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Report to: **Council**

Date: **24th September 2020**

Title: **Fusion Support & Alternative Options**

Portfolio Area: **Health and Wellbeing / Finance**

Wards Affected: **All**

Urgent Decision: **N** Approval and clearance obtained: **Y**

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Recommendations, that the Council:

1. Agree to continue with the Fusion Contract as set out in Section 3 – strategic options appraisal, as being the most appropriate means of supporting health and wellbeing objectives within the District.
2. Subject to Recommendation 1 above being approved, provide financial support to Fusion through to March 2021 of £113,000, to cover the minimum level of support to Fusion (this is **the cost of continuing with the current arrangements** of the Ivybridge Leisure Centre being fully open, the dryside at Kingsbridge being open and Dartmouth being mothballed – these current arrangements have the minimum cost), to be funded from the Business Rates Retention Earmarked Reserve.
3. Consideration be given to extend the minimum level of financial support and extend the current arrangements so as to deliver improved health and wellbeing outcomes, as follows:
 - 3a.** Re-open the pool at Kingsbridge at an extra cost of £27,000 – total cost £140,000 of all arrangements
 - 3b.** Re-open the pool at Kingsbridge and the gym at Dartmouth at an extra cost of £79,000 – total cost of £192,000 of all arrangements
 - 3c.** Fully open Kingsbridge and Dartmouth leisure centres at an extra cost of £130,000 – total cost of £243,000 of all arrangements
4. Approve to fund any extension of financial support from the minimum level, from the Business Rates Retention Earmarked Reserve. (This would be £27,000 for Option 3a, £79,000 for Option 3b and £130,000 for Option 3c).
5. Work in Partnership with Fusion to deliver a social media and all channels communications campaign to highlight the leisure centre facilities that are open (subject to recommendation 1,2,3 & 4), improve awareness and improve participation.

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1. Executive summary

- 1.1. The Covid-19 pandemic and a lack of central Government support have created very challenging conditions for Fusion, the Council's Leisure provider.
- 1.2. This report sets out those challenges, considers the alternative management options for the Council and provides a series of options for Members to consider over the long term future for the Leisure Centre provision.
- 1.3. The report finds that the preferred long term delivery solution is to support Fusion, having given consideration to the financial, legal and reputational risk and health and wellbeing benefits.
- 1.4. It reviews the short term options available to the Council and their relative merits and concludes that the minimum position should be that of providing financial support to mothball leisure centres and open the wetside or dryside facilities where this is the most cost effective option for the individual leisure centre. It then goes on to suggest that the Council may wish to consider providing further support than that position, so as to be able to deliver health and wellbeing benefits in the area.
- 1.5. It notes that improved communication between Fusion, its members and the Council should be a prerequisite of further financial support. It highlights the agreement reached on pricing structures, including a reduction in casual swim price from £8 to £6, concession price from £5.60 to £4.80 and all other casual activity prices remaining at pre-lockdown rates until April 2021 or earlier based upon normal price increase arrangements.

2. Background

- 2.1. The background to the current leisure position is set out in the appendix and in the previous report to Council in July 2020.
- 2.2. The cost of mothballing all centres in April, May and June has been funded by the Council at a cost of £34.5k per month. The total of £103,500 was approved by Council (Minute Reference CM97/19) to be funded from the Land and Development Earmarked Reserve.
- 2.3. The Council provided further support to Fusion for the reopening of the Centres, which enabled Ivybridge and Quayside (dry only) to reopen from August. The total cost of this support was £88,000 (which included continued mothballing support for Dartmouth) and was approved by Council on 30th July 2020, to be funded from the Economic Regeneration Earmarked Reserve. Therefore financial support to date for Fusion has totalled £191,500.
- 2.4. The interim financial support provided by the Council enabled some services to reopen and provided time for the Council to consider its strategic options for the longer term delivery of the health and wellbeing services.

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- 2.5. There are two issues for Council to consider. The first is a fundamental one, which is: What is the best delivery option for Health and Wellbeing in the district in the long term, which includes in-house delivery, alternative structures, suppliers as well as ceasing to deliver Health and Wellbeing at all. The risks and benefits of each of these options is set out in Section 3.
- 2.6. The second, is subject to the first. Should that outcome be to continue with the current provider, Fusion, to what extent should the Council make additional funds available, for what outcomes and on what terms. In doing so, the Council must consider the following; its own financial position, the value of delivering Health and Wellbeing to the district, the extent of delivery across the district, the Council's reputation and the legal requirements of the Contract. These issues are discussed in Section 4.

3. Strategic Options Appraisal for Health and Wellbeing Delivery

- 3.1. In preparing this report, officers have undertaken the following:
 - 3.1.1. Commissioned legal advice on the Contract.
 - 3.1.2. Engaged through Local Partnerships with all of Fusion's clients.
 - 3.1.3. Engaged direct with most of Fusion's clients.
 - 3.1.4. Appointed a consultant to advise on the current state of the market and alternative delivery options.
 - 3.1.5. Engaged with Fusion throughout the period culminating in this strategic report.
- 3.2. There are four options available to the Council for the delivery of Health and Wellbeing as follows:
 - 3.2.1. Continue with services outsourced to the current provider (Fusion)
 - 3.2.2. Bring the delivery of leisure services back in House
 - 3.2.3. Outsourced to an alternative provider
 - 3.2.4. Not at all (cease to provide health and wellbeing services)

Ending the current contract

- 3.3. A pre-requisite of choosing an option 2, 3 or 4 above is that the 25 year contract between the Council and Fusion would need to end. This can happen one of three ways. The Council could trigger the contractual breakclause after April 2021 (serving at least 6 months' notice), the Council forfeit the contract or Fusion ends the contract (in this case, presumably by going in to administration).

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- 3.4. Should the Council wish to end the contract with Fusion through either option set out above, it would face significant costs, as it would be obliged to pay Fusion:
- any amounts properly due and invoiced; and
 - the Profit Payment (which if terminated within the first 10 years of the Contract is Fusion's modelled loss of profit for the first ten years of the Contract); **less**
 - any amounts the Councils are entitled to set off.
- 3.5. These costs are set out in Appendix A, Table 1.1. and in the case of forfeiting the contract, could potentially be greater as the issue could be settled in court.
- 3.6. Should the contract end through default on the part of Fusion, then this issue ceases to exist, but the Council is then faced with the need to run or close its leisure centres, TUPED staff and redundancy costs.
- 3.7. With that in mind, the Council should consider the delivery mechanisms to do that, were that to be the case.

In house Delivery

- 3.8. The option to run services in house, is expensive when compared with any outsourced alternative for one primary reason, the buildings become liable for business rates. In this case, the business rates cost is £280K per year, or £5.9m over the remaining life of the contract. The current provider receives rate relief due to being a charity. It may be possible to set up a Council wholly owned company to mitigate this issue.
- 3.9. Running services in house also requires a skill set which the Council does not currently have and would take time to build up and buy in. Once established, there are examples of in house operation that do get close to the market position in terms of efficiency. The Council ruled out in house operation of leisure services when it went through its procurement in 2015 and all the reasons set out in Appendix A - Section 3, as to why it did not make sense, including the cost and disruption, were as valid then as they are now.

Outsourced delivery

- 3.10. Providing leisure services through an outsourced structure mitigates the issue of business rates, which makes the option considerably more attractive financially speaking. It also has the advantage of being an off the peg solution with minimal disruption, scale and efficiency, whilst recognising that it requires a lengthy procurement process to set up initially (C. 12 -18 months). Appendix A – Section 3 considers the benefits and risks of this option in more detail.

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- 3.11. Ceasing to operate Health and Wellbeing (specifically leisure centres) has some considerable challenges for the Council and goes against its current adopted strategic priorities, however it must be recognised that the delivery of Health and Wellbeing is a discretionary service.
- 3.12. The first is that the Council has borrowed to invest in its leisure centres to modernise them and improve the quality of the experience, notably in Ivybridge. The Council has borrowed £6.3m for investment in its leisure centres, with a large part of this being for Ivybridge. The borrowing has interest and principle repayments that the Council needs to meet. For example in 2020/21 the annual repayments are £132,642 for interest repayments and £300,136 for the capital repayment (MRP – minimum revenue provision). The Council has budgeted to use the management fee from the contract to repay the borrowing.
- 3.13. Of the £6.3m invested in leisure, 15 loans maturing in each of the years from 2023 onwards to 2037 were taken out with the Public Works Loans Board totalling £5.49m. The rest was internally borrowed. The 14 PWLB loans have a principal amount of £360,000 and the last loan is for 19 Years for £450,000. The average fixed interest rate is 2.41%. Of the borrowing £6.3m, an amount of £5.97m will remain outstanding at the end of March 2021.
- 3.14. Should the Council have no leisure centres and therefore no management fee for running them, it would have to rely on other sources of revenue to repay the debt.

Summary

- 3.15. Whilst there is much more detail on these options set out in Appendix A – Section 3, the summary position is that the Council is best placed to work with its current leisure provider until such time as this is no longer an option for reasons outside of the Council's control.
- 3.16. In doing so, it will:
- 3.16.1. Significantly reduce its financial exposure.
 - 3.16.2. Reduce disruption to Health and Wellbeing delivery, as every other option has a number of months of considerable disruption and a number of years of "bedding in".

4. Supporting Fusion – Issues for Consideration

Legal

- 4.1. Officers have taken legal advice on the impact of the Government's decision to close leisure centres and now allow them to re-open but with certain new guidance and restrictions in place, has on contract and therefore the Council.

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- 4.2. The contract contains a change in law clause which has been triggered by the Government's actions and as such, it is a requirement under the contract for the Council to provide support during the forced closure period. The Council has provided this support.
- 4.3. Now that centres are allowed to re-open, the impact of the government's restrictions on Fusion's ability to operate the leisure centres is also a burden that falls to the Council. However, both parties are free to mitigate those costs by mothballing leisure centres.
- 4.4. Furthermore, it is a requirement of the Council prior to providing additional support above and beyond the minimum costs for each leisure centre, to ensure that Fusion are a going concern. This consideration is assessed through Fusion's business case, which is included in Appendix B.

Finance

- 4.5. Councillors will have debated the current budget position and be well versed on the financial position of the Council. The latest revenue budget monitoring report for Month 3 (end of June) to the Executive predicts a budget shortfall of £1.313 million for 2020/21. Members are considering options to set an Amended Budget for 2020/21 as part of this Council agenda. The Council is therefore able to take a balanced view on the affordability of supporting Fusion. It is the case that the Council could use its reserves to support Fusion as detailed in the report.
- 4.6. The Council would not want to be in a position of having to pay for services that can't be delivered in the event that Fusion go in to administration (even if leisure centres are mothballed) and therefore must adopt an approach of "pay as you go" or more accurately payments made in arrears on a monthly basis. This builds in a layer of protection for the Council.
- 4.7. The Council would ideally wish to see its financial support paid back, in the form of a loan. This should apply to any costs over and above the minimum cost of support for each centre. This position has successfully been negotiated with Fusion by officers.
- 4.8. Financial support of above that of the minimum costs paid by the Council, can be paid back through a surplus share clause in the contract. It should be noted that this therefore does not guarantee re-payment, but makes it possible.
- 4.9. Furthermore, the management fee owed by Fusion up to April 2021 is proposed to be rolled up and re-paid in-line with the existing contractual re-payment profile (linear) – i.e. deferred. This creates short term cash flow pressure. It is however a preferable position to waiving the management fee, which is the position a number of other Councils are in with respect to their leisure contracts.

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- 4.10. In a letter from Alex Skinner (Local Government Finance Directorate of MHCLG) it was stated that if authorities are making additional payments to their leisure provider to a) ensure the wider sustainability of providers and/or b) to support the extra costs of providing leisure services in a Covid-19 compliant way, that these cost pressures would not be within the scope of the Government's support scheme.
- 4.11. In contrast, where leisure services are delivered in-house and a Council had budgeted to collect the income from the leisure centre through customer charges, such income would be within the scope of the Government's income guarantee scheme. The Government has acknowledged that the support Councils receive will depend on how an Authority's leisure services are delivered. The Council will be lobbying the Government on this inconsistency through the South West Councils network and the point will be made that our leisure services were outsourced in order to achieve value for money for residents.
- 4.12. In the event of government funding being directed to Fusion we have agreed they will repay any additional costs already incurred and proposed to be incurred to the end of the financial year.
- 4.13. In summary, the terms of support that have been discussed with Fusion are reasonable, when set in the context of the legal advice and the rest of the market. The quantum of that support is the issue in hand as set out in Section 5 – Centre re-opening options.

Actual Costs to Date

- 4.14. As agreed by Council the support to date has been on an open book basis, with actual costs being paid, not forecast costs. Appendix C sets out actual costs up to and including August.

Health and Wellbeing

- 4.15. It is not the case that the Council's leisure centres are the only services available in the area. However they are the biggest and most complete in the offer that they provide. This includes, swimming (casual, club and swim school), gym & personal training and group fitness classes.
- 4.16. One of the Council's adopted strategic priorities is Health and Wellbeing and it has a history of providing these services, which is why it has entered into a long term contract to do so. It should of course, only strive to continue to do so when it does not put the Council or its other services at risk.
- 4.17. The geographical spread of the Council's leisure centres is relevant when considering which if any centres the Council would like to keep open. Average travel times to centres are ~20mins in usual times,

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much longer than that and customers usually seek an alternative option if it is available. Of course, these are not usual times.

4.18. The capacity of certain important functions delivered through leisure centres is impacted by the number (if any) of centres open. **Swim school** should be seen as a good example of this.

4.19. For example, the opening of **Kingsbridge Pool** (Quayside) and Dartmouth would facilitate the following swim school potential across the District:

Centre	Swim School Members
Dartmouth Leisure Centre	103
Ivybridge Leisure Centre	613
Quayside Leisure Centre	598
Totnes Pavilion & Pool	309
Total	1,623

4.20. Links between physical and mental health have long been proven. As we enter the autumn and winter, alternative exercise options outside may cease to become attractive to many.

4.21. There are a small but very important minority of people that rely on the Council's leisure services for specific exercise and health needs. These are some of our more vulnerable residents and whilst they are small in number they should be high in our priority.

4.22. Last year 202 **GP referrals** were received in Kingsbridge (Quayside), 57 in Ivybridge and 62 in Totnes. This service can only function if centres are open. A GP referral scheme in Dartmouth is also planned.

4.23. The **GP referral scheme** is discretionary (both by the GPs and Fusion) and operates to try and promote long term health benefits and empower patients. GPs refer the patient, often for a cardio rehabilitation class at one of the leisure centres.

4.24. The patient is able to sign up for a less expensive £25 monthly membership which allows them to access the specific classes and training offered by Fusion. Fusion on their part have to train their fitness instructors to a higher standard (level 4) so as to be able to offer the service. This is a cost to them which they seek to cover from the patient membership. It is often hard to make it work financially, but is a priority for Fusion, given the health and welling benefits.

Reputation

4.25. The Council has received a significant amount of contact from members of the public who wish to see leisure services re-opened

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fully and furthermore, the Council's reputation has been adversely impacted by poor communication and pricing strategy of Fusion.

- 4.26. The reputation of Fusion and the Council is central to ensuring the long term success of the leisure services, as Fusion's members will vote with their feet. Officers have been working hard to bring this to the attention of Fusion and to have it addressed. It must improve going forward as part any package of support.
- 4.27. The reputation of the Council would be enhanced through the reopening of the centres; supporting services in the District, health and wellbeing, jobs and leisure.
- 4.28. However, this should be put in context. The population of South Hams receiving frontline services from the Council is 86,000 (2018 figures). The number of visits to the leisure centres in total last year was 490,000. If we assume that each person who visits does so once a week on average, then this represents 9,423 individuals.
- 4.29. It is right and proper that those who have a view on this Council decision should make those views known, and this has been seen to be the case. The Council's job is to consider them as part of the overall position, not in isolation.

Employment

- 4.30. It is known that Fusion are in the middle of a programme of redundancies following their need to re-structure delivery to meet the new levels of demand and introduce operational efficiencies.
- 4.31. That process is independent of the Council's decision on which if any centres to provide financial support to open. However, if the Council take a decision not to provide financial support for re-opening for any centres, the staff at those centre will be put on notice of redundancy.
- 4.32. The employment position is set out below. NB. These figures are estimates as the process is yet to be complete.

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4.33. Should the contract with Fusion end for any reason, redundancies costs could fall on the Council. These costs could be up to £200k.

South Hams Staff Restructure Estimate			
Site	Employee Count*	Redundancy estimate no. of staff	Remaining Staff**
Dartmouth Leisure Centre	14	4	10
Devon Contract Management****	58	51	7
Ivybridge Leisure Centre	59	34	25
Pavilion Leisure Centre	38	13	25
Quayside Leisure Centre	42	21	21
	<u>211</u>	<u>123</u>	<u>88</u>
<i>* pre-crisis number of employees</i>			
<i>** assumes site continues to operate</i>			
<i>**** includes casual work employees & is across SH&WD</i>			

Fusion's Other Clients

4.34. The actions of all of Fusion's clients are intertwined and have a bearing on the long term viability of Fusion as a business. Whilst the Council must take its own decision on the level of support it feels is appropriate, it should also consider the position of Fusion's other Clients.

4.35. The following update has been provided by Fusion:

4.36. Remobilisation plans are agreed with 16 out of 18 local authorities. In 2 of the 16 cases the agreed plan is to end the contract. The remaining 2 mobilisation plans not yet agreed are expected to be finalised before the end of next week.

4.37. In the 16 cases where it is relevant the clients have signalled their support for Fusion's CBILS funding (Coronavirus Business Interruption Loan Scheme). The formal acknowledgement of this support will be documented in an exchange of letters before the end of this month.

Fusion Current Business Viability

4.38. Fusion have an approval in principle for a CBILS (Coronavirus Business Interruption Loan Scheme) loan. This is provided by NatWest and is 80% backed by government.

4.39. A final decision on this loan is due after the publication of this report and an update can be provided at the Council meeting.

4.40. The process of getting a CBILS loan is as robust as getting any corporate financing as whilst it is 80% backed by government, all of

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the burden of debt recovery (100%) sits with the bank.

Furthermore, the bank's own money is at risk.

4.41. A summary of the business plan supporting the loan application for Fusion as an entire business is included in Appendix B.

4.42. Section 2 of Appendix A also sets out the current credit rating of the company.

4.43. Referring back to para 4.4 of this report, it can be concluded that, subject to the granting of the CBILS loan, Fusion are a going concern.

Communication Strategy

4.44. This has been an area of concern for the Council and Fusion's members.

4.45. A much stronger join up of communications is needed between Fusion and the Council, through its communication team. This has been implemented as of w/c 14th September and it should be a condition precedent of any financial support that Fusion deliver a better standard of communications within the contract.

Usage in August

4.46. The interim support package that the Council had agreed for August and September has allowed limited re-opening of centres. The uptake of these services compared with the forecast uptake is of interest.

4.47. So as to give the widest possible market intel, both SH and WD info is included below.

Centre usage for August and 1st week September, 2-8th;

Activity:	Ivybridge - 3 rd Aug open	Quayside - 10 th Aug open	Parklands - 17 th Aug open	Totnes - 1 st Sept open
Group Exercise - classes	1,706	896	506	163
Gym - health & fitness	1,554	1,257	518	180
Swimming - general	3,596	n/a	853	157
Total	6,856	2,153	1,877	500

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4.48. The table below indicates how much spare capacity the centre has remaining:

Ivybridge			
Weekly Gym and Class Bookings	Capacity	Weekly Attendance	% of max occupancy
		2nd Sept - 8th Sept	
Gym	2016	352	17.46%
Classes	669	421	62.93%
Swimming	1600	1212	75.75%

Quayside			
Weekly Gym and Class Bookings	Capacity	Weekly Attendance	% of max occupancy
		2nd Sept - 8th Sept	
Gym	1596	275	17.23%
Classes	565	241	42.65%
Swimming	N/A	N/A	N/A

Totnes			
Weekly Gym and Class Bookings	Capacity	Weekly Attendance	% of max occupancy
		2nd Sept - 8th Sept	
Gym	1512	180	11.90%
Classes	478	163	34.10%
Swimming	880	157	17.84%

4.49. Key points to highlight from usage:

- An above forecast uptake of swimming in Ivybridge.
- Group activity showing positive uptake in across the centres.
- Gym usage has seen lower take up levels, lower than anticipated.
- On memberships, those paying monthly, retention of members has been good with approximately 60% of members returning, which is above the UK Active projections of 40% for the sector.
- Swim school will start from the w/c 21st September.

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4.50. This usage reflects that the core offer and current management arrangements are as follows:

- Opening hours reduced to 8am-8pm during the week and 8am-4pm at the weekends. These hours to be reviewed to consider usage data.
- Re-configuration of public and operational areas to allow social distancing measures, safety of staff and customers.
- Initial activities on offer will include group exercise, gym and swimming. All sessions to be pre-booked and paid in advance and capacity to be determined by size and mix of the centre.
- Sports and Community Development, including health referrals, is currently being reviewed and staff will be brought back shortly.

Fusion pricing structure

4.51. There have been a number of pricing issues (linked to the section above) that have caused concern to Fusion's members and the Council.

4.52. Most noticeably is the increase in casual swim charge to £8 from £4.50. Whilst this is an operational matter for Fusion under the contract to review its charging regime, and indeed may be preferable, so as to ensure it remains a viable entity able to deliver high quality services, it is hard to reconcile a price rise whilst also seeking public financial support.

4.53. This issue is somewhat complicated by the legal position placing an obligation on Fusion to minimise the level of financial support it requires from the Council, something which this action seeks to achieve.

4.54. Negotiations over this point have concluded that as part of the next phase of re-openings Fusion will revise casual pricing and it has been confirmed that:

- Swimming standard: Will be moved from £8 to £6
- Swimming concession: Will be moved from £5.60 to £4.80
- These prices will be reviewed in March 2021 or earlier subject to how the centres operate as per our ongoing discussions
- All other casual activity prices will remain at pre-lockdown rates until April 2021 or earlier based upon normal price increase arrangements
- All swimming club hire rates will remain the same but will be reviewed and increased in line with local SLA agreements in place with clubs. This is similar for dry side clubs as well.

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Other centres in the area

4.55. The provision across Councils in Devon and Cornwall is highlighted below:

Council	Operator	Service Status
West Devon	Fusion	1 centre Open, 1 centre closed (at time of writing)
Teignbridge	In House	All 3 Centres open
Mid Devon	In House	All 3 Centre open
East Devon	Local Trust – Leisure East Devon	6 Centres open, 2 Centres remain closed
North Devon	Contractor – Parkwood Leisure	Both Centres have re-opened.
Exeter	Return In House	Centres currently closed, looking to re-open during end Sept and October, service to return in house from Contractor – Parkwood Leisure.
Torrige	Contractor – 1610 Leisure Trust	All 3 Centres remain closed.
Torbay	Contractor – Parkwood Leisure	Torbay Leisure Centre is now open wet and dry. Separate community pools at Brixham and Torquay to re-open during Sept.
Plymouth	Contractor – Everyone Active	Life Centre – to be closed until April 2021 due to urgent repair works. Other sites have re-opened including indoor pools and outdoor lidos.
Cornwall	GLL	Partial re-opening of centres. 5 centres still remain closed.

Other considerations

4.56. Whilst it is hoped that Fusion remain a viable going concern into the future, we are not operating in a normal market and future government restrictions, consumer habits and Covid risks may well work against the leisure sector.

4.57. For this reason, officers will work on a contingency planning for Health and Wellbeing delivery in the event that Fusion should go into

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administration. This report sets out clear benefits for long term delivery through an outsourced Health and Wellbeing provision, so the focus of this work will be to look at ways of minimising disruption in the short term whilst a re-procurement is undertaken – all of which would be subject of a further Council decision.

- 4.58. It must also be considered that a second lock down or Government mandate of the closure of leisure services may occur. Were that to be the case, the Council would revert back to paying mothball costs for the centres, which are £34.5k / month.
- 4.59. A further issue that must be considered by the Council is the long term impact of temporary closures on the customer numbers and therefore the contract viability and performance.
- 4.60. There is an opportunity to capitalise on market share by having centres open, for example from Plymouth Life Centre which is shut. Conversely, closures of centres until April 2021 will invariably push customers who choose to continue to use leisure services away to other providers and may not return.
- 4.61. This is quite hard to quantify, but is a very significant issue, given the business model of investing in the centres through our capital programme to promote growth in usage.
- 4.62. Having an active and engaged customer base is very important for the Council irrelevant of the delivery model it uses in the long term to offer Health and Wellbeing services.

5. Centre Re-opening Options

- 5.1 The costs of the options for each of the Leisure Centres, Dartmouth, Kingsbridge and Ivybridge are shown below.
- 5.2 Fusion are also the operator of the Totnes leisure centre, however they are contracted by Tadpool in that location, and as such any decision on re-opening remains between Fusion and Tadpool in that location.

Dartmouth Leisure Centre	Total cost from 1.10.2020 to 31.3.2021 (6 month period)
OPTIONS for Dartmouth	
i) Cost of continuing to mothball the site for 6 months	£36,000
iii) Cost of re-opening only the dryside (the gym) for 6 months	£88,000
iii) Cost of re-opening both the wetside (the pool) and the dryside (the gym) for 6 months	£139,000

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Kingsbridge Leisure Centre	Total cost from 1.10.2020 to 31.3.2021 (6 month period)
OPTIONS for Kingsbridge	
i) Cost of mothballing the site for 6 months	£66,000
iii) Cost of continuing to open the dryside (the gym) for 6 months	£45,000
iii) Cost of re-opening both the wetside (the pool) and the dryside (the gym) for 6 months	£72,000

Ivybridge Leisure Centre	Total cost from 1.10.2020 to 31.3.2021 (6 month period)
OPTIONS for Ivybridge	
i) Cost of mothballing the site for 6 months	£66,000
iii) Cost of only the dryside (the gym) being open for 6 months	£Nil cost (cost neutral)
iii) Cost of continuing to open both the wetside (the pool) and the dryside (the gym) for 6 months	£Nil cost (cost neutral)

Contract Management Cost	Total cost from 1.10.2020 to 31.3.2021 (6 month period)
If all the Leisure Centres are mothballed	Nil cost
If any of the Centres have the dryside open	£20,000
If one or more of the Centres are fully opened (dryside and wetside)	£32,000

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Summary of Options for all three sites	Total cost from 1.10.2020 to 31.3.2021 (6 month period)
Option 1- (Minimum Level of Support) Continue with the current arrangements of the Ivybridge Leisure Centre being fully open, the dryside at Kingsbridge being open and Dartmouth being mothballed – these current arrangements have the minimum cost.	£113,000
Option 2 (Re-open the pool at Kingsbridge) - Continue with the current arrangements and also re-open the pool at Kingsbridge. This would see both Kingsbridge and Ivybridge being fully opened and Dartmouth continued to be mothballed.	£140,000
Option 3 – (Re-open the pool at Kingsbridge and the gym at Dartmouth) – Continue with the current arrangements and also re-open the pool at Kingsbridge and re-open the gym at Dartmouth. This would see both Kingsbridge and Ivybridge being fully opened and the Gym being opened at Dartmouth.	£192,000
Option 4 – (Re-open the pool at Kingsbridge and both the pool and the gym at Dartmouth) This option would see all three Leisure Centres, Dartmouth, Kingsbridge and Ivybridge being fully opened with both the pool and the gym opened.	£243,000
Option 5 – any combination of options for each Centre can be added together to give a total cost to SHDC	As detailed in the Tables above.

- 5.3 It is the recommendation from Officers that the minimum position that should be adopted from the options table above is to continue with the current arrangements of the Ivybridge Leisure Centre being fully open, the dryside at Kingsbridge being open and Dartmouth being mothballed (the minimum level of support of £113,000), when considering the legal and contractual issues set out above.

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- 5.4 If Members chose to re-open the pool at Kingsbridge, this would cost an extra £27,000 and would mean the total cost would be £140,000 of all of the arrangements for the Centres for the next 6 months.
- 5.5 If Members chose to re-open the pool at Kingsbridge and the gym at Dartmouth, this would cost an extra £79,000 and would mean that the total cost would be £192,000 of all of the arrangements for the Centres for the next 6 months.
- 5.6 If Members chose to fully open Kingsbridge and Dartmouth Leisure Centres, this would cost an extra £130,000 and would mean that the total cost would be £243,000 of all of the arrangements for the Centres for the next 6 months.
- 5.7 The costs detailed in section 5, are the net expenditure costs when modelling the projected income streams, less the running costs (such as staff and utilities). No profit element is included in these forecast costs.
- 5.8 Fusion have not indicated that they would need any Council support (through extra funding) after March 2021.
- 5.8 Any financial support above and beyond the minimum costs of support are to be on an interest free loan basis, repaid over the life of the contract, triggered by the surplus share clause, which will be varied by a deed of variation under the contract. It will also be subject to strong communications performance.

6. Proposed Way Forward

- 6.1. It is proposed that the Council consider and approve the recommendation to support Fusion up until March 2021, as a minimum as set out in 5.3. In doing this, the Council will be mitigating its financial risk, but accepting the risks of non-delivery of Health and Wellbeing as set out above.
- 6.2. The Council may wish to consider going beyond this and recommending a further package of support from the tables in Section 5, ranging from the status quo which offers some Health and Wellbeing services across the area, to a full re-opening.
- 6.3. It is suggested that any further support package should be linked to improved joint communication between the Council and Fusion and a re-consideration of the pricing structure as set out in Section 4.
- 6.4. Whichever option Members decide to pursue would be based on the following principles
 - 6.4.1. Management fees due will be deferred and received from April 2021 onwards in an agreed payment schedule
 - 6.4.2. Actual costs only will be paid up to a capped limit, paid monthly in arrears and assessed on an open book approach

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6.4.3. The costs incurred by the Council (above the minimum of £113,000) would have the potential to be recovered as they are on the basis of a loan, recovered through an amended surplus share agreement in favour of the Council until costs have been recovered.

6.4.4. Any government funding received (either by Fusion or the Council) will directly set off the costs incurred first

6.5. This approach would enable the Council to continue to deliver Health and Wellbeing services whilst putting in place a structure to seek to recover costs as the business returns to normal.

7. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance		<p>A combination of powers enable the Council to provide the interim financial support that is proposed. Section 19 of The Local Government (Miscellaneous Provisions) Act 1976 allows a local authority to provide either indoor or outdoor recreational facilities as it thinks fit including the power to provide assistance of any kind. In conferring the power to provide leisure facilities on the Council, Parliament also conferred the power to contract with another person for their provision (see section 1 of the Local Government (Contracts) Act 1997). Subject to compliance with the rules on State-Aid, the provision of the interim financial support may be seen as something that is calculated to facilitate, or which is conducive or incidental to the provision of the Council's recreational facilities (see section 111 of the Local Government Act 1972).</p> <p>The Appendices to this report are exempt from publication because it contains information about financial and business affairs of the Council and third parties as defined in Paragraph 3 of Schedule 12A to the Local Government Act 1972. The public interest test has been applied and it is considered that the public interest lies in not disclosing this report at this time because it contains financial and commercially sensitive information which could prejudice the third party if such information was disclosed at this time.</p>

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<p>Financial implications to include reference to value for money</p>		<p>Financial support of £113,000 to cover the cost of the minimum level of support to Fusion (this is the amount to continue with the current arrangements of the Ivybridge Leisure Centre being fully open, the dryside at Kingsbridge being open and Dartmouth being mothballed – these current arrangements have the minimum cost), proposed to be funded from the Business Rates Retention Earmarked Reserve.</p> <p>Consideration to be given to extend the minimum level of financial support and extend the current arrangements so as to deliver improved health and wellbeing outcomes, as follows:</p> <ul style="list-style-type: none">3a. Re-open the pool at Kingsbridge at an extra cost of £27,000 – total cost £140,000 of all arrangements3b. Re-open the pool at Kingsbridge and the gym at Dartmouth at an extra cost of £79,000 – total cost of £192,000 of all arrangements3c. Fully open Kingsbridge and Dartmouth leisure centres at an extra cost of £130,000 – total cost of £243,000 of all arrangements <p>It is proposed to fund any extension of financial support from the minimum level, from the Business Rates Retention Earmarked Reserve.</p> <p>(This would be £27,000 for Option 3a, £79,000 for Option 3b and £130,000 for Option 3c).</p> <p>The Business Rates Retention Reserve has a balance of £6.1million, of which at least £900,000 is uncommitted. The Amended Budget report for 2020-21 (also an item on the Council agenda) has a proposal to use £343,000 of funding from this reserve towards the budget shortfall for 2020-21 of £1.3million. There is sufficient funding within the Business Rates Retention Reserve to fund the minimum level of support and any of options 3a to 3c.</p> <p>Fusion’s financial status and its business plan is included in Appendix B.</p>
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Risk		See Section 4
Climate Change		No operational impact
Comprehensive Impact Assessment Implications		
Supporting Corporate Strategy		Health and wellbeing
Equality and Diversity		Whilst private sector facilities are available within the District, opportunities for equality and diversity are improved through the re-opening of public sector leisure centres.
Safeguarding		N/A
Community Safety, Crime and Disorder		N/A
Health, Safety and Wellbeing		This package of financial support would see the best health and wellbeing outcomes.
Other implications		

Supporting Information

Exempt Appendices:

Appendix A – Fusion Options Report

Appendix B – Fusion Business Plan

Appendix C – Actual Costs up to August

Appendix D – Lease Information

Process checklist	Completed
Portfolio Holder briefed/sign off	Yes
SLT Rep briefed/sign off	Yes
Relevant Head of Practice sign off (draft)	Yes
Data protection issues considered	Yes
Accessibility checked	Yes