

Report of	Meeting	Date
Director (Finance) (Introduced by Executive Member (Resources))	Council	19 September 2023

Leisure Company Request for Financial Support

Is this report confidential?	No
Is this decision key?	Yes
Savings or expenditure amounting to greater than £100,000	Significant impact on 2 or more council wards

Purpose of the Report

1. This report details the request from the Council's wholly owned subsidiary company, Chorley Leisure Ltd, for financial support due to the extraordinary and unbudgeted increases in energy costs, an assumed increase in salary costs over the 5% budgeted (based on the latest offer made in the 2023/24 LNJCC pay negotiations), and a shortfall in income levels.

Recommendations

2. To approve the request from Chorley Leisure Ltd for financial support of £1.122m, a breakdown of which is included in the body of the report.

Reasons for recommendations

3. To ensure the Council is fully aware of the financial position of Chorley Leisure Limited and to request financial support for the company due to the extraordinary increases in energy costs, the pending 2023/24 pay award and the reduced levels of income compared to budget.

Other options considered and rejected

4. To await further forecasts – this option is not viable given the pressures on the cashflow of the leisure company, driven by the increase in the cost of utilities, the reduction in levels of income compared to forecast, and the pending payment of the pay award, which once agreed will be paid to staff as quickly as possible with the arrears due from 1 April 2023. As the company does not hold reserves, it does not have any surplus cash balances to cushion the impact on cashflow of any adverse variances against budget.

Corporate priorities

6. The report relates to the following corporate priorities:

Housing where residents can live well	A green and sustainable borough
An enterprising economy with vibrant local centres in urban and rural areas	Healthy, safe and engaged communities

Background to the report

7. Although Chorley Leisure Limited overspent by £12k against the first budget set for the company for the 8 months to 31 March 2022, since then there has been a global increase in the cost of utilities. This has put a major cost pressure on the company as utilities form a significant element of the budget and as such, there was a significant overspend against the working budgets for gas and electricity for 2022/23; this is now forecast to continue in 2023/24.
8. The original forecast overspend on utilities in 2022/23 was £263k but in addition to this, following the Local Government pay negotiations, a further unbudgeted cost pressure of £56k arose as the settlement resulted in a pay award of £1,925 per employee which was in excess of the 2% budget provision made.
9. Chorley Leisure Limited requested £681k in funding in November 2022 due to increased utility costs of £263k and reduced income levels of £418k. By March 2023, whilst income levels had improved by approximately £150k, utility costs had increased in excess of this, as volatility in the energy markets continued and rising prices were quickly passed through to the company through the variable rate utility contracts in place.

Request for Financial Support for 2023/24

10. Based on the forecast for 2023/24, and the need to ensure sufficient cashflow over the coming months, the company is requesting additional financial resources of £1.122m from the Council, as its parent company, comprising; £100k on a recurring basis as part of the cost of the Leisure Contract payment, and £1.022m on a non-recurring basis as detailed below:
11. **£626k in respect of the forecast increase in the cost of utilities** over budget – this is assumed to be a non-recurring cost at this point but will be reviewed for 2024/25 as part of the budget setting process as it appears unlikely that energy costs will now return to previous levels, i.e. prior to the war in Ukraine. Since the budget was set the government has stated that energy caps will no longer apply and therefore costs will increase. Furthermore, as the company is on variable rate contracts, any changes in prices are quickly passed through by the utility companies. However it is also possible with variable contracts that if costs reduce over the year then any reductions will be quickly passported through; as such, the position will be monitored and if the financial support proves to be more than the leisure company requires, then any surplus will be returned to the Council.

12. **£100k in respect of the estimated cost of the pay award** above the level budgeted, based on the current settlement offered of £1,925 per employee, irrespective of grade; this is the offer made by the Employers and so is not expected to fall below this amount, although at present this offer has been rejected by the Trade Union. This will be a recurring cost and will require a permanent increase in the Council's financial support within the Leisure Contract, unless this can be offset by income.
13. **£65k in respect of irrecoverable VAT** – this is assumed to be non-recurring cost at this point. The level of irrecoverable VAT has increased beyond that budgeted in the leisure company as a result of the increased cost of utility bills, as this has led to an increase in the overall VAT liability of the company.
14. **£331k in respect of reduced income levels** compared to those budgeted when the three-year budget was set on the creation of the company, including the withdrawal of the Council subsidy in 2023/24.
15. Whilst patronage across the Chorley Leisure Centres has continued to increase in 2023/24, as seen in the rise in income levels from £1.743m in 2022/23 to a forecast for 2023/24 of £1.867m, this is less than the three year income budgets set on the inception of the company. Memberships have continued to increase and are now at 73% of pre-pandemic figures and Swimming lessons are at 104% of these levels and it is hoped to continue in this direction.
16. In the original three year budget it was assumed that the level of financial contribution from the Council would reduce over the period as plans to secure increased income through leisure centre improvements were implemented, however due to slippage in capital works, income has not reached the targets set.
17. Given the economic volatility and uncertainty at the time the Council's 2023/24 Budget was set, a general budget provision of £680k was included to support the risk of any additional costs arising, such as those relating to inflation and utilities and the impact of the cost of living crisis, both in the council and the leisure company; the additional funding requested of £1.122m will be met from this provision, with the balance funded by the inflationary reserve created for such purposes

Financial performance

18. It is important to note that these figures are based on an assumption that all of the leisure centres will continue to be fully operational throughout the 2023/24 financial year, (excluding the Brinscall Pool works which are to be undertaken). The council has a planned programme of improvement work to the centres but there are no assumptions as yet as to how these will impact forecasts.

Climate change and air quality

19. The request made in the report for additional financial support does not impact upon the Council's carbon emissions and the wider Climate Emergency and sustainability targets of the Council.

Equality and diversity

20. No implications arising from the recommendations in this report.

Risk

21. Without financial assistance from its parent company, Chorley Leisure Ltd will have insufficient cash flow to operate therefore risking company insolvency, redundancies, and reputational damage.

Comments of the Statutory Finance Officer

22. The Company is in a difficult financial position given the increases over and above the levels budgeted in respect of the cost of utilities, irrecoverable VAT and the projected cost of the pay award. Alongside this, lower levels of income have been achieved compared to budget, as the budgets were based on securing increased income over the three years from establishment of the company through significant capital improvement works which have been delayed; as such, a request is made to increase the support from the council to address this.
23. There is currently no indication of financial support from central government to Councils to ensure continued levels of leisure services can be delivered and to cover these additional cost pressures. As it stands, government support has in fact reduced as the previous price cap on utility costs over the winter of 2022/23 are no longer in place.
24. A bid was submitted by the company in August for financial assistance through the Swimming Pool Support Fund (SPSF) run by Sports England, however the outcome of this has not yet been announced; should the company be successful then the amount of support from the Council could be reviewed.
25. It is therefore highly likely that without further financial assistance from Chorley Council, the company will not have sufficient cashflow to operate through to March 2024. The financial position will continue to be monitored and should the position change and improve, then the level of financial support could be reduced.
26. Within the 2023/24 budget approved at Council in February 2023, a general provision was made of £680k for any additional costs arising in the council, such as those relating to inflation and utilities; this provision was created given the level of economic volatility and in consideration of the fact that the risk of further cost pressures arising both in the council and the leisure company was very likely; the additional funding requested of £1.122m will be met from this provision, with the balance funded by the inflationary reserve created for such purposes.

Comments of the Monitoring Officer

27. This is a decision on budget. The proposed increase in financial support is justified in the body of the report and the payments will enable the Leisure Company to continue to deliver a leisure service for the council.

Background documents

None

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