

New Forest DC – Utility Crisis Implications

November 2023

Context

This report is being provided as part of our further information to NFDC relating to our Operator Change of Notice request (Schedule 24 Part 5 of the LOC)

This relates to the significant increases in utility costs which was unforeseen

Background

The ongoing utility crisis has been raised with Officers at NFDC since the early part of 2022.

For unforeseen reasons outside of our control, including a worldwide shortage of gas due the Ukraine War, the utility tariffs for gas and electricity have increased significantly (up to 500%) since 2020

The government introduced the Energy Bill Relief Scheme (EBRS) from October 2022 until March 2023 but this fell short of offsetting the significant increased costs

Bid Assumptions

Based on the information provided by NFDC we estimated our utility consumption and costs for the sites for years 1 and 2, which is provided by site (see tab Utility Bid Assumptions) and summarised below:

Table 1.

New Forest DC Utilities Bid Assumptions Yr1 & Yr2				
	Yr1	Yr2	Variance	%
Electricity Consumption (kWh)	2,783,834	2,606,272	- 177,562	-6%
Electricity Cost (£)	£ 328,381	£ 308,880	-£ 19,501	-6%
Electricity average tariff	£ 0.118	£ 0.119	£ 0.001	0%
Gas Consumption (kWh)	5,937,046	4,968,691	- 968,355	-16%
Gas Cost (£)	£ 198,799	£ 166,500	-£ 32,299	-16%
Gas average tariff	£ 0.033	£ 0.034	£ 0.000	0%
Total Consumption (kWh)	8,720,880	7,574,963	- 1,145,917	-13%
Total Cost (£)	£ 527,180	£ 475,380	-£ 51,800	-10%
Total average tariff	£ 0.151	£ 0.152	£ 0.001	0%

This assumed that;

- The cost of gas would increase by 15% from our group rate of 2.9p/kWh to 3.4p/kWh. Note that the NFDC rate had been in the order of 2.9p/kWh in 2019-20
- The cost of electricity would remain stable with the NFDC rates and the Freedom Leisure rates at about 12p/kWh
- We would reduce consumption from year 1 to year 2 by 16% (gas) and 6% (electricity)

Both NFDC (New Forest utility consumption/cost tender document) and Freedom Leisure had been experiencing very stable gas and electricity rates. This had been the case for several years, which is shown in the attached:

<https://tradingeconomics.com/commodity/uk-natural-gas>

Year 1 of the Partnership – July 2021 to June 2022 Actual Performance

For contract year 1 the sites made an overall deficit of £1.9m. Through contractual arrangements the Council contributed a management fee of £1.5m

The cost of utilities during Year 1 were £984k, an increase of £457K compared to our tender. The summary is as follows:

Table 2.

New Forest DC Utilities Summary Yr1				
	Bid Figures	Yr1 Actual	Variance	%
Electricity Consumption (kWh)	2,783,834	1,839,508	- 944,326	-34%
Electricity Cost (£)	£ 328,381	£ 540,151	£ 211,770	64%
Electricity average tariff	£ 0.118	£ 0.294	£ 0.176	149%
Gas Consumption (kWh)	5,937,046	6,833,880	896,834	15%
Gas Cost (£)	£ 198,799	£ 443,717	£ 244,918	123%
Gas average tariff	£ 0.033	£ 0.065	£ 0.031	94%
Total Consumption (kWh)	8,720,880	8,673,388	- 47,492	-1%
Total Cost (£)	£ 527,180	£ 983,868	£ 456,688	87%
Total average tariif	£ 0.151	£ 0.359	£ 0.207	137%

Within year 1:

- We managed to reduce consumption by 47,492 kWh (1%) compared to our year 1 projections. Had we not achieved this the costs would have been higher
- Average tariffs increased from January 2022. The gas tariffs were on a flex contract from January to June 2022, hence the variance per month
- Even though we were on lower tariffs from June 2021 to December 2021, they increased significantly following the start of the War in Ukraine. Gas prices increased by 94% (from 3.3p/kWh in the bid to 6.5p/kWh) and electricity prices increased by 149% (from 11.8p/kWh in the bid to 29.4p/kWh). The War in Ukraine and the energy crisis across the UK (which affects both households and business) could not have been foreseen

Year 2 of the Partnership – July 2022 to June 2023 Actual Performance

For contract year 2, the sites made an overall deficit of £1.482m. Expenditure includes the contractual management fee payment to the District Council, and subject to the finalisation of audited works, a 'Net Income Adjustment' will be completed resulting in the Council making a contribution towards the deficit.

The cost of utilities during Year 2 were £1,275k, an increase of £786k. The summary is as follows:

Table 3.

New Forest DC Utilities - Year 2 Actual v Bid				
	Bid Figures	Year 2 Actual	Variance	%
Electricity Consumption (kWh)	£ 2,606,272	1,657,145	- 949,127	-36%
Electricity Cost (£)	£ 318,146	£ 663,566	£ 345,420	109%
Electricity average tariff (£)	£ 0.122	£ 0.400	£ 0.28	228%
Gas Consumption (kWh)	4,968,691	5,712,006	569,820	11%
Gas Cost (£)	£ 171,495	£ 611,939	£ 440,444	257%
Gas average tariff (£)	£ 0.035	£ 0.107	£ 0.073	210%
Total Consumption (kWh)	7,574,963	7,369,151	- 205,812	-3%
Total Cost (£)	£ 489,641	£ 1,275,505	£ 785,864	160%
Total Average Tariff (£)	£ 0.065	£ 0.173	£ 0.1084	168%

- Consumption levels were close to the projected consumption of 7,574,963 kWh
- The cost was an increase of 160%
- The average tariff increased from 12.2p to 40.0p for electricity and from 3.5p to 10.7p for gas

Arrangements from April 2023

Freedom Leisure has been closely monitoring the utility market prior to the contract renewal process for both Gas (October 22) and Electricity (November 22). Due to the extremely volatile nature of wholesale prices at the time, we decided to opt for shorter term contracts of 6 months for Gas and 5 months for Electricity. This was based on broker advice in the hope that the market would settle over the months ahead. The short term contracts signed at that time were broadly 6 times the previous tariffs but these were reduced to only 3 times after the impact of the Governments Energy Bills Relief Scheme.

In late February 2023, new contracts were negotiated and signed on the basis of a 2 year fixed Electricity contract and 3 year flexible Gas contract. These have resulted in an improved position where prices are now roughly 2 times the tariffs prior to October 22. The reason for taking the flexible contract for Gas was to allow us to benefit from the forecasted drop in wholesale prices. Unfortunately at the time of needing to sign the new contracts, there was not a Flexible Electricity contract available from any supplier.

We are continuing to monitor the wholesale market, especially for Gas, and are taking advice from our brokers on buying periods for the coming 3 years to ensure opportunities for reduced pricing are taken.

We have supplied the Council with some sample invoices to evidence the tariffs/costs

Year 3 Projections – July 2023 to June 2024

Based on continuing high utility costs we project that 2023-24 could result in a deficit of **£560,000**. This assumes an improvement in income but includes a full 12 months of additional utility costs with increased tariffs, which could be in the region of **£699,000** (including irrecoverable VAT)

Longer Term Outlook

Many leading experts have provided a longer term view over increasing energy prices

One of these, Cornwall Insight, has warned that the high prices seen this year are unlikely to return to “pre-2021 ‘normality’” this decade. “In all scenarios, gas prices in the UK are projected to continue to be impacted as the country’s heavy reliance on imported gas sees it vulnerable to global rises,”

This has implications for the financial sustainability of the New Forest partnership as well as for Freedom Leisure as a group

Necessity of Support

The significant increases in the utility tariff/costs are something no business is able to sustain for any period of time. For Freedom Leisure as a group we will be eating into our modest reserves over the next 6 months

We have been in similar discussions with all of our local authority partners to provide support for 2022-23, where we have had a good level of support based on an open book approach, including evidencing the additional costs through providing invoices for this year and previous years

We have also been discussing the necessity of support required from April 2023, with some Councils agreeing to support and others putting together reports for future Cabinet/Executive meetings

Our discussions with all of our partners clarifies that we do not expect any Council partner to bail out another Council, and that each partner should play their part in supporting their leisure service through the significant increases in utility costs, which were totally unforeseen when we submitted our tender.

This is why we are seeking a contract modification/variation through the Operator Change of Notice (Schedule 24 Part 5) of the Contract

The financial implications of the significant increase in utility tariffs, which results in an additional utility cost of £786k in year 2 of the partnership, justify the need for the Operator Change of Notice.

If support is provided to Freedom Leisure then we will be able to carry on undertaking our responsibilities under the contract and can work hard to reduce the deficit caused by under achieving on the income projections. We now have an Area Manager within the New Forest and are confident that he will be able to commercially drive the income levels. The cost of utilities would be the same if another operator or the Council were to operate the facilities

If support is not provided to Freedom Leisure, we will be left in an extremely vulnerable position, which cannot be sustained for any period of time. Although we are expecting further support from client partners, no support would mean that we could run out of cash within 1 year.

There are recent instances where we have had to take/agreed action where no support has been forthcoming. This includes:

- A mutual termination of the partnership with Lichfield District Council from 1 April 2023
- The closure of the swimming pool at Rye Sports Centre, part of Rother DC
- The closure of the swimming pool at one of our sites in Milton Keynes

We would hope that we would not get to this point with New Forest DC

Sector Lobbying

There has been much lobbying to government by UK Active, CLUK, Swim England and other operators.

From a Freedom Leisure perspective there have been media interviews by Ivan Horsfall Turner – CEO of Freedom Leisure (Radio 5 Live – Adrian Chiles, Radio 2 – Jeremy Vine), as well as many regional radio stations from all around the UK

We have sent letters to MP's in all partnership areas to encourage them to lobby their MP colleagues

We have met Sally Ann-Hart, MP for Rye and Hastings who is lobbying to see if pools and leisure centres can be classified as an intensive industry under the EBDS

On Wed 25 Jan 2023, a question was raised by Carolyn Harris (Swansea East MP) to the Prime Minister (in PMQ's) regarding the utility crisis and the effects on swimming pools and leisure centres

In April 2023 the government announced the Swimming Pool Support Fund (SPSF), where all Councils could apply for a grant, against increasing utility costs. This is administered by Sport England and the Council has applied, and been successful with their application, although the grant does not cover all the additional utility costs

Support from other Councils

We have provided a summary of support agreed with many of our local authority partners but really require support from all our partners to ensure future sustainability.

Examples of Council reports are set out in Appendix 4 and on the attached links:

Worcester City Council – 25.1.23

<http://committee.worcester.gov.uk/documents/s56215/Freedom%20Leisure%20Report%20Final.pdf>

Stafford Borough Council – 3.1.23

<https://www.staffordbc.gov.uk/sites/default/files/cme/DocMan1/Committee-Agenda-22-23/Resources/Resources-Scrutiny-Committee-3-January-2023-Agenda.pdf>

Derbyshire Dales DC – 24.11.22

<https://democracy.derbyshiredales.gov.uk/documents/s4034/Additional%20funding%20for%20Freedom%20Leisure%20due%20to%20the%20increased%20cost%20of%20engery.pdf>

Conclusion

We have outlined the financial implications of the partnership resulting from the significant increases in utility costs as a result of the War in Ukraine, which were **£457K** in Year 1 and **£786K** in Year 2

We believe that our formal request for an Operator Change of Notice to provide support for the additional utility costs is a legitimate and sensible mechanism to deal with this situation which was totally unforeseen when we were originally tendering for the New Forest Leisure Centres in 2020

An agreement of financial support will ensure that the partnership between New Forest DC and Freedom Leisure can continue and be sustainable for the medium and longer term