

Appendix 1 - Leisure Management Contract Utility Costs

1. INTRODUCTION

- 1.1 Through a partnership with GLL, the Council provides and operates 7 sport and leisure facilities that offer programming and pricing policies which target the mass / community markets and the Council's target groups:
- Britannia Leisure Centre
 - Clissold Leisure Centre
 - Hackney Marshes Centre (including Gainsborough Playing Fields, Mabley Green, North Marsh Pavilion and wider pitch booking of other facilities)
 - Kings Hall Leisure Centre
 - London Fields Lido
 - Queensbridge Sports and Community Centre
 - West Reservoir Centre.
- 1.2 The Council commenced the Leisure Management Contract (the "Contract") with GLL on 1 April 2009 for a period of 15 years. The contract was extended in 2016 until 31 March 2029, as part of a wider renegotiation, which now means that the management of the Council's sports and leisure facilities (listed above) is delivered at nil cost to the Council (excluding costs associated with meeting landlord maintenance responsibilities for the sports and leisure facilities).
- 1.3 Prior to the pandemic the Contract had positive financial performance, resulting in a surplus share being due to the Council from GLL each year. In 2021/22, despite the impacts of the pandemic still continuing, the Contract returned to a small surplus and GLL were anticipating that this positive trajectory would continue in 2022/23.
- 1.4 However, the financial forecast for the Contract has changed markedly over recent months with the significant escalation in utility prices and growing uncertainty over the future of the energy market. The utility costs for the Contract in 2019/20 (the last full comparable year of operation prior to the pandemic) were **£0.94m** and the forecast utility costs for 2022/23 are **£3.15m** (a forecast increase of **£2.21m**).
- 1.5 Given the above, GLL is now predicting that the Contract may fall into deficit in 2022/23 and the Council therefore needs to urgently decide what action it wants to take to mitigate utility price increases and ensure the leisure centres can continue to operate through the current crisis.

2. PROPOSED WAY FORWARD

- 2.1 At this stage a decision needs to be made about how the impact of the energy crisis on the Contract and the leisure centres is going to be mitigated. The Government's Energy Price Guarantee for Businesses announced on 8 September 2022 is only forecast to reduce the impact by approximately £50,000 for the period October 2022 - March 2023.
- 2.2 There are a number of options open to the Council for consideration to mitigate the impact that are set out in Section 6. It is recommended that the Council implement all

of the following options to be included in the OFP going to October 2022 Cabinet. However, it should be noted that none of these options on their own or combined will fully address the increase in utility costs, just hopefully move the Contract back into a cost neutral or small surplus position whilst minimising the impact on residents:

- a) Option 2 - Decarbonisation / Energy Saving Initiatives: GLL and the Council continue to implement decarbonisation and energy saving initiatives that, where possible, don't impact on the customers experience of the leisure centres; and
- b) Option 3 - Surplus Share (using Council funds generated from the surplus share mechanism): The Council uses its existing surplus share in conjunction with the other recommended options as a fund that can be drawn down from to ensure the Contract remains cost neutral or in a small surplus to minimise the impact of fees and charges increases on leisure centre customers; and
- c) Option 5 - Increase All Fees and Charges (with a focus on minimising the impact on concession users): Introduce a 4% increase in all leisure centre fees and charges (with the exception of concessions that would remain at their existing level) as soon as possible (giving 30 days notice to leisure centre customers). Then, **if necessary and required**, introduce a further fees and charges increase of 5.4% on 1 April 2023 (with the exception of concessions that would remain at their existing level) as part of the annual fees and charges process.

3. BACKGROUND

The Sport and Leisure Sector Context

- 3.1 The energy crisis is impacting all aspects of the economy and society. However the leisure sector is under extreme pressure, especially providers of swimming pools with high energy dependency. Current projections forecast the collapse of parts of the sport and physical activity infrastructure in the country over the coming months if something isn't done.
- 3.2 A survey conducted by ukactive in 2022, covering over 30% of all public sector facilities, showed that:
 - Energy costs for public leisure facilities are projected to increase vs 2021 costs by 150% for 2022 and by 185% for 2023;
 - If no financial support is provided within the next 0-6 months (June - November 2022) to mitigate against the impact of the increases then projections are that:
 - 78% of facilities are likely or extremely likely to increase customer prices
 - 85% of facilities are likely or extremely likely to reduce services
 - 63% of facilities are likely or extremely likely to reduce staffing
 - up to 79% of facilities are likely or extremely likely to be forced to stop operating completely (this indicates the likelihood of having to stop operations for 'some or all' of their facilities as multi-site operators)

- If no financial support is provided within the next 0-12 months (June 2022 - May 2023) to mitigate against the impact of the increases then projections are that:
 - 100% of facilities are likely or extremely likely to increase customer prices
 - 85% of facilities are likely or extremely likely to reduce services
 - 85% of facilities are likely or extremely likely to reduce staffing
 - up to 85% of facilities are likely or extremely likely to be forced to stop operating completely (this indicates the likelihood of having to stop operations for 'some or all' of their facilities as multi-site operators)
- 3.3 One option local authorities are considering to mitigate the rise in energy costs is an increase in fees and charges for leisure centres. However, with the cost of living constantly rising and consumers adjusting their behaviour, councils and operators are cautious about applying an increase to fees and charges.
- 3.4 Some national research conducted by Leisure-net Solutions Limited in July 2022 provides some context for these decisions, looking at price rise sensitivity by type of facility (premium, low cost, local authority and independent), age, gender, region and exercise frequency. In the research respondents were asked how they would feel about a price rise of either zero, 5, 10, 15 or 20 percent of their current membership fee.
- 3.5 The results summary relating to public leisure / sports centres are outlined in Appendix A to this report.

The Local Context

- 3.6 The Council is in the fortunate position that the Contract has largely recovered from the impacts of the pandemic and is operating well financially, which means some cushioning from the full impact of the energy crisis. However, the financial forecast for the Contract has changed markedly over recent months with the significant escalation in utility prices.
- 3.7 GLL is now predicting that the Contract may fall into deficit in 2022/23 and has formally approached the Council about the impact the energy crisis is having on the Contract.
- 3.8 The current forecast utility costs for the Contract for 1 April 2022 - 31 March 2023 are **£3.15m** compared with **£0.94m** the same period in 2019/20 (the last full comparable year of operation prior to the pandemic).
- 3.9 This currently forecasts an increase in utility costs of **£2.21m for 2022/23** when compared with the same period in 2019/20. It should be noted that GLL's utility prices are only fixed until 31 March 2023 and they will have to enter another purchasing agreement(s) for 2023/24, meaning there is some significant uncertainty about future year forecasts given the volatility in the energy market.

3.10 In addition to the above, the uncertain impact of the cost of living crisis also needs to be considered in the overall context of the finances of the Contract as it could lead to a reduction in income at the same time as increasing costs. At present there has been no obvious impact from the cost of living crisis on the Contract (with Membership levels remaining good) and no detailed industry insight as to what the impact might be over the coming months. However, a recent [report by London Sport](#) published in July 2022 gave some broad indicators:

- Between 40-50% of Londoners have cut back on different aspects of spend due to the cost of living crisis, compared to a third of UK adults, indicating a greater overall impact on the capital. For Londoners earning between £20-30k, this figure rises to nearly 8 in 10 (78%);
- Half of Londoners (49%) also agreed that the cost of living crisis had discouraged them from using local leisure facilities (compared to a third of adults across the UK - 33%). Again, perceptions amongst age groups vary with 49% of 18–44-year-olds agreeing with this statement, compared to 22% of those aged 45 or over; and
- The cost of living crisis has also left 45% of Londoners doing less exercise or sport due to the associated cost. Across the UK, 27% of adults agree with this statement, although agreement was much higher among 18–44-year-olds (41%) compared to those 45+ (17%).

4. THE CONTRACT - UTILITIES RISK

4.1 Under the terms of the Contract, GLL is responsible for purchasing all utilities for the leisure centres (with the exception of Queensbridge). In simple terms, the risk in relation to utilities is split:

- Consumption Risk: Is GLL's responsibility; and
- Tariff Risk: Above the rate of inflation is the Council's responsibility.

5. KEY CONSIDERATIONS AND RISKS

5.1 There are a number of matters the Council needs to consider in relation to its decision on how to deal with the impact of the energy crisis in relation to the leisure centres:

- **Contractual Obligations:** The Council is liable for tariff risk in relation to utilities above inflation;
- **Cost of Living Crisis:** At present it isn't clear what impact the current cost of living crisis will have on usage of leisure centres and therefore income levels;
- **Energy Market:** At present it is extremely difficult to predict with any certainty what will happen in the short to medium-term with the energy market; and

- **Inflationary Pressure:** GLL (like the Council) are experiencing inflationary pressure in relation to staffing costs and all other supplies and services, impacting on the overall financial performance of the Contract.

6. OPTIONS

6.1 A new six-month scheme for businesses and other non-domestic energy users (including charities and public sector organisations like schools) was announced by the Government on 8 September 2022. After this initial six-month scheme, the Government is intending to provide ongoing, focused support for vulnerable industries. At this stage the Government's Energy Price Guarantee for Businesses is only forecast to reduce the impact of utility price increases by approximately £50,000 for the period October 2022 - March 2023. Still leaving a forecast increase in utility costs of £2.21m for 2022/23 to address.

6.2 The Council therefore has a number of other options open to it to reduce the impact:

- **Option 1 - Do Nothing:** This really isn't an option given the energy crisis, the Council's contractual obligations and the need to secure the future operation of the leisure centres.
- **Option 2 - Decarbonisation / Energy Saving Initiatives:** GLL and the Council have already implemented a significant number of decarbonisation and energy saving initiatives and continue to do so (e.g. new Building Management System at Clissold Leisure Centre; LED lighting; solar panels at London Fields Lido, Hackney Marshes, Queensbridge and West Reservoir; and a water source heat pump at West Reservoir). In fact work is already underway from Hackney's Energy Team to establish whether a further bid to the next round of the Government's Decarbonisation fund is viable for Clissold Leisure Centre and London Fields Lido. GLL, as part of 'business as usual', is also targeting a further consumption reduction of 5% over the coming months through measures it is discussing with Officers, to help mitigate some of the utility price increases.
- **Option 3 - Surplus Share:** In the short-term only given the limited funds, the Council could utilise some / all of its existing surplus share to help mitigate the impact of utility price increases. The difficulty with this option is that it is a short-term / one-off measure that doesn't address the medium-term challenge - it just puts a decision off. In addition, and perhaps more importantly, the Council's surplus share is likely to be required over the coming year to address some of the Council's other contractual obligations and the increasing cost of capital projects at the leisure centres.
- **Option 4 - Utility Surcharge:** A suggested option by the sport and leisure sector (led by industry bodies Community Leisure UK, Swim England and ukactive) in the short-term to deal with the energy crisis is a time-limited surcharge on all non-member (i.e. users who don't pay by direct-debit) swimmers.

The sector's proposal is to add £1.50 to the cost of all adult pay-and-play swims and £0.50 to the cost of all junior pay-and-play swims (not relevant in Hackney due to free swimming for U18's). In Hackney the surcharge would be discounted in line with pay-and-play memberships (30%) and concessions (up to 70%).

GLL estimates that the surcharge would generate an average of £35,000 of additional income per month, generating an additional £175,000 of income in 2022/23.

However, it is considered that the surcharge proposals are challenging in three key areas:

- Communication: Trying to simply and clearly explain to leisure centre users and the wider public why only swimmers, and specifically only pay-and-play swimmers, are being targeted by the surcharge to address the energy crisis will be problematic and is likely to lead to accusations of disparity;
- Equity: Many pay-and-play swimming users of the leisure centres will be some of the borough's more disadvantaged residents who are not able to afford a monthly direct-debit charge. Therefore targeting the surcharge at pay-and-play swimming users only will disproportionately affect the borough's more disadvantaged residents' ability to be able to afford to swim; and
- Income / Usage: It is not considered that the surcharge will have the intended outcome of increasing income, or certainly not at the levels forecast - therefore not actually addressing the financial issues associated with the energy crisis.

Pay-and-play swimming users of the leisure centres are likely to be:

- Less habitual users of the leisure centres already and therefore more likely to change behaviour if they are given a reasons to do so;
- More prone to price elasticity i.e. stop using the leisure centre if prices increase; and
- The cost of living crisis is likely to make pay-and-play users think about stopping going to use the leisure centre already, a substantial price increase is likely to just accelerate this.

For these reasons, it is not considered the surcharge is a recommended route forward.

- **Option 5 - Increase All Fees and Charges:** The users of the leisure centres generally fall into the two main groups:
 - Direct Debit and Prepaid Members; and
 - Pay-and-Play Members.

The Council and GLL offer a significant discount for concessionary memberships (direct debit and pay-and-play). These various concessionary memberships are available to people to access the facilities off-peak who are:

- In receipt of benefits (statement of proof required in the last 3 months);
- A student (of any age);
- Disabled or are a carer (you must have received carers allowance in last 3 months); and
- Over 60 or if you are under 16 and your parent(s) or guardian are in receipt of benefits (in the last 3 months).

These various concessionary memberships demonstrate an average discount of 50% on the normal member rate and equate to a subsidy by the Council of approximately £3.6m annually.

The Council and GLL also still offer free swimming at Britannia Leisure Centre (excluding the leisure water area), Clissold Leisure Centre and Kings Hall Leisure Centre, to residents of the Borough with a pay-and-play card who are:

- Under 18;
- Over 60; and
- Disabled or a Carer.

Fees and Charges for the leisure centres are increased by the Consumer Price Index (CPI) for the preceding June on the 1 April each year - for example on 1 April 2022 prices were increased by 2.5% (CPI in June 2021). This is a contractual requirement for the Council, unless agreed otherwise with GLL.

The June 2022 CPI was 9.4%. Therefore at this stage the price increase that will be applied to leisure centre fees and charges on 1 April 2023 will be significant and at an unprecedented level of 9.4% if GLL and the Council chose to implement it. It also wouldn't address the immediate impact of utility price rises in 2022/23 and the impact on the finances of the Contract.

The Council does have a range of other options open to it though (the below are not exhaustive and there are multiple other variations):

- It could introduce a 4% increase in all leisure centre fees and charges (with the exception of concessions that would remain at their existing level) as soon as possible and then, **if necessary and required**, introduce a further fees and charges increase of 5.4% on 1 April 2023 (with the exception of concessions that would remain at their existing level) as part of the annual fees and

charges process. GLL estimates that over a 12 month period this option could generate up to an additional £695,000 of income;

- It could introduce a 4% increase in all leisure centre fees and charges (2% for concessions) as soon as possible and then, **if necessary and required**, introduce a further fees and charges increase of 5.4% on 1 April 2023 as part of the annual fees and charges process. GLL estimates that over a 12 month period this option could generate up to an additional £828,000 of income;
- It could introduce a 4% increase to all leisure centre fees and charges as soon as possible and then, **if necessary and required**, introduce a further fees and charges increase of 5.4% on 1 April 2023 as part of the annual fees and charges process. GLL estimates that over a 12 month period this option could generate up to an additional £993,000 of income;
- It could introduce a 9.4% increase to all leisure centre fees and charges as soon as possible and then, **if necessary and required**, introduce a further fees and charges increase on 1 April 2023 as part of the annual fees and charges process. GLL estimates that over a 12 month period this option could generate up to an additional £1,600,000 of income.

Increases of this nature would have the advantage of:

- Being simpler to explain to the public than the swimming surcharge proposal;
- Potentially reducing the impact of those likely to be most impacted by price increases i.e. concessions if one of these options is chosen;
- Generating income immediately to offset the significant increases in energy costs;
- The income potentially being more achievable than the surcharge option; and
- Allowing the impact of a much more significant annual price increase in April 2023 to be staggered.

The fees and charges are the same for all of Hackney's leisure centres as the Council and GLL do not support differential pricing in Hackney based on where you live in the Borough (although the fee for individual centre memberships is different due to the centres' offers varying i.e. Britannia and Clissold are currently £41 per month, Kings Hall is £36.90 and Queensbridge is £24.60 per month given its more limited offer).

Benchmarking of Hackney's current fees and charges for popular activities and memberships with other surrounding boroughs demonstrates that Hackney's existing fees and charges generally compare very favourably with other surrounding boroughs' offers, and reflect the Council's desire to make its facilities as accessible and affordable as possible to its residents. In addition, even with

increases of 4%, 5.4% and 9.4% Hackney's fees and charges still compare favourably (and this doesn't account for any fees and charges increases that might be introduced by other boroughs to address the situation caused by the energy crisis).

- **Option 6 - Increase Specific Fees and Charges:** The option of taking a more targeted approach to fees and charges increases in November 2022 i.e. targeting an increase in fees and charges that are likely to generate the highest level of increased income could be adopted. Followed by another increase to all fees and charges in April 2023 if necessary and required.

If this is the option the Council wished to take, then at present GLL are suggesting the following options (with equivalent levels of additional income identified):

- Increase the Britannia Leisure Centre and Clissold Leisure Centre Memberships only from £41 to £45 and this change could generate up to £24,000 per month or £288,000 for 12 months;
 - Increase all Centre Memberships i.e. Britannia Leisure Centre (from £41 to £45), Clissold Leisure Centre (from £41 to £45), Kings Hall Leisure Centre (from £36.90 to £40.50, where there are 2,280 centre based members) and Queensbridge Sports and Community Centre (from £24.60 to £27.00, where there are 560 centre based members) - London Fields Lido and West Reservoir do not offer centre only memberships. This change could generate up to £34,000 per month or £402,000 for 12 months; and
 - Increase the fees and charges for the Swim School programme i.e. Swim School Full Price - 30 minutes (from £18.60 to £20.50 for four weeks - this would generate £6,580 per month), Swim School Concessions - 30 minutes (from £9.55 to £10.50 for four weeks - this would generate £1,264 per month), Swim School Full Price - 45 minutes (from £21.25 to £23.40 for four weeks - this would generate £161 per month), Swim School Concession - 45 minutes (from £11.00 to £12.10 for four weeks - this would generate £48 per month). This change could generate up to £8,000 per month or £96,000 for 12 months.
- **Option 7 - Close a Site(s):** This should be considered an option of last resort. At this stage it is difficult to forecast the savings that would be achieved from a closure and much would depend on the leisure centre chosen, the staffing situation and the proposed length of closure.

7. EQUALITY IMPACT ASSESSMENT

- 7.1 An Equality Impact Assessment in relation to the recommended options is attached as **Appendix 2**.

8. CONCLUSION

- 8.1 The Council has a strong and trusted relationship with GLL and needs to urgently decide what action it wants to take to address the impact of the current energy crisis.
- 8.2 It needs to do this in the context of its contractual obligations, wider corporate financial considerations and ultimately the Council's objective to ensure continuity of sport and leisure services in the borough.
- 8.3 Whilst the options outlined will not fully address the impact of the energy crisis on costs related to the leisure facilities, they will go some way to returning the Contract to a cost neutral position / surplus position.

Appendix A - Leisure Centre / Sport Centre Price Sensitivity

OVERALL FEELING TO PRICE INCREASE ON CURRENT MEMBERSHIP FEES:

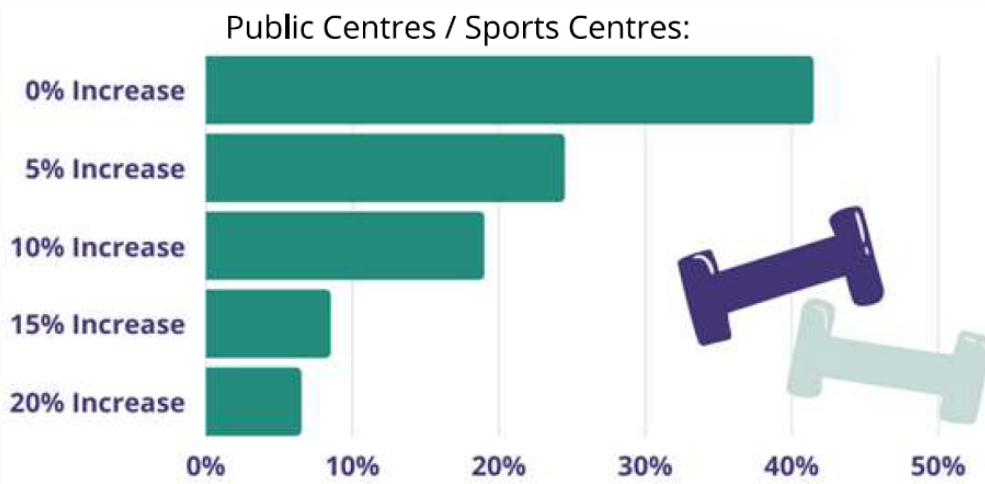


Figure 1: Public Centres / Sports Centres: Sample 200_

AGE – How do different age categories feel about price increase?

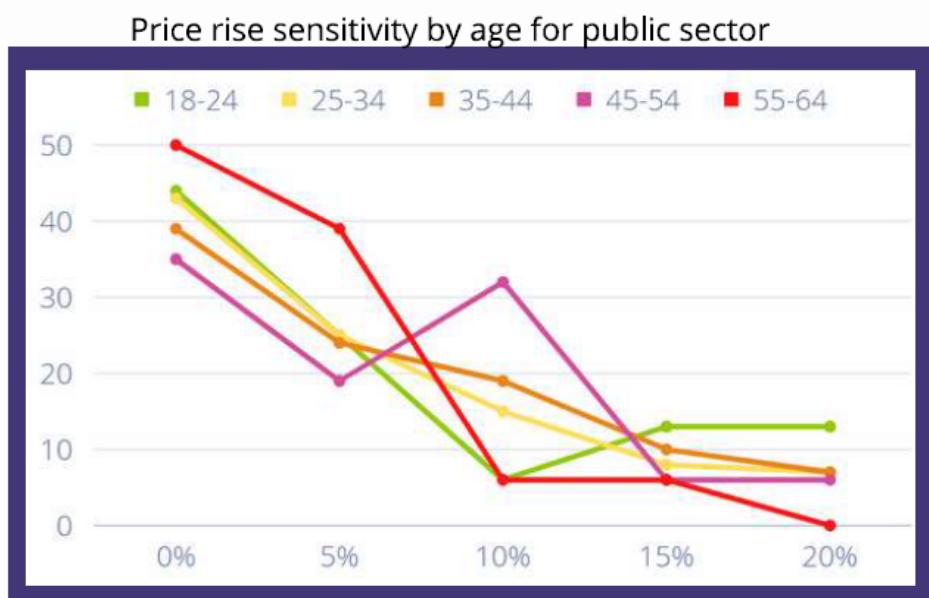
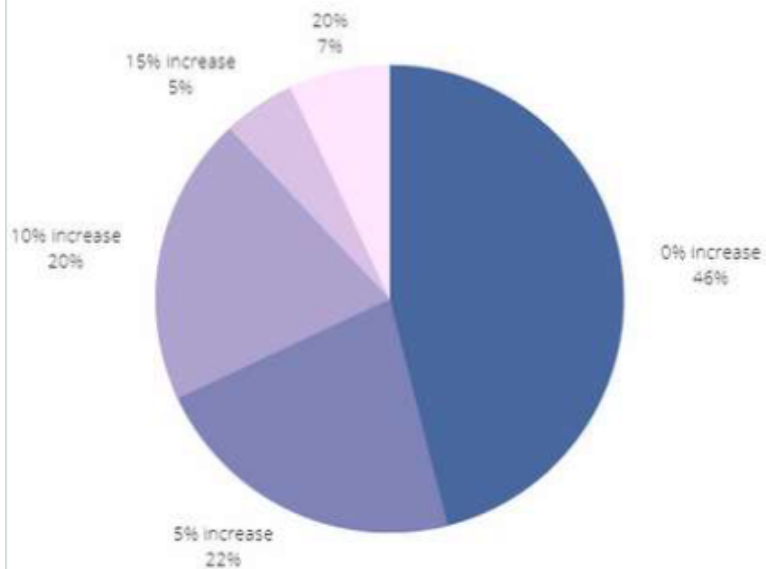


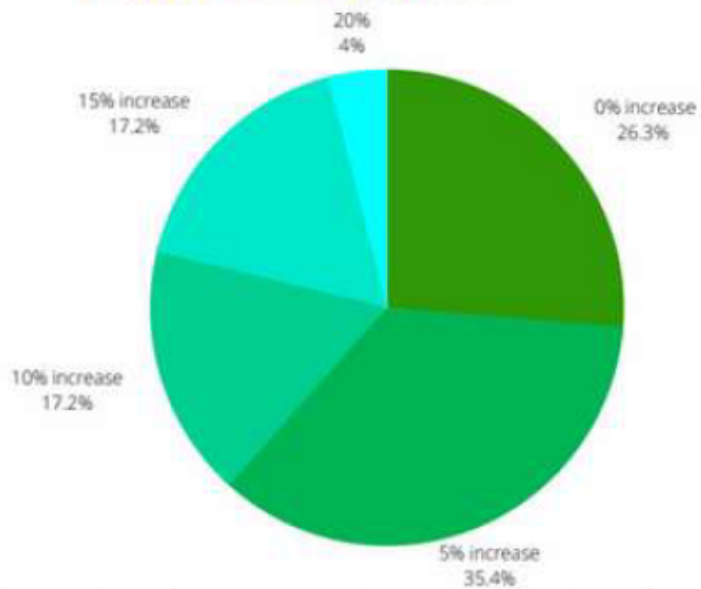
Figure 3: Price sensitivity by age for Public Sector Sample 200

GENDER – How price sensitive are members based on gender?

Public sector female



Public sector male



REGION – How sensitive are members dependent on their region within the UK?



Figure 7: Public sector: Sample 200