

**REPORT OF Finance Manager and S.151 Officer****To: Full Council****Subject: Leisure Business Plan Update****Date: 18 July 2022****Reference:****PURPOSE OF REPORT:**

To update members with regards to the business plan for Active Torridge reflecting its financial performance for the first quarter of 2022/23 (April – June 2022)

**1. INTRODUCTION**

A report to Full Council on the 13<sup>th</sup> December 2021 detailed a five year business plan for the wholly owned Local Authority Owned Trading Company (LATC) Active Torridge. The 5 year business plan was produced in conjunction with Sports Leisure and Culture (SLC) Consultancy .

It was agreed that a report would come back to Full Council updating the business plan once Active Torridge had been trading three months.

**2. REPORT**

In formulating the business plans for Active Torridge, some key assumptions had to be made:

- Income would *not* return to pre pandemic levels until year 3
- Operating costs with the exception of utilities were assumed to be at the budgeted level of the previous provider of leisure services 1610.
- The costs of the provider of back offices services (prior to a formal tender process) – Website, booking system, Finance, IT, Payroll etc were estimated to be 8% of turnover.
- Various assumptions regarding the staffing levels required to operate the three leisure facilities.

With the appointment of the Leisure Services Manager for Active Torridge in January 2022 and the completion of the tender exercise for the provision of back office services, the business plan formulated in conjunction with SLC was refined.

The business plan as formulated and incorporated within the Council's 2022/23 budget and Medium Term Financial Strategy (MTFS), approved by Full Council on the 21<sup>st</sup> February 2022 is summarised below.

	<b>2022/23 - £'000</b>	<b>2023/24 £'000</b>	<b>2024/25 £'000</b>
Income	(771)	(936)	(1,101)
Staff	878	904	921
Utilities	261	261	261
Premises Costs	69	114	115
Other costs	109	109	109
Back Office	131	90	90
<b>TDC Mgmt Fee</b>	<b>(677)</b>	<b>(543)</b>	<b>(396)</b>



Since the Council approved its budgets in February 2022, inflation has increased to its highest levels in decades with utilities costs being a particular area of concern.

The financial performance of Active Torridge is summarised below.

	Budget 22/23	Q1 Expenditure / (Income) April - June	Forecast Expenditure/ (Income) 2022/23	(Under) / Over Spend for 2022/23
	£'000s	£'000s	£'000s	£'000s
Income	(771)	(124)	(673)	98
Staffing Costs	878	187	787	(91)
Utilities	261	66	280	19
Other Premises Related	69	14	70	1
Other Costs	109	8	109	-
Back Office - Active Nation	131	33	123	(8)
Torridge Mgmt Fee	(677)	(169)	(677)	-
<b>Total</b>	<b>(0)</b>	<b>15</b>	<b>20</b>	<b>20</b>

The headline figure from the table above is an *overspend against budget of £20k*.

The key favourable and adverse variances are:

#### **Income**

Income is **£98k** less than budget, this is largely due to the decline in membership as the previous contract ran down, compounded initially somewhat by technical issues with claiming direct debit membership. The Leisure Services manager is predicting a growth in income throughout the financial year 2022/23 mainly from increased swimming lessons.

#### **Staffing**

The current staffing levels are **£91k** less than budget, however the Leisure Services Manager is confident that the current levels are sufficient to deliver an effective service. For example the original budget included a centre manager for both Torrington and Holsworthy, these posts are being effectively covered by one centre manager.

#### **Utilities**

Utilities are projected to be **£19k** overspent, there is currently great volatility in the Utilities market, Active Torridge is benefitting from access to Torridge Council's Gas and Electricity prices which are currently significantly below market prices. Torridge Council having previously (in conjunction with other Councils) pre purchased and fixed its utility prices.

The fixed price deal ends in October 2022 at which point Gas prices will rise by **146%** and Electricity prices will rise by **82%**; these price increases are included within the projected utility costs for the financial year 2022/23.

#### **Looking Forward**

##### **Staff costs and the Minimum Living Wage**

The Minimum Living Wage (MLW) is currently £9.50 per hour, in the autumn it is expected that the Chancellor will announce an increase (effective from the **1<sup>st</sup> April 2023**) in line with inflation; increasing the MLW to circa £10.45 per hour.

Currently Active Torridge's lowest paid employees Leisure Assistants and Cleaners £20k per annum, (£9.59) per hour and Duty Managers £23k per annum (£11.03 per hour).



In total circa 80% of Active Torridge’s workforce of circa 60 individuals (Leisure Assistants, Cleaners & Duty Managers) would be impacted by inflationary increases to the MLW; as differentials would otherwise be adversely impacted.

Clearly the projected increase to the MLW will put inflationary pressures upon Active Torridge from the 1<sup>st</sup> April 2023 as it will be required to as a minimum pay the MLW.

**Utilities**

The Councils utility contract purchases in advance from October each year. The increase in October 2022 of 146% for gas and 82% for electricity, will still result in prices that are significantly below the current market.

These rate increases result in the following forecast for utilities for the first 3 years:

	<b>Forecast</b>	<b>Over Budget</b>	<b>Note</b>
<b>22/23</b>	280	19	
<b>23/24</b>	313	52	Based on fixed contract to Oct 2023, then market rates.
<b>24/25</b>	415	154	Based on market rates

Based on current prices the utilities costs for Active Torridge will far exceed current budgetary provision.

**3. IMPLICATIONS**

Legal Implications

No specific legal implications

Financial Implications

Considered in the QBR and the report

Human Resources Implications

No specific Human Resources issues

Sustainability/Biodiversity Implications

None

Equality/Diversity

Not applicable

Risk Management

The Council is currently facing very significant cost pressures, Leisure represents (via the Council’s Management Fee to Active Torridge) its largest area of discretionary expenditure. The cost of providing leisure services is one of the biggest risks to the financial viability of the Council.

Compliance with Policies and Strategies

This report is in compliance with the Council’s Constitution

Data Protection (GDPR) Implications

Not applicable

Climate Change

Not applicable



## Lead Member Comments – Cllr Hodson

“Whilst it is reassuring to see that the original budgets assigned to Active Torridge are broadly in line with the projected financial performance for the financial year 2022/23. Members should be aware of the significant future financial pressures for Active Torridge arising from projected increases to the MLW and the exceptional inflationary pressures with regards to utility costs.

### **4. CONCLUSIONS**

Whilst the projected financial performance for Active Torridge is broadly within the budget for the financial year 2022/23 there are significant challenges ahead most pertinently with regards to staffing cost pressures and utility costs.

### **5. RECOMMENDATIONS**

That Members note the contents of this report.

