Committee:	Cabinet	**Date:**
Title:	Leisure PFI	22 December 2022
Portfolio Holder:	Cllr A Armstrong, Portfolio Holder for Sports, Leisure and the Arts	
Report Author:	Adrian Webb Director – Finance and Corporate Services awebb@uttlesford.gov.uk	**Key Decision:** Yes

Summary

1. This report sets out the position with regards to the five year benchmarking review clause in the PFI contract and recommends a revised financial model that is more beneficial to the operator in terms of financing, and the Council in terms of the overall impact on Council finances.

Recommendations

2. That Cabinet

    a. Agrees the additional support at a maximum of £261,900 per annum (plus annual RPI indexation), commencing 1 October 2022, and therefore backdated.

    b. Notes the positions in respect of centre usage, charges and Government utility support

Financial Implications

3. £795,000 from the 2021/22 surplus was put into Reserves to fund the loss of income/additional payment. In the worst case this sum will last three years and after that the cost will fall directly on the Revenue account. If the amount payable by UDC reduces, as set out in paragraphs 12 and13, the Reserve amount will last longer.

Background Papers

4. The following papers were referred to by the author in the preparation of this report and are available for inspection from the author of the report.

    None.

Situation

5. Within the Leisure PFI contract there is the provision of a benchmarking clause which gives the Operator (1Life) the opportunity, every five years, to

demonstrate that costs outside of its control, such as utilities, have increased beyond reasonable levels. If proven, then increased payments will contractually be required to be made by the Council to the Operator for the subsequent five years.

6. The next such benchmarking review is scheduled for May 2023. Officers are of the opinion that the case for an increase would be well-put and easily substantiated, and that the increase would be significantly greater than what is currently proposed. Once the benchmarking change is in place it lasts for five years and cannot be altered, regardless of future pricing, such as utilities.
7. The Operator has however requested additional financial support as from 1 October 2022 to help support the business through the winter period. Failure to provide this support may jeopardise the ongoing viability of the Operator.
8. The proposal will replace the next benchmarking review and has the benefit of both supporting the Operator but also having a lower impact on the Council, if current utility forecasts become reality.
9. Currently, the Council receives a monthly management fee from the Operator of £13,825 which amounts to £165,900 annually. It is proposed that this payment is ceased.
10. The Council would then make monthly contributions of £8,000 to the Operator, which equates to £96,000 per annum.
11. Under this proposal the monthly contributions will be under annual review with the amount paid to be dependent upon the price per therm (PPT) of gas on 1 October each year.
12. The agreed baseline for the outset of this agreement would be
    a. If contracted gas prices fall below 175 PPT (plus relevant RPI indexation as at 1 October) then the financial contribution payable by UDC to the Operator reduces to £4,000 (subject to RPI indexation) per month; and
    b. If contracted gas prices fall below 125 PPT (plus relevant RPI indexation as at 1 October) then the financial contribution payable by UDC to the Operator ceases.
13. To give an example of this in practice

Date	Agreement PPT	RPI rate	New Agreement PPT	Actual PPT	Monthly amount to be paid by UDC
1 October 2022	175 125			200	£8,000
1 October 2023	175 125	5%	183.75 131.25	185	£8,400
1 October 2024	183.75 131.25	3%	189.26 135.19	150	£4,326
1 October 2025	189.26	2%	193.05	195	£8,825

	135.19		137.89		
1 October 2026	193.05 137.89	2%	196.91 140.65	135	Nil

14. The overall cost to the Council in the first year is £261,900 (the loss of £165,900 from the management fee income and the additional £96,000 of monthly contributions). Subsequent year costs will be dependent upon the calculation set out in paragraphs 12 and 13.

Centre Usage, Charges and Government Utility Support

15. The Operator runs three different leisure PFIs and the Uttlesford contract is the poorest performing of all, with usage levels significantly below pre-Covid levels. Consequently, the Uttlesford contract has moved from in profit to now loss making.
16. It should be noted that the income and cost challenges facing the Operator are representative of the challenges facing the whole leisure industry. Many other providers have already had to take measures such as closing pools and reducing opening hours.
17. The Operator is in receipt of the business utility support provided by the Government. This runs from 1 October 2022 through to 31 March 2023.
18. If the utility support ceases or changes the Operator may need to introduce other changes to minimise the loss on the contract. If needed, these would include
    a. Revising school swim hire prices with the likely outcome that charges will double.
    b. Reducing opening hours across the sites. This is already happening across the leisure industry although not yet in Uttlesford. Precise changes are yet to be agreed but will have the most impact on the Mountfitchet Romeera Centre in Stansted, which has experienced the most significant drop off in usage.
19. As from 1 January 2023 the majority of activity prices, excluding entry which is frozen, will increase by the contractually permitted RPI figure of 9.1%. In addition, new charges will be introduced for the use of floodlights on tennis courts.