

YEAR ONE SUMMARY OF THE FREEDOM LEISURE CONTRACT

1. RECOMMENDATIONS

- 1.1 Members of the Cabinet are asked to note the transition year summary position and the financial implications of both the transition year and the Net Income Adjustment built into the service contract with Freedom Leisure (to take effect in the second year of the contract).

2. INTRODUCTION

- 2.1 The 11-year contract between the Council and Freedom Leisure to operate the Council's 5 leisure centres commenced on 1st July 2021. This report provides an overview of the performance and delivery of Freedom Leisure's management of the 5 leisure centres during the first year of the contract.
- 2.2 The first year of the contract has acted as a Transition Year for Freedom Leisure, taking account of the uncertainties surrounding the pandemic around the point of transfer, and allowing them to embed their products and services within the 5-leisure centres.

3. PURPOSE OF THE REPORT

- 3.1 The Community, Partnerships and Wellbeing Overview & Scrutiny Panel have received regular reports throughout the first year of the contract with Freedom Leisure. The reports contain information on Freedom Leisure's performance against the contract key performance and strategic performance indicators including membership and swim lessons, customer satisfaction and Active Communities.
- 3.2 The body of this report summarises some of the key performance details and details the contractual financial mechanisms which have triggered as we conclude the transition year and enter year two of the contract.

4. TRANSITION YEAR SUMMARY

- 4.1 Commercially, the first year of the partnership has focussed on the recovery of both Fitness & Swim Lesson memberships following their decline during the coronavirus pandemic. Whilst Swimming Lessons have shown a positive recovery back to pre-pandemic levels, health and fitness memberships have taken longer to recover and continue to trail pre-pandemic levels as the contract enters its second year. Generally, this performance mirrors that of the wider leisure industry. In year two of the contract, the continued recovery of health & fitness memberships is the primary commercial challenge for Freedom Leisure.
- 4.2 Operationally, the cost of energy, specifically gas and electricity, has placed significant pressure on the operational costs of the leisure centres, in particular the heating of the

swimming pools. Freedom have taken a number of local mitigation actions to reduce the impact of the external cost pressures, but this area remains a primary challenge for Freedom in the second year of the partnership. The wider leisure industry is lobbying for central government support to ensure swimming pools can continue to operate, whilst there has been an initial announcement from government on support for business at the time of writing this report there has been no official announcement regarding support for leisure centres.

- 4.3 Freedom Leisure appointed a Healthy Communities Manager within the contract in late 2021. The purpose of this role, in line with Freedom's bid, is to work closely with key (local & national) partners and stakeholders across New Forest and Hampshire and work with the Community Champions across the leisure centres, shaping and leading on the implementation of the New Forest Active Communities Development Plan and programmes to increase physical activity and improve mental health. The role will also attract external funding each year, in line with local partners and the Physical Activity & Partnership Manager and Team to support the service

5. FINANCIAL IMPLICATIONS

- 5.1 The contract provides two key financial mechanisms which have been triggered following the first year of the partnership;
- The Top-Up Mechanism (Transition Year)
 - The Net Income Adjustment (Contract year 2)

The Top Up Mechanism

- 5.2 The contract allowed for an open-book arrangement within the first year of the partnership and, based on their provisional outturn for the year, subject to the final audited accounts, the council will pay an overall management fee to Freedom Leisure of £1.23million (the capped value as per the contract).
- 5.3 Provision within the Council's 2021/22 year-end accounts has been made for this overall payment, with a small additional sum coming from the 2022/23 budget.

The Net Income Adjustment

- 5.4 Whilst it was the Council's original intention to support Freedom Leisure with an additional payment to reflect the particular extreme circumstances faced by them, primarily related to utilities as a result of the invasion of the Ukraine by Russia, external Council advice sought as part of that process has concluded that the payment would be outside of the contract terms. Subsequently, the Council is intending to rely solely on the mechanisms embedded within the Contract with Freedom Leisure.
- 5.5 The contractual arrangements in place made provision for an adjustment to take effect to the year two management fee: known as the 'First Net Income Adjustment'. This was included within the contract during the tendering stage in the context of significant uncertainty, primarily surrounding income projections because of the new contractual arrangements commencing part way through a pandemic.
- 5.6 If updated forecasting for year 2 demonstrates an expected income / expenditure variation of greater than 7.5% on the original business plan forecast, the Net Income Adjustment mechanism is triggered, resulting in a share of this variation to be borne by

both NFDC and Freedom Leisure. This was primarily designed to accommodate the likelihood of a further income variation in year 2, because of the unknown customer behaviours post-pandemic.

- 5.7 Pursuant to the terms of the contract, the year 2 forecast provided by Freedom Leisure has confirmed the Net Income Adjustment triggers have been met, and both parties have agreed this to be the case. The value of the NFDC share of the Net Income Adjustment calculation will be finalised following the end of year 2. The NFDC share will be covered by existing NFDC budget provision.
- 5.8 Critically, the outcome of the Net Income Adjustment will leave Freedom with a financial deficit through which to mitigate. This has led to Freedom completing a review and delivering several mitigating actions.

6. CRIME & DISORDER / EQUALITY & DIVERSITY / ENVIRONMENTAL IMPLICATIONS

- 6.1 There are none arising directly from this report.

7. PORTFOLIO HOLDER COMMENTS

- 7.1 The council embarked in this partnership to help improve the health and wellbeing of residents in the district by increasing participation in our leisure centres and reducing inactivity, so it is encouraging to see some of the positive work happening by Freedom Leisure during the first year of the partnership. Their commitment to investing in our leisure centres will mean improved facilities which will offer residents more opportunities locally to engage in an active lifestyle.

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Background Papers:

None