

Finance and Resources Committee

10.00am, Thursday, 24 September 2020

Edinburgh Leisure – request for additional funding support, 2020/21

Executive/routine Wards Council Commitments	Executive All
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1. Recommendations

- 1.1 Members of the Finance and Resources Committee are asked to agree:
- 1.1.1 additional contract payments up to the value of £6m in 2020/21 to enable Edinburgh Leisure to continue to operate and re-open venues and services which contribute to the health and well-being of Edinburgh's citizens;
 - 1.1.2 that, subject to onward ratification by Council, the additional payment be added to the existing annual funding agreement between Edinburgh Leisure and the Council;
 - 1.1.3 that payments up to the approved limit be released by the Head of Finance, subject to demonstrated need through discussions at monthly monitoring meetings; and
 - 1.1.4 to receive a further progress report at the Committee's December meeting.

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Edinburgh Leisure – request for additional funding support, 2020/21

2. Executive Summary

- 2.1 This report seeks approval to increase the contract payments to Edinburgh Leisure (EL) in 2020/21 by up to £6m to safeguard the on-going operation of the charity and to support the safe re-opening of venues and services in line with Scottish Government guidance.

3. Background

- 3.1 EL venues and services closed to the public at the end of the day on 19 March 2020. The financial impact of COVID-19 to EL in March 2020 was circa £0.650m.
- 3.2 On 31 March 2020, the Council approved the 2020/21 annual funding payment of £7,107,661 to EL and also issued a “letter of support”.
- 3.3 EL has been working hard to minimise expenditure and as of 1 April, just over 1,000 employees were furloughed under the UK Government’s Coronavirus Job Retention Scheme (CJRS), with 41 employees still working. The number of staff working has subsequently increased as lockdown restrictions on outdoor activities have been relaxed and, more recently, in preparation for the re-opening of indoor venues and services.
- 3.4 Monthly meetings take place with EL to review its financial monitoring information, cashflow projections and financial estimates associated with re-opening venues.
- 3.5 As of the time of writing, EL’s golf courses and outdoor tennis courts at the Meadows and Craiglockhart have re-opened, along with a number of outdoor pitch venues on a reduced-hours and restricted-access basis. Work is now taking place to re-open indoor venues from 14 September on a phased basis (all subject to the relevant public health guidance).
- 3.6 EL’s updated cash forecast indicates that cash support will be required by the end of October and EL has updated the estimate of the financial impact of COVID-19 on the charity in 2020/21.

4. Main report

- 4.1 The importance of physical and mental health and the contribution physical activity makes to individual and community health and well-being has been brought into sharp focus by COVID-19. The relationship between poor health, inequalities and deaths from coronavirus has been identified, as has the disproportionate impact of the pandemic on individuals and families from more deprived backgrounds. While EL has an important role to play in the city's recovery, financial support is required to ensure the sustainability of its venues and services.
- 4.2 The majority of EL employees were furloughed on 1 April 2020 (the position as of the time of writing is 136 people working normal hours, 47 people working on flexible-furlough arrangements and 827 on furlough). There is a tapering of the furlough scheme in September and October, with a larger proportion of employee costs reverting to EL. The CJRS ends on 31 October 2020.
- 4.3 A priority throughout lockdown has been to ensure the venues in the EL portfolio are secure and maintained to avoid problems and unnecessary delays on re-opening. Work has also been on-going to encourage and support customers to stay active via content on EL's website, social media and email updates. All memberships were frozen at the point of closure, although some members opted to support EL and it receives around £0.045m per month in donations.
- 4.4 The Council approved EL's 2020/21 annual funding payment of £7,107,661 on 31 March 2020 and on 19 May issued a "letter of support". The EL Board, on the advice of its external auditors, took the decision in June to delay finalisation of the 2019/20 annual accounts because of concerns around the charity's status as a going concern.
- 4.5 Although most venues remain closed, EL continues to incur a range of operating costs, albeit at reduced rates e.g. staffing, energy, insurance and licences. There are also costs associated with reactive and planned maintenance work to the venues.
- 4.6 Venues have been re-opening in response to the Scottish Government Routemap and the associated guidance. The four 18-hole courses opened on 4 June and the two 9-hole courses on 1 July. The Meadows tennis courts opened on 29 May and the outdoor tennis courts at Craiglockhart opened on 15 July. Pitch venues currently in use on a restricted-access basis from 24 August include Meggetland, Saughton, Jack Kane Centre, Duddingston, Gyle, Campbell Park, Roseburn, Colinton Mains and Inverleith (the last-mentioned four venues on a key holder basis).
- 4.7 With restrictions on indoor venues being eased, EL is now planning for the re-opening of indoor venues, however this will be done on a phased basis. A re-opening date of 14 September has been confirmed for the following venues: the Royal Commonwealth Pool, Craiglockhart Leisure and Tennis Centre, Drumbrae Leisure Centre, Ainslie Park Leisure Centre, Gracemount Leisure Centre and Leith Victoria Swim Centre. Further details are available on the EL website: <https://www.edinburghleisure.co.uk/fitness-at-home/reopening-plans>.

- 4.8 Venues will also open with a restricted activity programme i.e. gym, lane swimming, fitness classes, badminton, indoor tennis (and charging for outdoor tennis at Craiglockhart), squash and club bookings, with other activities re-introduced on an incremental basis (subject to restrictions being lifted). Physical distancing requirements are a critical factor in determining what activities can take place and in what venues and the maximum numbers in activity areas and staffing levels have been amended to reflect the reduced activity programme. Changes have also been made to opening hours, although this was something EL was planning to do pre-COVID in response to customer usage patterns. A number of changes are being introduced to ensure a safe environment for customers and employees, for example all activities will be bookable and there will be no cash transactions. The charity continues to explore opportunities to do things differently to help with the financial challenges now and in the future.
- 4.9 The Council also holds regular meetings with EL colleagues to review financial performance, cashflow projections and the financial implications of re-opening venues. Reduced capacity, customer reaction and competitor activity are some of the many factors that will impact on usage and income and a number of assumptions have had to be made when preparing revised income targets. Actual performance could therefore vary significantly from the financial estimates and EL has advised of the need to respond quickly to usage and income performance.
- 4.10 An initial estimate identified the financial impact of COVID-19 on EL as £8m and this figure has been incorporated within the ALEO-specific projections reported to elected members and included within Members' Briefings. This figure has now been updated and reduced to around £6m because of the longer duration of venue closures and the CJRS Bonus Scheme (where income of around £0.6m is anticipated). EL has also identified that cash support will be required by the end of October 2020.
- 4.11 EL is a member of Community Leisure UK (the membership association for leisure and cultural trusts) and the association continues to lobby the Scottish and UK Government for financial support for public leisure services. EL is also pursuing an insurance claim and in July was advised by its insurers, Aviva, that the outcome of the Financial Conduct Authority's (FCA) legal challenge on business interruption insurance to the insurance industry would apply to EL's case. On 15 September, the High Court issued its judgement, ruling that most, but not all, disease clauses in the representative sample of policy wordings used by insurers provide relevant cover. While it is anticipated that the ruling may be appealed by the insurance companies concerned, subject to confirmation of its applicability to EL's specific policy coverage, this would reduce the level of support required from the Council.
- 4.12 EL also manages community access to the sports facilities in twenty-one of the City's twenty-three high schools however a different financial arrangement is in place for the school estate, with the net income being remitted to the Council. At this point, it is envisaged that the earliest community access to the school estate would restart is October 2020.

5. Next Steps

- 5.1 Subject to approval by members of the Committee, the report and accompanying recommendations will be referred to Council for ratification.
- 5.2 Monthly monitoring meetings with key EL personnel will continue to ensure that financial support provided strikes an appropriate balance between securing on-going service provision and delivering best value to the Council.
- 5.3 As part of the Council's 2020/23 revenue budget framework, Council approved two specific change proposals affecting EL. One of these relates to an assumed slight reduction in the level of annual service payment for each of the next two years. The other concerns a wider strategic review of the Council's relationship with EL to ensure that a sustainable operating model is in place going forward, maximising benefits to citizens whilst recognising the need to secure best value. Although the immediate focus, as with the Council, is understandably on the safe re-opening of facilities, this process of service resumption therefore needs to be considered within this broader context.

6. Financial impact

- 6.1 EL's financial performance after four months is a deficit of £0.350m, some £0.354m behind the (pre-COVID) budgeted £0.004m surplus. Together with the £0.650m impact in March, this brings EL's total COVID impact thus far to £1m. Although costs have been tightly controlled and the CJRS hugely helpful, it has not been possible to offset completely an almost-total loss of income for six months.
- 6.2 The cash position is currently positive, with liquidity assured through to the end of September. The updated forecast, however, indicates that cash support will be required by the end of October.
- 6.3 The updated financial projection for 2020/21 now shows the potential impact of COVID as around £6m arising from detailed calculations, summarised as follows:

	£m
March 2020 (before CJRS was claimable)	0.650
During closure	0.500
In September during phased re-opening	0.600
Average monthly Oct - Mar c.£0.8m (see below)	4.850
CJRS bonus estimate	(0.600)
Total projected impact	6.000

- 6.4 As venues re-open, most costs will return, but income levels will be substantially lower than pre-COVID levels due to physical distancing/reduced capacity. The early experience of English leisure trusts (who have been permitted to re-open from 25 July) has been taken into account and detailed calculations have been carried out to inform estimates of potential income. The calculations assume some recovery after re-opening, but a return to 100% of pre-COVID levels is assumed not to be the case during this financial year. Membership income is assumed to be

60% of pre-COVID levels on re-opening, building to 80% by the year-end, with casual (pay and play) use moving from 50% to 70% over the reporting period. EL's next-largest income line, coaching, is assumed to operate at break-even levels during the remainder of this financial year, whilst catering and soft play are assumed to be severely curtailed at 30%, growing to 40% by the year-end.

- 6.5 The result of the above assumptions is that monthly income levels which were budgeted (pre-COVID) at c.£1.9m for the last six months are forecast to be c.£1.1m on average, hence the c.£0.800m average deficit. As noted previously, every effort will be made to manage costs, particularly through the dynamic redeployment of staff and careful adjustment of venue opening hours, but the relatively high proportion of fixed costs to operate venues safely presents an exposure to reduced income in this unprecedented environment.
- 6.6 It is hoped that the £6m shortfall can be reduced by a combination of insurance income (as noted at Paragraph 4.11 above) and/or support from central government (lobbying continuing through a number of routes). The ability to reduce this figure further by keeping a number of venues closed is not a viable option given the ending of CJRS at the end of October and the fact that reduced capacities in venues will mean that citizens of Edinburgh will demand the widest-possible provision of venues. Long-term mothballing of facilities will still incur costs and therefore re-opening, for example, the Victorian Swim Centres at Portobello, Glenogle, Dalry and Warrender, even with physical distancing, will only come at a modest subsidy in the context of the overall £6m projection.
- 6.7 A number of assumptions have had to be made on levels of usage and therefore income projections for venues. This is an area of risk for the charity, as is the risk of further reductions in income because of further local and national lockdowns due to a resurgence of the virus. Another area of risk is COVID-19 related staff absences and the impact this will have on the availability of staff and the associated financial consequences when venues begin to re-open on 14 September. EL has robust systems in place to monitor staff absence (in normal circumstances less than 4%) and new COVID-19 self-isolation policies have been created.
- 6.8 There is also an increase in expenditure to comply with Government guidance and to ensure a clean and safe environment, for example the purchase of foggers, hand sanitisers, cleaning materials, poolside rescue equipment, swipe card readers, protective screens and marketing materials. All items being purchased as a direct result of COVID-19 are being coded separately for ease of identification if required.
- 6.9 From the Council's perspective, provision for EL of £8m has been included in the overall assumed level of COVID-related support or income losses for its ALEOs intimated in previous monitoring reports. This sum will be revised to £6m, reducing the overall level of anticipated ALEO support to £29m and thus the overall in-year shortfall accordingly.

7. Stakeholder/Community Impact

- 7.1 Making a positive impact on the health and well-being of Edinburgh citizens is at the heart of what EL does. As a charity, EL is uniquely placed to draw upon its

expertise and provide access to leisure centres and services across the city. EL attracts over four million annual visits and the charity's Active Communities initiative has a proven track record in successfully delivering impact through a range of targeted programmes, using physical activity and sport to help people lead healthier, happier and more active lives.

- 7.2 There are 20 distinct Active Communities projects that focus on prevention, early intervention, combating the effects of inactivity and tackling inequalities. Each year, targeted support is provided to circa 10,000 people who face the greatest barriers to being active, such as women and girls, people living with health conditions, disabled people, older adults, minority ethnic groups and those from low-income and disadvantaged backgrounds.
- 7.3 Before lockdown, 161 Active Communities classes were delivered each week such as falls prevention, long-term conditions, ageing well, weight management and mental health. The classes also provide opportunities for people to connect socially to tackle loneliness and social isolation.
- 7.4 EL receives around 400 referrals every month from a range of health and social care professionals, which evidences the demand for its support in Edinburgh's local communities and health/social care settings. EL also works with over 200 sports clubs throughout the city.

8. Background reading/external references

- 8.1 [Service payment to Edinburgh Leisure – 2020/21](#), Leadership Advisory Panel, 31 March 2020

9. Appendices

- 9.1 None