

National sports centre's leisure operating contracts coronavirus (Covid-19) response case study

Introduction

This case study has been produced to provide practical support to local authorities and their operating partners in response to coronavirus. As client of the three national sports centres (NSCs), the case study sets out the steps taken by Sport England and our operators to protect the NSCs and provide a basis for rebuilding the business once the lockdown measures are lifted.

The NSCs' contracts were competitively re-tendered in 2011 for a 15-year period. Serco Leisure was awarded the contract for Bisham and Lilleshall as a new operator to Sport England. Mountain Training Trust (MTT) was awarded the contract at Plas y Brenin as the previous incumbent operator. The contracts have a mixed financial model with both management fees paid to the operators and surplus arrangement to Sport England.

The NSC contracts form the foundations of the Sport England Procurement Toolkit, which may be relevant to local authorities who utilised the guidance to procure their own leisure contracts.

Following government instruction, the NSCs were closed to the public on the evening of Friday, 20 March. The impact on usage and financial performance was immediate and unprecedented. Both operators have been impacted by an almost 100% loss of revenue since 9 March, 2020, and face significant financial difficulty in the coming months.

Approach

A pragmatic and collaborative approach was considered the best way to respond to the unprecedented impact placed upon the contracts and the operators themselves. Early engagement with the senior leadership teams of both Serco and MTT was critical. All parties approached the discussions in a positive manner with the focus on understanding impact, mitigation measures, and identifying what all parties could do to work through this together. Agreement to an open-book process provided commitment from both parties to reach a fair and reasonable position.

In parallel, we reviewed the leisure operating contracts taking external legal advice. The requirement set by government for all leisure centres to remain closed was considered a 'qualifying change of law' within the Sport England contract. Given there will be a substantial reduction in revenues and not all costs can be mitigated by the operators, we accepted responsibility to provide financial assistance. It's recommended that clients explore and establish the legal position of their own contractual arrangements to assist discussions.

Procurement advice and consideration of Procurement Policy Note 02/20, issued by the Cabinet Office was also undertaken. Taking positive action to support the NSC operators as much as possible to enable them to resume normal contract delivery once the outbreak is over, is considered in line with PPN 02/20.

Financial appraisal

We've supported both operators to produce financial assessments providing detailed forecasts of business impact to June 2020. Forecasts for 6–12 months were useful indicators of longer-term impact.

A set of common principles included:

- Forecast revenue generation from April to June 2020
- Forecast reduction of fixed costs and overheads, with an agreed position on asset management

- Taking full advantage of all applicable government relief as a first call in mitigation, ensuring any Sport England/public funding wouldn't be duplicated
- Redeploying or furloughing as many staff as practically possible, retaining only core staff to assist with asset protection and the rebuild phase
- Discussion and agreement between parties to consider funding the additional 20% salary gap
- Agreed approach to annual rental and usage agreements with key users and sports clubs
- Diversification of services to generate income, e.g. online offering.

The assessments formed the basis of short-term financial assistance we'll provide to the operators from March–June 2020 on an open-book basis. The assessments are not, at this stage, covering anything more than is required to ensure the operators are not making a loss and the assets protected. This includes reasonable recovery of central costs/recharges associated with the NSC contracts. This is considered a fair position given the level of government relief that's available to assist the operators during this period. Once the closure restrictions are lifted we recognise there'll be a phased return to the contracts, to return to a profit margin position with continued dialogue required over the next 6–12 months.

Options and approach

Options to respond to the impact of coronavirus were limited. Without financial support the operating contracts were at risk of financial failure, with a real prospect of the NSCs facing a prolonged period of closure. The ability to remobilise the contracts would be complicated, costly and could take anywhere between six and 18 months before the facilities would be operational. This would significantly impact participation levels, outdoor sector support, world class training programmes and the cross-cutting contribution the facilities make to wider health and wellbeing outcomes.

All parties were clear on the contract but took a collaborative approach to reach a negotiated position that protects both the NSCs themselves but also the operators. This approach provides immediate financial reassurance to the operators. It also buys time to monitor and assess a fast-changing environment and to continue dialogue to respond in partnership with our operators. This includes exploring the opportunity to redesign future outcomes for the NSCs linked to managing the financial impact over the remaining contract period.

Further Support

We wish to proactively support local authorities and their operating partners through this period. We'd be happy to discuss individual needs and are also keen to hear if specialist leisure contract guidance and consultant support are required. For further information please contact Steve Welch, strategic lead – leisure operations, steven.welch@sportengland.org.