be applying into the latest support grant for businesses affected by tier restrictions and it is expected that this will provide a further £25k of income for the Company, leaving £222k short. In order to potentially meet this deficit, the Company is currently working with the Council, to apply into the latest grant funding of £81m from the UK Government, issued by the Department of Culture Media and Sport (DCMS). It is expected this grant funding will significantly support this predicted shortfall, with only a small additional amount potentially having to be requested from the Council.

This does not however, include the current closure which is now being experienced. The DCMS have however, indicated that further grant funding may be available shortly to support the latest closure. The information which is currently being submitted will be used to assess if further finance will be provided to Council's, to support their leisure operators who operate Council owned facilities.

Reserves – currently the Company holds approximately £397k in reserve. The Company has agreed to use £200k of its reserve to support the in-year expected shortfall; this would leave the Company with an estimated £197k in reserve.

5. USAGE PERFORMANCE

- 5.1 The Committee will be aware, the performance for the Company is monitored against an agreed set of indicators. These indicators have been used for the past several months, which has allowed for comparative data to be available. Attached at appendix I, are the indicators for the Company.
- 5.2 In addition to the quantitative data provided, more qualitative performance is provided at appendix II, regarding the performance of the Company's Sports Development team. Whilst activities have taken place since July 25th, when the facilities reopened, this has been a significantly reduced offer, as only one member of the sports development team has returned to work following the furlough period. This is due to the work streams of the individuals being varied and only one member of the team could undertake work which would support the operations of the business. Other team members deal predominantly with schools, clubs (not based within leisure centres) and vulnerable groups and many of these have not returned to 'normal' operations; this has resulted in three members of the sports development team remaining on furlough.
- 5.3 As previously reported to the Committee, the membership base for both adults and children at all sites, had been on a decline since December 2019, with the main reduction in membership being experienced at NSFC. Since December 2019, significant cancellations began to take place, as a result of the Covid-19 pandemic and this has continued until the present time, with the latest spike in cancellations being experienced during the November 2020 closure.
- 5.4 The tables below demonstrates the current performance of memberships, between actual and targeted memberships in October and December. These have been compared to the same periods in October and December 2019. The targets (not linked to original budgets) were increased for the two months, as it was forecasted that more customers would return and new sales would begin to take place.

Site	Type	Actual at October 2020	Target	Comparison to October 2019	Variation to previous year
BLC	Adult	596	762	807	-211
DLC	Adult	630	781	932	-302
NSFC	Adult	3,070	3,913	4,726	-1,656
BLC	Child	12	0	29	-17
DLC	Child	189	218	266	-77
NSFC	Child	1,523	1,916	2,130	-607
Totals		6,020	7,590	8,890	-2,870

5.5 The table below shows the number of memberships held in December 2020.

Site	Type	Actual at December 2020	Target	Comparison to December 2019	Variation to previous year
BLC	Adult	522	544	789	-267
DLC	Adult	566	596	897	-331
NSFC	Adult	2,724	2,770	4,533	-1,809
BLC	Child	11	0	26	-15
DLC	Child	167	187	256	-89
NSFC	Child	1,393	1,410	2,035	-642
Totals		5,383	5,507	8,536	-3,153

- 5.6 Up to 31st December 2020 of the 5,383 live members currently paying a direct debit membership, there are approximately 50 who have frozen their memberships for either medical reasons, financial reasons or for tier 3 restriction reasons, which meant their membership options were reduced e.g. no structured classes.
- 5.7 This has now changed again and all members have now been placed on a free freeze until further notice, with no finance being taken by the Company, whilst the facilities are closed. Once an opening has been agreed, all members will be communicated with (as part of BACS regulations) to advise them when their next payment will be taken.
- 5.8 This current level of adult membership at BLC and DLC has not been experienced since before the recording of the membership data began in March 2014. Since this date, both sites had maintained a steady membership base between approximately 800 to 1,100 members in the last 6 years.
- 5.9 The current level of adult membership of 2,724 at NSFC was last experienced in April 2016 (2,762), during the first month of the new leisure centre opening. This then, steadily increased, to a peak of 4,775 adult members in July 2019. In view of the hard work and efforts of all A4T staff over the last 4 years, this reduction is extremely disappointing.
- 5.10 However, after reviewing national industry performance and data available from Sport England and UKactive, the reduction in membership nationally is averaging around 45%, which is slightly higher than those experienced by A4T.
- 5.11 Based on the figures above, the memberships are down against target for December by approximately 2.3%, which equates to a loss of 124 members. In comparison to 2019, this figure is down by approximately 37%, a loss of 3,153 members. Whilst this number represents a significant reduction in membership, this still represents a good level of retention across the Company.

- 5.12 As expected the number of user visits across all sites has experienced a large decrease since reopening. This, in part, can be demonstrated from the decline in membership as described above, however it can also be explained by the delay in guidance issued from National Governing Bodies, which has meant that club bookings were delayed in returning. The regular bookings using all sites, including partner sites, accounted for vast levels of usage, as well as income. In addition to the reduction in club usage, usage figures have also been impacted on through reduced capacity of the buildings, classes and children's courses.
- 5.13 From 1st April 2019 to 31st December 2019, user visits across all sites reached 525,750. When comparing this to the same period in 2020, as expected, usage was significantly lower, achieving 183,652; a reduction of 342,098. Data including Southwell Leisure Centre Trust is included in the attached appendix.
- 5.14 The return of the over 60's age group to the buildings has been lower than expected, which corresponds with the reduction in Activo 60 memberships. The reasons for this anecdotally is due to the potential medical conditions which users in this age group may experience. The user visits for this age group from 1st April 2020 to 31st December 2020 is approximately 25% of what has been experienced previously, with the visits being 15,631 compared to 64,072 for the same period in 2019.
- 5.15 The return of children to the centres has been significantly reduced. The number of under 16's user visits since July 2020 to 31st December 2020 was 55,209, compared to 220,000 for the same period in 2019.
- 5.16 Due to the nature of the close contact and the medical conditions of customers that have been referred from GP's and health professionals, the Company did not accept any new referrals before 7th September. This restarted with customers being contacted to arrange their first visit and sign up to the subsidised membership. There were 13 referrals received between July and 31st December 2020, with 4 individuals signing up to the membership scheme.

6. BUDGET IMPLICATIONS

- 6.1 There are significant budget implications contained within this report and this will continue to be discussed with the Council's Senior Leadership team, in order they are fully appraised of the most recent financial position of the Company.
- 6.2 In summary, the Company now faces a further period of closure, which although the majority of the expenditure can be reduced and where possible claimed back e.g. furlough, the Company's income will once again be affected meaning the figures which have been provided above, will require a further revision to understand the expected deficit and the amount of further financial support required from the Council.

- 6.3 Currently, as set out in 4.1 'Transfer from Balances' the deficit for the 2020-2021 financial year is forecast at £997k. This is currently being supported by £200k of A4T reserves and £490k from the Council. To date there is a further shortfall of £307k due to the November closure and this will increased due to the latest closure situation. In the event the remaining £60k of management fee for 2020-2021 is paid by the Council, this will leave £247k as a shortfall. A4T will be applying into the latest support grant for businesses affected by tier restrictions and it is expected that this will provide a further £25k of income for the Company, leaving £222k short. In order to potentially meet this deficit, the Company is currently working with the Council, to apply into the latest grant funding of £81m from the UK Government, issued by the Department of Culture Media and Sport (DCMS). It is expected this grant funding will significantly support this predicted shortfall, with only a small additional amount potentially having to be requested from the Council.
- 6.4 Finally, those staff currently remaining on the payroll for Active4Today (5 in total) from February will be operating a part furlough operation and working either two or three days for the Company and being furloughed for the remainder of the week. This will be for February only with those staff returning during March, to prepare for the next re-opening and close down the Company's year-end finances. Whilst not significant, this will provide a further saving on expenditure.

7. BUSINESS PLAN and FINANCES 2021-2022

- 7.1 Members will be aware that traditionally at this stage in the year, the Company would bring forward its proposals for the following year's business plan. With the current year being exposed to a current closure of 20 weeks to the 31st December 2020 and now a further period of closure, the usual process for business planning has been difficult.
- 7.2 However, the Company has attached at appendix III, the proposed business plan for 2021-2022. The Company is mindful that this may need additional information adding to the proposal, when certainty regarding a re-opening is known and usage of customers can be assessed. As a result, A4T are happy to continue to work with members and officers at the Council, to continue to develop the plan further over the coming weeks.
- 7.3 Members will note that the emphasis has changed for next year with a clear focus of trying to increase memberships once again, to support the sustainability of the Company. This will be through increased advertising and target marketing, using a variety of different methods, depending on the audience and the market which the Company is focusing on. In addition, the Company is proposing a new pricing focus for contracted members and non-contracted members and it is hoped that this will assist the Company in attracting new members in these continuing uncertain times.

7.4 As in previous years, the Company makes a forecast of the management fee it expects to request from the Council, for the following year. In the past several years, the fee has been made up of two elements:

- A contribution for strategic support to the Southwell Leisure Centre Trust
- A management fee for the Company, specifically supporting Sports Development

7.5 For a number of years, Active4Today has requested £200k from the district for both elements, of the management fee, split £80k for SLCT and £120k for the Company. As a result of the unprecedented situation in 2020-2021, the direct debit membership base for the Company has been severely affected. As stated previously, this is the main income generating activity for the Company and as a result of this huge loss, the Company is looking for additional support from the Council in 2021-2022, whilst it works on increasing its membership numbers again to levels it experienced pre-Covid.

7.6 As a result of this loss in income, the Company is predicting a deficit for 2021-2022 in the region of £840k. This is approximately £640k over its usual position, based on receiving the usual £200k management fee from the Council; however, as previously stated, this is a direct result of the impact of Covid, on the income generating possibilities of the Company for the coming financial year.

7.7 The Company however, are in discussion with its Board and the Council and are looking to identify further savings, which may support the deficit identified above. This process will take place during January 2021 and it is hoped further reductions can be made to potentially reduce the expected management fee being requested. Once savings are identified, these will be shared with the Council's Senior Leadership Team.

8. EQUALITY & DIVERSITY IMPLICATIONS

8.1 Price increases which have been set out in the business plan may have an impact on those on lower income, however, further support is provided to various groups and individuals, through the inclusivity strategy. 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.