

Fusion Remobilisation Support August 2020 to March 2021		Agenda No: 5a
Portfolio:	Finance and Performance Management Health and Wellbeing	
Corporate Outcome:	Finance and Performance Health and Communities	
Report presented by:	Councillor Peter Tattersley, Cabinet Member for Health and Wellbeing	
Report prepared by:	James Sinclair, Commercial Manager	
Background Papers:		Public Report
DDN0007 – Delegated Decision by Chief Executive – Provision of Monetary Relief to Fusion in response to Covid-19 for April 2020 Report and Minutes of Cabinet 13 July 2020 Report of Full Council – 27th July 2020		Key Decision: Yes
1. Executive Summary:		
1.1	Braintree District Council (the Council) is working proactively to support Fusion in reopening leisure facilities across the district to ensure our residents can access this valued service, whilst ensuring all measures are put in place to protect customers.	
1.2	To enable this the Council is considering the phased reopening plan for the leisure centres within the Braintree District, as proposed by Fusion Lifestyle on 22 nd July 2020 (the Proposal). This Proposal sets out the requirement for further financial support from the Council at a cost £483.7k for the period August 2020 to March 2021.	
1.3	As part of the proposed remobilisation, the Council would also need to agree to waive the Management Fee for the remainder of this financial year, with a further cost to the Council of £128.8k.	
1.4	The issues experienced by Fusion are part of a national leisure crisis. This has been recognised and a bid was made by MHCLG and DCMS for a total support package of £770m for the leisure industry last week to HM Treasury. If successful the Council will be able to bid for grant funding to offset the budget impacts from the financial relief provided by the Council during lockdown and the remobilisation support detailed within this report.	

Recommended Decision:

Cabinet is recommended to:

- a. Note the position relating to the leisure industry during the covid-19 pandemic;
- b. Approve the Remobilisation Plan prepared by Fusion for the phased reopening of the leisure centres;
- c. Approve the payment of up to £483.7k for phase 1 and phase 2 and to waive the Management Fee, at a cost of £128.8k, for the period August 2020 and March 2021, subject to confirmation from Fusion that:
 - 1) the centres will reopen in line with the dates provided within this report;
 - 2) all necessary Government guidelines are being followed and ensure the Council is fully briefed in this matter;
 - 3) they will provide clear targets for the response to customer enquiries and demonstrate delivery against those targets;
 - 4) they maintain a full open book approach to costings, sharing actual participation and income figures against the levels assumed by Fusion in calculating the financial support required;
 - 5) they will promptly inform the Council where figures improve, reducing the financial support requested and where necessary pay back any excess sums for that period;
 - 6) Continue to engage with KKP Consultants and where charges are identified to be in excess of the required cost, seek to mitigate that cost and alter the financial support requested from the Council;
 - 7) Keep the Council informed of progress with the FCA test case for payment of insurance compensation and where compensation is received, return to the Council such sums as have been paid by the Council and are covered by the insurer.
- d. Delegate authority to the Corporate Director with responsibility for Leisure in consultation with the Cabinet Member for Finance and Performance Management and the Cabinet Member for Health and Wellbeing to approve further payments for support towards the remobilisation costs, provided those payments are within the budget approved by Full Council on 27 July 2020.

Purpose of Decision:

To enable the leisure provision to reopen within the Braintree District at the earliest opportunity; and
Support the Councils leisure provider in line with guidance provided by the Local Government Association (LGA) and Procurement Policy Note (PPN) 04/20

Any Corporate implications in relation to the following should be explained in detail.

<p>Financial & Resource:</p>	<p>The cost of support to Fusion in the first three months of the year is £167.4k and this is being accounted for as a cost of the Covid pandemic, for which the Council has received emergency funding from the Government of £1.785m. The net cost to the Council of the Covid pandemic in 2020/21 will not be fully known until the year end; when all financial support from the Government will have been received. At this time, it is anticipated that any shortfall against the costs will have to be met from the Council's unallocated balance.</p> <p>The estimated cost of Fusion's phased remobilisation plan for the remainder of this financial year is £612.5k. Whilst it is possible that part of this cost may be reimbursed by the Government through two potential funding support schemes: irrecoverable fees and charges income (proposal for 75% of losses above an initial loss of 5% against budget; and the DCMS request for a fund to help meet the additional costs of leisure provision, it is considered appropriate to provide a budget provision of up to £700,000 to enable drawdown in support of Fusion between August 2020 and March 2021, as required. The budget provision can be funded by a transfer from the Council's unallocated balance. The budget provision was agreed by Full Council on 27th July 2020.</p> <p>The amount of the unallocated balance available in 2020/21 is £5.1m: for this transfer and to meet any other net shortfall in costs of the pandemic not covered by Government support.</p>
<p>Legal:</p>	<p>There is a contract in place between the Council and Fusion for the provision of leisure's services across the District. As part of the ongoing remobilisation, consideration will be given to any variations needed to the contract to address the impacts of Covid 19 on the leisure industry and the future relationships between the parties.</p>
<p>Safeguarding:</p>	<p>No impact identified</p>
<p>Equality / Diversity / Cohesion / Engagement:</p>	<p>The decision impacts all groups equally. Leisure Centres are seen as key to enabling good community engagement and providing essential physical and emotional wellbeing. The recommendations made in this report are intended to safeguard these centres and ensure they are operational at the first opportunity.</p>

Customer Impact:	<p>The purpose of the recommendations in this report are to ensure centres reopen to customers as quickly as possible whilst mitigating the cost to both customers and the wider tax paying public as much as possible.</p> <p>Fusion will deliver a detailed Braintree specific communications plan, ensuring customers are clear on reopening arrangements including the measures put in place to keep centres safe.</p>
Environment and Climate Change:	Centres will return to operation with no change to environmental impact from previous operation.
Consultation / Community Engagement:	<p>Consultation with</p> <ul style="list-style-type: none"> • Knight Kavanagh Page (KKP) Consultants • Local Partnerships • Active Essex • Sport England • Local Government Association
Risks:	<ul style="list-style-type: none"> • Fusion being unable to continue to provide leisure services, the Council would be required to find alternative methods through which the service could be delivered. This would result the Council facing significant costs whilst the service transitions to the new model. • Other local authorities which have contracts with Fusion may decide not to provide funding to Fusion, impacting on the viability of Fusion as an organisation • Leisure users may not return, or not return at the levels projected resulting in additional cost requests from Fusion and the need to consider the viability of one or more leisure centres • Fusion do not follow Government guidance, resulting in a public health concern • Fusion approach this Council and the other councils for financial support in 2021/22.
Officer Contact:	James Sinclair
Designation:	Commercial Manager
Ext. No:	2671
E-mail:	James.sinclair@braintree.gov.uk

1 Introduction

- 1.1 On 20th March 2020 following the Government's decision to shut leisure centres as part of its actions to slow the spread of Covid-19, all Fusion operated Leisure Centres within the Braintree District closed. The result of the lockdown has significantly impacted the whole leisure industry.
- 1.2 The Council has enjoyed a positive relationship with its leisure provider Fusion Lifestyle for a number of years, and has sought to support Fusion throughout the lockdown period. The Council is currently assessing the appropriate level of support for remobilisation of the leisure service to achieve the best mix between the provision of key leisure services to residents against its obligations to deliver value for money.

2 Financial Relief Agreed to Date

- 2.1 Using Local Government Association (LGA) grant funding, the Council, alongside 15 other Fusion customers, secured the support of Local Partnerships (a joint venture between the LGA, HM Treasury and the Welsh Government) to review the financial position of Fusion, and to consider whether all available mitigations had been put in place during the lockdown period and whether the support provided by the Council and other customers was required.
- 2.2 These mitigations included the furloughing of 200 staff for the Braintree contract, the renegotiation of contracts held by Fusion and the delaying of the payment of invoices. Fusion also bid for a Coronavirus Large Business Interruption Loan. Local Partnerships concluded that whilst mitigations had been made, additional support was required throughout the lockdown period from the Council and other Councils in order to ensure the continued survival of Fusion. Accordingly it was established that Fusion was viable with this continued support.
- 2.3 In line with the findings above and following the principles set out in Procurement Policy Note 02/20, the Council has by way of its decision taken by the Chief Executive and Cabinet approved the financial support to Fusion through the lockdown period and has so far provided Monetary relief of £167.4k for April, May and June consisting of the following:
 - a) Waiver of the management fee of £48.3k
 - b) A grant of £113.7k
 - c) Waiver of £5.4k towards the PV panel recharges
- 2.4 In addition, the Council in anticipating future relief requests, delegated authority was given by Cabinet for the provision of the same levels of further relief for July and August 2020. Given the remobilisation will begin in August, it is likely that only July relief will be required in line with the previous monthly sum of £55.8k. This has not yet been requested by Fusion.

3 Fusion Pre-Covid Performance

- 3.1 Performance reporting showed that participation figures received for the sites managed by Fusion for the last financial year were performing well against the targets. An update for February 2020, the last month before the impact of social distancing and then lockdown were felt, showed participation of 93,259 an increase of 25% against the target.
- 3.2 Using UKActive analysis Fusion estimates that participation at the reopened leisure centres will be at 30% of the normal levels with this improving to 60% by March 2021. The Council will monitor performance against this as part of remobilisation to understand the impact on any financial support provided.
- 3.3 The projection figures provided by Fusion as part of the remobilisation planning for the six month period from centres opening in August 2020 to March 2021, show a projected income of £1,489K, an income reduction of 33%. This forecast is based on multiple data sources and provides prior year growth factors for health & fitness, group exercise and swimming. In summary the UKActive analysis envisages the overall sector trading at 30% of normal levels in July 2020 with this improving to 60% by March 2021.

4 Remobilisation

- 4.1 On 12th June 2020, Fusion provided initial remobilisation information, including their approach to implementation planning, risk assessment and signage proposals.
- 4.2 Following the Government's announcement that gyms and indoor sports could reopen from the 25th July 2020, with supporting guidance being published on the 9th July 2020, Fusion and the Council have been working together to look at the measures needed to enable the centres to reopen safely at the earliest opportunity.
- 4.3 The Council and Fusion have engaged in a number of discussions, with consideration of different remobilisation models. Analysis of the information provided has determined that there will be a need for a phased reopening approach to the leisure centres within the District, as follows:

Phase One

- 4.4 Health and Fitness and outdoor sports provision to be reopened in Braintree sport and health club (Tabor), Witham Leisure Centre and Halstead Leisure Centre from week commencing 3rd August 2020, with a swim offer at Witham Leisure Centre commencing on 10th August 2020. This would result in a total cost for phase 1 of £177,200, as detailed below:

Date	Centre	Area	Cost
Week Commencing 03/08/2020	Braintree Sport and Health	Dry	£118,000
	Witham Leisure Centre	Dry	
	Halstead Leisure Centre	Dry	

10/08/2020	Witham Leisure Centre	Wet	£48,000
August	Braintree Swimming and Fitness	Mothballing Cost	£11,200
Total Cost August 2020 to March 2021			£177,200

Phase 2

- 4.5 This phase would see the full reopening of all remaining leisure facility provisions across the district from the week commencing 7 September 2020. This would result in a total cost for Phase 2 of £306,500

Date	Centre	Area	Cost
Week commencing 07/09/2020	Braintree Swimming & Fitness	Dry + Wet	£195,000
	Halstead Leisure Centre	Wet	£89,000
Contingency			£22,500
Total Cost			£306,500

- 4.6 The combined costs per month for Phase 1 and Phase 2 are set out below and will be paid monthly in advance. The total support costs for remobilisation for both phases currently amounts to £483.7k.:

August 2020	September 2020	October 2020	November 2020
£34,763	£86,581	£78,243	£72,471

December 2020	January 2021	February 2021	March 2021
£67,341	£48,101	£48,101	£48,101

- 4.7 In addition as part of the proposed remobilisation, the Council would need to agree to further waive the Management Fee for the remainder of this financial year, this will result in a further cost to the Council of £128.8k.
- 4.8 The financial request covers the remainder of this financial year. It is acknowledged that it may take longer for consumer confidence to return and for Covid restrictions to reduce. Therefore the Council is aware that further financial support may be required beyond this period.
- 4.9 The Braintree contract is one of a number held by Fusion, therefore the viability of Fusion Lifestyle will be dependent on other Council customers also providing support during the remobilisation period. The Council is being kept informed of other Council positions as set out in section 8 below.
- 4.10 Each centre now has an opening plan that will enable the centres to be Covid secure. This will be followed by the local centre teams and will be led and overseen by the Regional Manager. Fusion have committed to keeping the Council Leisure Manager informed of progress in implementation and enable them to inspect all stages of the reopening.

4.11 These plans include:

- a) Reconfiguration of facilities;
- b) Reduced capacities and capacity management;
- c) Alterations to programmes, opening times, prices and membership packages;
- d) All activities booked and paid for on line so centres can manage capacities for the required track and trace guidance

4.12 As part of these remobilisation plans the Council requested a comprehensive communication plan. The Council has received a general reopening communications plan. The Council has now asked for specific details on communication activities specific to the Braintree District that Fusion will need to implement to ensure clear and timely communications with customers and stakeholders. The Council will track delivery against this plan.

5 National Leisure Industry Funding

5.1 Representations were made from across the industry to the Department for Culture Media and Sport (DCMS), highlighting the need for financial support for Leisure Provision. A bid was made by MHCLG and DCMS for a total support package of £770m last week to HM Treasury. This is on a cost plus model, with no allowance for profit. A decision on this bid is expected to be made by the 7th August 2020.

5.2 Should this be successful this will allow Councils to bid for funding from a grant oversight committee consisting of LGA, Sport England and UKactive. It is understood that this would cover a percentage of the Council's costs in supporting its leisure centres throughout the lockdown period and into remobilisation. The Council is not aware of the percentage level at this time.

5.3 The turnaround time for consideration of any applications made against this fund is unclear but if the grant is approved it is anticipated that the funding should be received by the Council within three weeks of this approval.

5.4 Local Partnerships are currently confirming whether they would be able to support all Fusion customers to make a joint bid to DCMS for this funding.

6 Fusion Mitigating Activities

6.1 Fusion is seeking to mitigate the inevitable losses from the dramatically reduced revenue levels through cost savings across the board.

6.2 In the projections provided payroll costs for both site and head office based staff are reduced by between 40% and 50% relative to pre-crisis levels.

6.3 Fusion have been renegotiating all its key supply contracts and adjusting as far as possible to the new revenue levels. At the moment these reductions are averaging around 30% of pre-crisis levels.

- 6.4 A test case is being led by the FCA which may result in insurance companies being required to pay business interruption claims. Fusion will advise on the outcome of this activity
- 6.5 Fusion has been successful in its application for funding from the Coronavirus Large Business Interruption Loan Scheme (CLBILS). This is intended to cover the costs of restart, including staff restructure, site configuration, and IT systems. Fusion have stated that this would enable Fusion to operate more efficiently in this period, with less staff. Approval of remobilisation plans by all Fusion Council Customers is required to enable Fusion to access funds from this loan

7 External Support and Benchmarking

- 7.1 Local Partnerships were unable to secure LGA funding to continue their support of Fusion Customers. The Council are therefore working with Active Essex who, following a successful bid for funding from Sport England, commissioned Knight, Kavanagh and Page (KKP) Consultancy to support Essex Councils in evaluating the remobilisation plans of their leisure providers, benchmarking both the approach taken and the financial requests made.
- 7.2 Information was provided by Fusion to KKP on the 26th July, KKP are now assessing the phased approach provided above and will support the Council to ensure all necessary steps are being taken to enable remobilisation in line with the timescales we have set and assessing the financial models provided to ensure they are delivering against the cost plus principles of the financial support detailed in this report.

8 Council Leisure Opening Proposals

- 8.1 The Council has maintained weekly contact with Rochford District Council and Southend Borough Council, who also contract with Fusion Lifestyle for their Leisure provision, as well as regular contact with the rest of the Fusion Customer Group.
- 8.2 Current opening arrangements for Fusion run leisure services nationally are similar to the phased approach set out in this report.

9 Alternative Available Options

	Advantages	Disadvantages
Close Centres	<ul style="list-style-type: none"> • Need for continued support to leisure reduced • Repurpose sites for alternate use delivering income to the Authority 	<ul style="list-style-type: none"> • Significant reputational harm to the Authority • Physical and mental health impact on residents • Legal and financial Issues from termination of contract with Fusion • Repurposing sites will have additional costs as well as income

Reprocure another provider	<ul style="list-style-type: none"> • Able to test alternate supply of provision 	<ul style="list-style-type: none"> • Extremely unlikely to receive competitive bids given the current market, with likelihood of heavily caveated bids • Likely to face challenge from Fusion if before the end of current contract term
Partner with local leisure trust	<ul style="list-style-type: none"> • Opportunities for economies of scale with shared management teams • Shared cultural values 	<ul style="list-style-type: none"> • Unlikely to get value given the significant risk in leisure market at this time • Council run Leisure operators are generally higher cost than Leisure companies as do not benefit from NNDR and VAT
Insource Leisure	<ul style="list-style-type: none"> • Ability to control the quality and delivery of the service 	<ul style="list-style-type: none"> • Significant staff cost and time in preparing to insource and ongoing support costs • Council run Leisure operators are generally higher cost than Leisure companies, • Addition of significant pension costs as well

10 Financial

- 10.1 A budget provision of up to £700k was agreed by Full Council on 27th July 2020 to enable payments to be made to Fusion when the remobilisation plan is agreed and to cover the budget shortfall which would result from waiving the management fee for the remainder of the financial year.
- 10.2 Payment will be made monthly in advance in line with the projected sums provided in 4.6. An open book review will be undertaken on each monthly financial support request to review income levels against projections.

11 Legal

- 11.1 Work is being undertaken to review the Contract held with Fusion, in order to understand the long term implications on the contract and consider the necessary contract mechanism to maintain leisure provision across the district.
- 11.2 The request for monetary support does not qualify as state aid as leisure contracts, at the time they were procured, included clear obligations on local authorities to make payments under the contract in the event of a qualifying/specific change in law.

12 Conclusion

- 12.1 Having regard to the current position of the leisure industry and the important place that our leisure provision has in the physical and mental wellbeing of the residents within the Braintree District, it is recommended to approve the phased approach to reopening set out within this report.
- 12.2 Financial support will be given on the basis that Fusion ensure that:
- a) the centres will reopen in line with the dates provided within this report;
 - b) all necessary Government guidelines are being followed and ensure the Council is fully briefed in this matter;
 - c) they will provide clear targets for the response to customer enquiries and demonstrate delivery against those targets;
 - d) they maintain a full open book approach to costings, sharing actual participation and income figures against the levels assumed by Fusion in calculating the financial support required;
 - e) they will promptly inform the Council where figures improve, reducing the financial support requested and where necessary pay back any excess sums for that period;
 - f) Continue to engage with KKP Consultants and where charges are identified to be in excess of the required cost, seek to mitigate that cost and amend the financial support requested from the Council;
 - g) Keep the Council informed of progress with the FCA test case for payment of insurance compensation and where compensation is received, return to the Council such sums as have been paid by the Council and are covered by the insurer.