

Report of	Meeting	Date
Director of Finance and Section 151 Officer (Introduced by Cabinet Member (Finance and Public Protection))	Council	Wednesday, 20 September 2023

## Leisure Company Request for Financial Support

Is this report confidential?	No
Is this decision key?	Yes
<b>Savings or expenditure amounting to greater than £100,000</b>	Significant impact on 2 or more council wards

### Purpose of the Report

1. This report details the request from the Council's wholly owned subsidiary company, South Ribble Leisure Ltd, for financial support due to the extraordinary and unbudgeted increases in energy costs and an increase in salary costs over the 5% budgeted (based on the latest offer made in the 2023/24 LNJCC pay negotiations).

### Recommendations to Council

2. To approve the request from South Ribble Leisure Ltd for financial support of £800k, a breakdown of which is included in the body of the report.

### Reasons for recommendations

4. To ensure the Council is fully aware of the financial position of South Ribble Leisure Limited and to request financial support for the company due to the extraordinary increases in energy costs and the pending 2023/24 pay award.

### Other options considered and rejected

5. To await further forecasts – this option is not viable given the pressures on the cashflow of the leisure company, driven by the increase in the cost of utilities and the pending payment of pay award which once agreed will be paid to staff as quickly as possible with arrears due from 1 April 2023. As the company does not hold

reserves, it does not have any surplus cash balances to cushion the impact on the cashflow of any adverse variances against budget.

## Corporate priorities

6. The report relates to the following corporate priorities:

An exemplary council	Thriving communities
A fair local economy that works for everyone	<b>Good homes, green spaces, healthy places</b>

## Background to the report

7. Although South Ribble Leisure Limited underspent by £287k against the first budget set for the company for the 7 months to 31 March 2022, since then there has been a global increase in the cost of utilities. This has put a major cost pressure on the company as utilities form a significant element of the budget and as such, there was a significant overspend against the working budgets for gas and electricity for 2022/23; this is now forecast to continue in 2023/24.
8. The original forecast overspend on utilities in 2022/23 was £500k but in addition to this, following the Local Government pay negotiations, a further unbudgeted cost pressure of £100k arose as the settlement resulted in a pay award of £1,925 per employee which was in excess of the 2% budget provision made. There was also an additional £54k in relation to an increase in the cost of services provided to the company by the Council as part of the Service Level Agreement.
9. South Ribble Leisure Ltd requested and received £654k of funding to address these pressures in 2022/23 as approved at the Council meeting in November 2022.

## Request for Financial Support for 2023/24

10. Based on the forecast for 2023/24 and the need to ensure sufficient cashflow over the coming months, the company is requesting additional financial resources of £800k from the Council, as its parent company, comprising; £130k on a recurring basis as part of the annual Leisure Contract payment, and £670k on a non-recurring basis in 2023/24 as detailed below:
11. **£500k in respect of the forecast increase in the cost of utilities** over the budget – this is assumed to be a non-recurring cost at this point in time and will be reviewed for 2024/25 as part of the budget setting process as it appears unlikely that energy costs will return to their previous levels, i.e. prior to the war in Ukraine. Since the budget was set, the government has stated that energy caps will no longer apply and therefore costs will increase; the position will be monitored and if the financial support proves to be more than the leisure company requires, then any surplus would be returned to the council.
12. **£170k in respect of irrecoverable VAT** – again this is assumed to be non-recurring at this point in time and will be reviewed as part of the budget setting process for 2024/25. The level of irrecoverable VAT has increased beyond the amount budgeted in the leisure

company as a result of rising costs and the increased cost of utility bills, as this has led to an increase in the overall VAT liability of the company.

13. **£130k in respect of the estimated cost of the pay award** above the level budgeted, based on a current offer of £1,925 per employee, irrespective of grade; this is the offer made by the Employers and so is not expected to fall below this amount, although at present this offer has been rejected by the Trades Union. This will be a recurring cost and will require a permanent increase in the Council's financial support within the Leisure Contract, unless this can be offset by additional income.
  
14. The financial position of the company is regularly monitored and should the forecasts change, any surplus arising from the amounts requested above would be returned to the Council. Patronage across the South Ribble Leisure Centres has continued to increase in 2023/24 and income levels are positive with the current forecast for 2023/24 positioned to achieve the income budget set; if income targets are exceeded then again there would be potential for funding to be returned. With regards to income;
  - a. from a Health and Fitness membership perspective, the post-Covid baseline membership as of June 2021 was 3,213; this has now grown to 4,067 (+27%) as at the end of July 2023. The pre-pandemic membership base as of March 2020 was however 5,465.
  - b. the actual operational income generated in the full year of trading for 2019/20 was £3.3m which included income generated via the All Weather Pitch and Sports Hall at Penwortham Leisure Centre that are no longer managed by the Leisure Company (circa £110k p/a). This compares to the actual income generated by South Ribble Leisure Ltd from April 2022 to March 2023 of £2.8m This equates to a 16% shortfall against the final, full trading year of 2019 but demonstrates a reasonable rate of recovery since the pandemic, and is in line with successful leisure operators nationally.
  
15. Given the economic volatility and uncertainty at the time the Council's 2023/24 Budget was set, a general budget provision of £748k was included to support the risk of any additional costs arising, such as those relating to inflation and utilities and the impact of the cost of living crisis, both in the council and the leisure company; the additional funding request of £800k will be met from this provision, with the balance funded by the inflationary reserve created for this purpose.

### **Climate change and air quality**

16. The request made in this report for additional financial support does not impact upon the climate change and sustainability targets of the Councils Green Agenda; all environmental considerations are in place.

### **Equality and diversity**

17. No implications.

### **Risk**

18. Without financial assistance from its parent company, South Ribble Leisure Ltd will have insufficient cash flow to operate therefore risking company insolvency, redundancies, and reputational damage.

## Comments of the Statutory Finance Officer

19. The Company is in a difficult financial position given the increases over and above the levels budgeted in respect of the cost of utilities, irrecoverable VAT and the projected cost of the pay award.
20. There is currently no indication of financial support from central government to councils to ensure continued levels of leisure services can be delivered and to cover these additional cost pressures. As it stands, government support has in fact reduced as the previous price cap on utility costs over the winter of 2022/23 are no longer in place.
21. A bid was submitted by the company in August for financial assistance through the Swimming Pool Support Fund (SPSF) run by Sports England, however the outcome of this has not yet been announced; should the company be successful, then the amount of support from the Council could be reviewed.
22. It is therefore highly likely that without further financial assistance from South Ribble Council, the company will not have sufficient cashflow to operate through to March 2024. The financial position will continue to be monitored and should the position change and improve, then the level of financial support could be reduced.
23. Within the Council's 2023/24 Budget approved at the Finance Council meeting in March 2023, a general provision of £748k was made for any additional costs arising, such as those relating to inflation and utilities; this provision was created given the level of economic volatility and in consideration of the fact that the risk of further cost pressures arising both in the Council and the leisure company was very likely; the additional funding requested of £800k will be met from this provision, with the balance of £52k funded from the inflationary reserve created for such purposes.

## Comments of the Monitoring Officer

24. The report seeks authority for additional resources from South Ribble Leisure Limited. It is a matter of discretion for the Council whether to agree to the request or not. There are no concerns from a legal point of view with the report.

## Background documents

25. None

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This decision will come into force and may be implemented five working days after its publication date, subject to being called in in accordance with the Council's Constitution.