

Committee: Governance, Audit & Performance Committee **Date:** Tuesday 28th September 2021

Title: 2021/22 PFI Contract Update

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Summary

1. This report provides members with an annual update on the Uttlesford Leisure PFI contract for the 2021/22 financial year. After an initial summary of the history, structure and governance of the contract, this report progresses to consider how the COVID-19 pandemic has affected, and continues to affect, the Uttlesford Leisure Centres; outlining how statutory lockdowns impacted participation, operations and service delivery. This report then concludes by considering the future service landscape of the Uttlesford Leisure PFI contract; addressing the challenges for the remainder of the 2021/22 year, and the remaining years of the PFI concession.

Recommendations

2. None

Financial Implications

3. There are limited financial implications associated with this report. As detailed later, Uttlesford District Council's income from the contract continues to be affected by the pandemic. Whilst the monthly Operator Fee is now being paid by the Operator, the annual profit share will inevitably continue to be impacted. Members should also note that the Uttlesford Leisure PFI contract is the largest General Fund contract that the council has entered into to date. This is based on the term of the contract rather than the financial value.

Background Papers

4. The following papers were referred to by the author in the preparation of this report:
 - Uttlesford PFI Contract Documentation
 - Government, Audit & Performance Committee Reports, entitled Leisure Private Finance Initiative (Sept 2018), PFI Contract Update (Sept 2019) & PFI Contract Update 2020.21 (February 2021).
 - Policy & Procurement Note 02/20: supplier relief due to Coronavirus (March 2020), published by the Cabinet Office
 - Procurement Policy Note 04/20 – Recovery and Transition from COVID-19 (June 2020), published by the Cabinet Office

Impact

5.

Communication/Consultation	Contract governance and compliance processes have been established to ensure all necessary communication and consultation requirements within the contract structure are met. Effective governance is delivered through scheduled contract meetings, and dedicated authority resource on contract monitoring/management.
Community Safety	None
Equalities	None
Health and Safety	Health & Safety is embedded in the governance of the contract and is regularly reviewed at monthly liaison meetings and the Annual Health & Safety Meeting. UDC representatives have discussed and reviewed all operating Risk Assessments prior to the reopening of the leisure centres during the COVID-19 pandemic, and continue to check and challenge to ensure all measures are in place.
Human Rights/Legal Implications	None
Sustainability	None
Ward-specific impacts	None
Workforce/Workplace	None

Situation

- 6. Contract Structure** - On behalf of Uttlesford District Council, 1Life Management Solutions Limited operate three leisure centres under the Uttlesford Leisure PFI Contract: Lord Butler Leisure Centre; Great Dunmow Leisure Centre and Mountfitchet Romeera Leisure Centre. This contract was signed in May 2002, and has a 33 year duration, expiring in August 2035. The authority finances the PFI agreement through a Unitary Charge set at £36.2 million over the contract duration; which is paid to the Project Company (Linteum Uttlesford Limited) in monthly instalments throughout the duration of the contract. Appendix A provides an overview of the contract's parties, and their relationships.

7. All three centres support the authority's Health and Wellbeing priorities, by providing a range of various sport, leisure and well-being facilities and activities to a wide-ranging demographic across the district. The location of Mountfitchet Romeera Leisure Centre (adjacent to Forest Hall School) and Great Dunmow Leisure Centre (adjacent to Helena Romanes School) also provide facilities and services to enable schools in the district to meet PE curriculum requirements, and to encourage participation in sport and development of sporting potential among pupils.
8. Whilst the leisure centres were closed to the public during the statutory lockdowns, arrangements were made with PFI partners that the schools could continue to use the facilities when needed (either for keyworker children, or to fulfil curriculum requirements).
9. The monitoring and management of the contract is now undertaken within the Council's Customer Services & Performance service. The Customer Services & Performance Manager has the responsibility to act on behalf of the Authority for all actions and decisions relating to the contract, whilst the PFI & Performance Officer is a dedicated resource who works on contract monitoring and management.
10. **COVID-19 pandemic** – The previous report brought to this committee was dated February 2021, and at that point the Uttlesford Leisure Centres were closed following the government's lockdown directive. As per the previous lockdowns, all PFI project parties continued to correspond collaboratively to facilitate an open and honest dialogue with regard to subsequent impacts on leisure services across the district.
11. In late March 2021, discussions commenced with 1Life concerning the reopening of all three leisure centres in alignment with the government's roadmap. All three centres reopened on Monday 12th April 2021, with reduced opening hours - Lord Butler 85 hrs per week; Great Dunmow 81 hrs per week and Mountfitchet 58 hrs per week. All services offered prior to lockdown 3.0 were reopened, however at reduced capacities and in alignment of social distancing requirements. As such, the gym, swimming pool (school and lessons), outdoor group exercise classes, outdoor sports and children's clubs were available.
12. Funding was also secured from the PFI's Industrial Provident Society (IPS) for the installation of a virtual group exercise program at Great Dunmow Leisure Centre. Already installed at Lord Butler, this facility enables the scheduling of sessions in accordance with member requirements, and is therefore not dependent upon instructor availability for instructor-led classes. During the initial stage of reopening following lockdown 3.0, we could run these classes inside for household bubbles only.
13. Following the government's next relaxation of restrictions, further leisure services were available as of 17th May 2021: indoor group exercise classes were introduced alongside indoor sports. The dry changing rooms were also reopened, alongside the Health Suite at Lord Butler Leisure Centre.

14. With the majority of remaining restrictions easing as of 19th July 2021, capacities in the gym, SwimSchool and indoor group exercise classes all increased. Regardless of the requirements for social distancing ceasing, it was decided to keep the remaining gym equipment socially distanced for the foreseeable future; further ensuring an added measure of safety for customers in the gym environment.
15. COVID-19 Risk Assessments are still maintained by the Operator, and various control measures are in place. These have been developed in collaboration with Uttlesford District Council and are reviewed on a regular basis to ensure their effectiveness.
16. Members should note also that Lord Butler Leisure Centre has been used as the main vaccination centre for the North of the Uttlesford District since the end of 2020. Many thousands have now been vaccinated there, and the vaccination agreements have been extended into Autumn 2021 to facilitate the continued provision of vaccinations.
17. **Participation** – The table below provides a year-on-year comparison for the most recent quarter available (April 2021 to June 2021). It is evident that the pandemic continues to impact attendance numbers and therefore the contract's income. Across the contract, this data represents a significant year-on-year reduction. For the purposes of comparison April to June 2019 data has been utilised in comparison given the imposed lockdowns during 2020.

Year	Lord Butler, SW	Great Dunmow	Romeera, Stansted	Total
Apr – Jun 21	34,531	40,304	4,558	79,393
Apr – Jun 19	89,144	57,503	16,213	162,860

18. Whilst this table evidences a significant decrease in participation, it is important to note that reopened services have been well patronised:
- a.) Increased capacities following the relaxation of restrictions has resulted in higher attendance in our group exercise studios as more customers can access classes.
 - b.) The specialist classes and GP Referral Scheme have been reintroduced following Lockdown 3.0. Whilst attendance is significantly lower than prior to the pandemic, this important program for the health and wellbeing of the local community is now available again.
 - c.) Both Lord Butler Leisure Centre and Great Dunmow Leisure Centre's SwimSchool programmes have registered a high percentage of returns, and indeed further sessions have been added over recent months to fulfil local demand.

19. **Supplier Relief** – In alignment with the Cabinet Officer’s publication of *Policy & Procurement Note 02/20: supplier relief due to Coronavirus & subsequent Procurement Policy Note 04/20 – Recovery and Transition from COVID-19*, UDC agreed to waive any availability and performance deductions during the pandemic which would have been incurred through contractual non-delivery. It should be noted that the Operator has rectified any issues within existing contractual timeframes regardless of this waiver.
20. Despite changes to the services provided, the Council complied with the Cabinet Office’s advice and has continued to make all regular monthly Unitary Charge payments. Following agreement by Members, Senior Officers also waived 1Life’s obligation to pay an Operator Fee, which is pursuant to the Leisure Management Fee Contract. In total approximately £170,000 has been waived for the period of time April 2020 to March 2021 (inclusive). Since April 2021, 1Life have recommenced paying the Operator Fee on a monthly basis.
21. **The Future of the Contract** – Whilst restrictions have been lifted, UDC Officers continue to work closely with their PFI partners to ensure both the operational and commercial sustainability of the contract for all parties.
22. At the time of our previous update to Governance, Audit & Performance Committee, the publication of 1Life’s most recent full accounts (for year ending September 2019) caused some concerns regarding their status as a going concern. Subsequent conversations with the Project Company (Linteum Uttlesford Limited) and 1Life however highlighted that forecasts of income and expenditure show that very little of any borrowed collateral would need to be utilised, and indeed forecasts were fairly cautionary given awaited outcomes of insurance claims and funding applications.
23. Following the payment of proceeds from the Business Interruption Insurance Claim as well as funding received from the government’s National Leisure Recovery Scheme, the council continues to be assured that it will not be in a position to have to seek alternative provision of its leisure services in the short term. Should the pandemic enforce any prolonged further lockdowns, like all leisure facilities 1Life will no doubt suffer from a financial perspective. Participation and membership statistics presented above show a very gradual recovery, and it will inevitably be some months yet until the contract is profitable once again.
24. As the landscape of the leisure industry continues to tentatively evolve over the remainder of the 2021/22 year, it is hoped that income may return to pre-pandemic levels prior to April 2022. All project parties will need to continue to be flexible to ensure service delivery can evolve to meet this aim, but nevertheless increasing services available should only happen if they are commercially viable and safe to do so.
25. As such, we are currently working with 1Life regarding the final stage of reopening following the pandemic. Uttlesford District Council has continued to be flexible in relation to services which are currently not offered, but included within the contractual specification (e.g. café facilities). As such, operations have been re-established in a sustainable manner. Moving forwards, all

parties are now considering when we will be able to revert to standard contractual terms. This process will inevitably involve variations to the original contract specification; with the intention to ensuring service delivery suits the requirements of the local community moving forwards.

26. Members should be aware that Officers are engaging with Helena Romanes School and the Saffron Academy Trust regarding the potential relocation of Helena Romanes School from Parsonage Downs in Great Dunmow. Great Dunmow Leisure Centre is directly adjacent to Helena Romanes School, and the PFI contractual documentation provides the school a permitted usage quota of the centre to fulfil its curriculum requirements. It should be noted that without a bespoke agreement signed by all PFI project parties to revise existing usage conditions, then Uttlesford District Council may be liable for a Compensation Event given obligations to protect 1Life’s commercial interest and the overall financial sustainability of the Uttlesford PFI contract.

27. Officers will endeavour to update the Governance, Audit & Performance Committee as and when relevant and necessary to do so with any further developments.

Risk Analysis

28.

Risk	Likelihood	Impact	Mitigating actions
If the council does not manage/monitor the PFI contract effectively due to a lack of partnership working during the Covid-19 pandemic, then this may lead to a loss of reputation for the Council as the contract owner, and 1Life as the leisure operator.	1	2	Weekly contact with Linteum/Pario/1Life Representatives as necessary. Multi-faceted contract monitoring (both operational & contract-level) by UDC of the contract.
If the PFI leisure contract does not provide value for money due to ineffective contract	1	2	Monthly monitoring of Payment Mechanism Management of governance controls relating to contract finance and

management, then there may be a negative impact on the investment made by the Council			operational performance; taking into account necessary variations due to Covid-19.
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1 = Little or no risk or impact

2 = Some risk or impact – action may be necessary.

3 = Significant risk or impact – action required

4 = Near certainty of risk occurring, catastrophic effect or failure of project.

Appendix 1: COVID-19 PI Report – Contract Structure