

Report to: LED Monitoring Forum, 18th October 2022

From: Peter Gilpin, CEO, LED Community Leisure

Date: 6th October 2022

Subject: LED Financial Update for September 2022

In March I provided explanatory notes regarding the 2022/23 Leisure Services Management Fee that accompanied the budget summary provided separately at the April Monitoring Forum. Given that both the international and domestic economy has changed significantly since then, the following provides a summary of the effects, both to date and potential, faced by LED in managing the respective facilities. It should be noted that the management fee has reverted to the 2016-2019 level, with no post-covid recovery adjustment.

COVID-19 Pandemic

At the time the budget was set (pre-Ukraine war) the biggest factor anticipated to affect the budget forecast was the effect of the COVID pandemic and how long (if at all) it would take to return to pre-pandemic membership and other revenues.

Up to September we have seen membership and other revenues grow, but not as fast as anticipated, and now the utilities and cost of living crises that were in their early stages in March and April have significantly worsened.

Utility and other costs

I don't believe that, at the time, the length of time the war in Ukraine would last, and the longer-term effect on utility prices was fully appreciated. However, the Council sensibly agreed to a contingency figure of £100k that could be made available to LED should this be required to meet increased utility costs for the year. LED has been working with an energy procurement specialist for some time now and has consequently 'locked in' utility prices at opportune times as advised. Despite this, we were anticipating that the overspend in utilities may be in the region of £140k.

However, the new Prime Minister has recently announced the Energy Bill Relief Scheme to mitigate the increase in costs to businesses, with a 6-month cap and a 3-month Government review. However, further details only emerged on the 30th September and the scheme is not straightforward. The impact on LED's prices has yet to be fully assessed and the best actions determined, and we are liaising with our procurement consultant. Three main concerns have been identified by Community Leisure UK (CLUK) and their statement is provided as Appendix A. Both CLUK and UK Active, who represent the leisure industry, will be lobbying politicians on our behalf and reporting progress and outcomes, which I shall share in due course.

Other costs have also increased significantly, such as waste, pool chemicals and CO2 (a major producing plant has recently ceased production, which affects both swimming pools and beverage prices). Staff costs have also increased as pay inflation has meant some posts have had to be reviewed to recruit and retain staff, particularly lifeguards at our pools and hospitality staff at the Pavilion, with some posts at the latter having to be covered by agency staff on higher rates.

Exmouth Pavilion

The Pavilion has been particularly detrimentally affected coming out of COVID, as most shows during the pandemic and the 'social distancing' period were lost or postponed. Unlike the leisure centres, which could operate a restricted service under social distancing, this was not possible at the Pavilion.

Consequently, with many shows being postponed to this year (21 to date) attendances have been significantly lower than pre-pandemic and that we budgeted for. This is because a key demographic audience has remained more risk-averse than the leisure centre customers, and because squeezing postponed shows into an already busy schedule has resulted in an over-provision, with many customers being unable to attend as many as they would like, particularly given the cost-of-living increase. A number of high-profile and high-earning shows have cancelled UK tours, which also impacts on the food and beverage income from the café and bars.

Cost of Living Crisis

With the new PM's announcement of an energy cap for domestic customers it remains unclear what effect the increase in the cost of living this will have. Many domestic utility bills will still rise to the capped level and other products are also increasing significantly in price, such as fuel and food.

The recent 'mini-budget' and the resulting increase in interest rates and mortgages will undoubtedly add to the pressure on household and personal budgets and we are consequently seeing many public service employment sectors taking industrial action.

This financial quarter, October to December, will be a critical period as people assess their expenditure commitments and disposable income. For those most adversely affected outgoings such as gym membership, swimming, Sky/Netflix and eating out will be among those activities most likely to be cut.

Loss of Income

Whilst membership and swim lesson income at 2 pools has held up well to September, there have been disruptions to some facilities that were not anticipated or were in this year's budget, such as the refurbishment of two artificial turf pitches and the extended refurbishment of Honiton Swimming Pool, from which attendances are only now beginning to recover. There have also been building works and disruption at the Axminster and Ottery Leisure Centres.

Forecast

LED's current forecast is that even if income remains as originally predicted, which is unlikely given the above, and given the increase in costs, we anticipate a substantially increased financial loss on the Council's leisure facilities, which be reviewed monthly as the situation is very volatile. We will, of course, liaise closely with Simon Davey (Strategic Lead – Finance) throughout this period and between us provide regular updates in due course as the situation develops over the coming weeks. This will be a key consideration in the setting of the Management Fee for 2023/24.

Peter Gilpin, CEO LED Community Leisure

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