A recent announcement from Community Leisure UK states “Many of the UK Leisure Trusts are now making tough decisions, including closing buildings and making redundancies. April and October 2023 are cited as critical points for members of CLUK, due to energy contracts ending, increases in staff wages for the new fiscal year and local authority funding decisions”. The income generated from Council owned Sports and Leisure facilities is still being impacted by the Covid-19 pandemic in varying degrees, with confidence returning in some areas. Evidence suggests that older facilities may never return to pre-covid trading having lost customers to alternative providers. It is also now clear that operators who failed to engage effectively with their customers during Covid-19 closures, are now paying the price with a slower return to pre-pandemic membership numbers.

As budgets are being set for 2023/24, and the government are liberating Councils from some of the rate setting constraints, Councils are faced with a monumental increase in the cost of utilities. For many councils, the cost has doubled, and the uncertainly will continue for the foreseeable future.

As if this was not enough, wage cost inflation will also increase costs very significantly, compounded by income being suppressed by the cost-of-living crisis. The triple impacts will massively increase the dependency on Council subsidies. These pressures may result in the failure of numerous contracts and some operators are already financially challenged and have little resilience.

In many contracts, the management fee will be increased by CPI/RPIx which may result in “hard wired” cost increases in 2023/24 onwards. Across the UK, these conditions have contrived to create a ‘perfect storm’ of issues impacting on the leisure sector. The Bank of England identifies several relevant factors including:

1. Significant upward pressure on Energy Costs (which are projected to rise from around 20% to circa 30% of a leisure operator’s overall costs)
2. Upward pressure on other fixed and variable costs such as wages, and the cost of goods and services and
3. Impact of inflation on customers which will ultimately result in a reduction in discretionary spend.

It should be noted that the Bank of England expects these to be (to some extent) transitory challenges and that current projections suggest that by 2024, inflation will be much reduced.
However, the Bank of England makes the point that “The degree of uncertainty around the Monetary Policy Committee's projections from both external and domestic factors is exceptionally high. There are significant risks around the baseline projection for CPI inflation from global factors, most notably gas prices, domestic inflationary pressures, and the potential “interactions between them”.

In September 2022, a Swim England survey of “leisure multi-site facility operators revealed that without financial support to mitigate against the impact of these increases we will see up to 85 per cent of facilities likely or extremely likely to be forced to stop operating completely in the next six months,” ... A total of 78% are likely or extremely likely to increase customer prices and 63% to reduce staffing. Some private sector operators are forecasting energy price increases of up to 240%. It is not clear at this stage what impact the Government announcement of 8th September 2022 to cap business energy prices will have on the leisure sector.

The potential volatility and impact on income as a result of changes in people’s discretionary spending is highlighted by the responses to the Office for National Statistics Opinions and Lifestyle Survey (August 2022), which shows 60% of respondents are intending to spend less on non-essentials which is likely to include leisure activities; and 45% of respondents intending to reduce expenditure on non-essential travel which may also influence people’s choices about whether or not to visit a leisure centre. This is illustrated in Figure 2.

Research by Leisure-Net examined how sensitive customers are to price increases and found that 40% of independent gym members would be prepared to pay up to 20% more for their membership. Whilst overall, 31% of men would not accept any price increase, while 39% of women would cancel their membership if the cost would go up. This is not necessarily the situation for all leisure centres but does provide some insight into the generally limited price elasticity within the market.

However, even price increases at these levels will not result in significantly reduced deficits as costs are increasing at an even higher level.

We are already aware that many Councils are under extreme financial pressures and therefore there is the potential for facilities to be closed.

Over the past 10 – 15 years there has been a need to reduce the cost of public subsidy for leisure, further reinforced by austerity measures. During this time Council subsidy / funding has largely been replaced by a reliance on revenues from gym memberships. As Council’s budgets continue to be squeezed a discretionary service like leisure will continue to be a source from which to secure savings either through cost reductions or a reduction in services. This is despite the cap on energy prices for health and fitness operators, charities and local authorities for six months from 1 October 2022 to 31 March 2023. UK Active considers that the crisis could force the closure of up to 85% of public sector leisure and sport facilities in the next six months.

This is set against rising interest rates which could affect leisure operators’ ability to continue to finance or re-finance ongoing loans.

Many observers hope that central government and the NHS will recognise that physical activity is core to tackling obesity and health and wellbeing, where access is available to all and funding sustainable into the future. A huge challenge given the competing demands for funding to support adult social care and other statutory services.
So how will this affect you?

Our team are working with Councils across the UK and we benefit from very recent market engagement with many of the leading operators.

In our work across the UK, our team are encountering the following scenarios:

- Existing contracts with operators under stress, with relationships strained by the request for additional support
- Members asking for alternative options – often assuming that better value is available from alternative service providers / operating models
- Existing contracts approaching the end of term, with options to extend needing to be evaluated against the alternatives
- Service continuity plans need to be put in place to address the risk of failure of incumbent operators
- Ageing facilities needing investment to remain ‘fit for purpose’, when they are already unaffordable to operate and may be operating in a market where there is oversupply
- Addressing the need to develop a business case for rationalisation and regeneration of the leisure estate (new for old, matching supply with demand more effectively)
- The option of deploying a local authority trading company being given early consideration, either as a temporary measure or longer-term option (Steve Laird was co-author of the LGA guidance for emergency insourcing)
- Addressing the need for discreet early market engagement
- Facing local government re-organisation
- Addressing the need to design and deliver PCR 2015 compliant procurement for new contract/s (we can share our thoughts on why the typical routes will not work anymore).

If you are working to address any of the above, we can help.

The V4S leisure team is very active in the marketplace, we have up to date information on the sector including recent market engagement. We would be delighted to offer you and the relevant senior officers a TEAMs meeting to discuss the various options and solutions which are available for consideration.

We are not in “sales mode” and a TEAMs meeting with us would be informal and without any obligation. We are happy to share information, and our knowledge and experience. If you think we could help further, please contract Ruth Roberts on:

- 07507 821 409
- ruth.roberts@v4services.com

Or via our website to arrange an informal TEAMs meeting:

www.v4services.com

2023 & Beyond – Leisure sector faces unprecedented challenges