Covid-19 Impact Report: Towards a post-pandemic public leisure and culture sector

18 October 2021

While the recovery of our economy may seem well under-way, Community Leisure UK warns that significant challenges remain for leisure and culture trusts. This report gives an update on the current state of play and what leisure and culture trusts are preparing for in the future, with a final section highlighting differences between nations[1].

Report Summary

Community return to public leisure and culture facilities has plateaued, with arts/culture seeing a more limited return than leisure and facing future programming challenges, but both sectors are limited at a 60-80% return rate, significantly limiting recovery. The current financial position of organisations is also masked by grant support that is due to end soon, with deficit budgets expected in the years to come. This will significantly limit the sector's ability to invest in facilities and services without further support.

Additional financial pressures due to increases in electricity and gas prices, National Insurance contributions, supply chain issues, and projected increases in the National Living Wage, combined with depleted reserves and restrictions in income recovery will squeeze budgets in what is already a very fragile financial landscape.

The public leisure and culture sector is facing an employment crisis. Trusts are unable to recruit for the number of vacancies available, which can be up to a third of their regular workforce, with Government-schemes such as the Kickstart scheme not being effective. Increases in National Minimum and Living Wage are causing further challenges, eroding pay differentials between positions within organisations, and increasing faster than the average salary increases across the organisation.

Trusts are committed to supporting the government in building back better and fairer through their focus on community health and wellbeing. This is their priority with the programmes like social prescribing, exercise referral, and mental health support. Results from the Moving Communities platform clearly evidences that public leisure delivered by trusts generates a significantly higher social value than the national average.

Recovery funding and support from local authority partners has been crucial, as has the Coronavirus Job Retention Scheme. In England, the Culture Recovery Fund has been an important lifeline for members. In contrast, the National Leisure Recovery Fund, though welcomed, provided short-term emergency relief, but was not sufficient to provide longer-term financial support. In Scotland, while there has been some culture funding, this has been limited and there has been no national funding for leisure. However, local authorities have supported their leisure and culture partners, ensuring that no trusts were at risk of insolvency. In Wales, members have received significant support through the Hardship Fund for local government and have been able to access sector-specific funding provided by Sport Wales and through the Culture Recovery Fund. However, like in Scotland, support through the Culture Recovery Fund has been limited with no second and third round available as seen in England.

[1] This report is based on member conversations over the period June-September 2021. During this period, CLUK conducted individual member check-ins with their 112 members, with a 70% response rate.

Financial recovery

The next six to twelve months will be crucial for the public leisure and culture sector, regardless of delivery model, due to the uncertainty of customer/audience return rates and the limited reserves available to organisations.

The latest insights from The Audience Agency shows[2] that willingness to attend arts- and cultural events has not increased since June, and people expect to engage less in the next few months, especially with film and live performances, with the panto season at particular risk. Insights from Moving Communities, the platform tracking the recovery of the public leisure sector in England, shows[3] that while participation increased quickly upon reopening, customer returns in leisure have now levelled off at around 72%. Moreover, it is estimated that the leisure recovery period can take another four years, as predicted by directors of finance within Scottish local government.

The same recovery rates have been reported by our membership across the UK. The return rates of customers, the main factor influencing income levels, vary from an average of 60% to above 80% compared to pre-Covid-19 levels, with return rates having slowed and plateaued at the end of summer. There is concern that return rates may never return to pre-Covid levels, posing significant risks for operators.

Members warn that their current financial position is masked by the Covid-19 grant funding that they have received, topping their balance sheet in a more favourable position than their actual income would estimate. Certainly, all grant funding has been welcomed by our members, and has, along with the Coronavirus Job Retention Scheme provided a lifeline throughout the pandemic, yet this does not address the longer-term sustainability of services.

This year some trusts may make a modest surplus, but they are projecting deficit budgets in the years to come. Any surplus that is generated will go directly to paying back loans and agreed payment delays, instead of being reinvested back into services. Therefore, their charitable work, often cross-subsidised through income generating activities, is being at best delayed or at worst compromised for the foreseeable future.

The precarious position for recovery is not solely influenced by the amount of income generated now that leisure and culture has reopened, but also by the deficit accrued and loss of income experienced during the pandemic. Our previous report showed that by January 2021, leisure and culture trusts had, on average, only 30% of their pre-Covid reserve levels left and had incurred an average £2million deficit per organisation[4]. Trusts have not yet been able to significantly top up their reserves or address their deficit. In some cases, this means that trusts' current financial balance only covers one month of operational costs, therefore offering limited financial resilience in the case of unknown events, new restrictions, or a lockdown.

Moreover, while leisure and culture trusts have reopened most of their venues and restarted their activities and programmes, this is still in restricted form as many continue to operate at reduced levels for exercise classes and swim lessons in particular, to reflect high local Covid-19 infection rates and in response to customer' demands for

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[2] https://www.theaudienceagency.org/covid-19-cultural-participation-monitor/wave-4-key-insights
[3] https://movingcommunities.org/wp-content/uploads/2021/08/MC_In_Focus_Issue_4_FINAL_02.pdf
[4] https://communityleisureuk.org/news/community-leisure-uks-latest-covid-19-impact-report-evidences-continued-financial-challenge-for-leisure-and-culture-trusts/

continued safety measures. Income across the sector for the period April to August 21 was at 66% of pre-Covid levels, compared with expenditure at 75%. Therefore, despite the recovery to date, there is still a subsidy of 43p per visit on average, highlighting that services are still running at a deficit.[5]

There are a range of financial pressures, which though not specific to public leisure and culture, have a combined impact on an already fragile landscape. The increase in gas and electricity prices are causing cost pressures for trusts where contracts are due for renewal, and for others whose contracts are coming up in the next six months and who need to review their options. Projections for additional annual costs range from an average of £9000 for a single site to between £180k-£210k for medium-sized trusts with multiple sites. Yet even this number is still undecided, while the fact that prices are increasing significantly is known, the height of the increase is still causing insecurity as one medium-sized member explained: *Every 10% increase above current contractual rates we are paying will mean an additional £40k to £45K (incl. irrecoverable VAT) per annum for 2022-23. A 30% increase would mean an additional £120K to £135K (incl. irrecoverable VAT).*

Many members operate large venues and facilities, often in aging or heritage buildings, where energy costs are already high and the current increase in prices is significantly impacting on budgets and financial viability. Any energy efficiency measures they take, such as utilising the District Heat Network, could minimise the financial impacts, but ageing plants increase consumption, nullifying any cost savings.

Furthermore, the recent announcement of increases to National Insurance will add more financial pressures, which is particularly challenging as this increase had not been included in initial budget projections and poses a significant challenge at a time when budgets are already stretched. To illustrate, the increase of National Insurance contribution is estimated to add an average annual expenditure of £6000 to budgets for a single site but can range from c. £35,000 to £620,000 for medium-to large trusts.

In addition, supply chain challenges are impacting on trusts' ability to purchase pool chemicals, threatening the ability to keep pools open, and on their ability to offer a full catering offer in their venues and at events.

These national trends have a direct impact on day-to-day operations and take up significant time from staff in attempting to mitigate the increased pressures and ensure financial sustainability for the organisations. They also add significant uncertainties to operating as the cost of living increases for both employees and customers. This puts additional pressure on organisations to provide salary awards, while customers will reconsider their ability to engage in public leisure and culture given the reduction in their disposable income, both having a direct impact on organisations' ability to recover.

<u>Financial recovery: Looking at the future</u>

During lockdown, trusts used various financial levers to cover their costs which, in addition to using their full reserves, included arranging bank overdrafts, applying for loans, and requesting payment holidays. This will need to be paid back and, where applicable, payments resumed soon. In addition, many local authorities are unable to sustain the same level of management fees paid to their trust partner, with an annual

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[5] Moving Communities Sector Recovery Analysis. Financial Year 2021 vs Financial Year 2019. Finance Analysis.

reduction of management fees being a trend in recent years, yet this year adding unprecedented additional pressures.

This will cause more pressures on an already challenging position in terms of their return of income and increased costs, and will reduce any profit generated by trusts, thereby reducing the potential for investment into facilities and services. In turn, lack of investments result in higher running costs, repairs, and maintenance requirements in the long term, posing a risk not only to the business but also to the customer experience.

For our membership, most leisure and culture trusts are in a relatively stable financial position now because of the Coronavirus Job Retention Scheme, local authority support and Covid support grants. However, due to the reduced return of income, depletion of reserves and additional financial pressures, over a third of leisure and culture trusts remain in a precarious position and are at risk in the next six to twelve months.

There is an urgent need to recognise the value of public leisure and culture trusts and to look to invest in and support these services to survive and thrive. Local authorities must be enabled to support their partners, with ring-fenced funding for leisure and culture.

Workforce

The public leisure and culture sector is witnessing an employment crisis.

After months of furlough, leisure and culture trusts experienced retention challenges upon initial reopening with members of staff having found other work while on furlough or having changed their work preferences and life priorities.

Having made significant redundancies during the pandemic and not being able to offer work, leisure and culture trusts are now facing the challenge that they are unable to recruit new employees. There are simply not enough candidates applying for the number of positions currently available, despite trusts offering on-the-job training, reviewing salaries, and combining job roles to make positions more attractive and versatile. For many trusts, they have had to recruit, or are still in the process of recruiting, between 20% to one-third of their usual workforce.

Recruitment also poses challenges internally as existing staff apply for different hours or locations, which then leaves a vacancy further down the chain, resulting in a complicated combination of internal and external processes.

The recruitment challenge is not limited to a certain type of position, as there are vacancies at all levels, yet is most evident for lifeguards, swimming teachers and sports coaches, and for events, hospitality/catering, and supervisory roles.

While some members have made use of the Government-backed Kickstart scheme to recruit new trainees, this has not provided a solution to vacant positions as this scheme only covers new roles, and even then, there has been a struggle to recruit through the scheme due to the low number of (suitable) candidates and the age restrictions.

This retention and recruitment crisis is already having a significant impact on trusts' ability to recover as it is limiting their programmes and opening hours despite restrictions having eased. This is most notably impacting on leisure trusts' ability to provide swimming classes, and support children and communities with developing life-saving swimming skills, with trusts reporting over 100% demand for this activity but not having the capacity to offer more classes, resulting in significant waiting lists.

Furthermore, leisure and culture trusts voice concerns about the mental health of their staff, particularly those who have worked throughout the pandemic and are now pressured even further as they need to step in to cover additional shifts. There is a real risk of burnout among the workforce, posing a risk of further reductions in staffing.

Workforce: Looking at the future

The largest expenditure for leisure and culture trusts comes from staff salaries, which are set to increase next year with the rise in National Living Wage (NLW) and National Minimum Wage (NMW). At a time where public leisure and culture is already facing an employment crisis with a fragile financial landscape, this is causing significant concerns.

Some leisure and culture trusts have an agreement with their local authority partner where the Council covers increases in minimum wages, however many trusts do not have such a clause in their contracts or work independently, with no relationship with the local authority. Where the trust is responsible for covering the financial impact of increases to the NLW/NMW, it is particularly challenging due to their limited revenue streams which are already underpinning their cross-subsidy model of reinvestment[6].

Trusts want to pay higher rates for accountable roles to reflect the skills and training required. However, the annual increases in NLW/NMW present a challenge as the rate of pay for lower paid roles is increasing at a faster rate than the general pay increases across organisations. This has been a long-term challenge, even pre-pandemic, with pay differentials being squeezed, but due to the increased cost pressures, pay differentials are now completely eroded at some levels of the organisations.

This erosion of pay differentials between positions causes challenges for recruitment and retention, specifically for roles with senior responsibilities where there is little reflection of the level of accountability within the pay. There are also limited career pathways through leisure and culture, making it less attractive for people to take on roles with more responsibility for very limited financial compensation, exacerbating the problem. It further has a significant impact on staff satisfaction levels, particularly between salary pinch points and staff feeling very undervalued for their work.

Our members are fully supportive of increases to NLW/NMW but the rate of increase is unsustainable within the current financial landscape. Consequently, members tell us that they will need to rationalise their workforce and can offer fewer jobs than they otherwise would. To illustrate the financial challenge, the increase in National Insurance combined with the proposed 5.7% increase in NLW for April 2022 can add £300k-350k in additional expenditure for a medium-sized trust.

There needs to be additional resource to enable these organisations to be able to pay appropriate wage levels across the organisation.

[6] By delivering public leisure and cultural services through a Trust, surplus revenue generated is reinvested into the local community the Trust serves, primarily to address inequalities. Trusts cross-subsidise services i.e. more profitable activities will subsidise some health, community, library activities etc., and cross-subsidise access i.e. using income from those who can afford to pay, to support reduced cost or free activities for those with less disposable income.

Arts and cultural services

Trusts managing arts and cultural services have seen a slower return to those activities than leisure.

Those managing libraries have seen a slow in-person return, despite high customer engagement through digital and home delivery offers. The performing arts and entertainment sector are facing the challenge that they have had to reschedule large events and performances, with many organisations not being able to plan their programming for autumn and winter 2021 due to uncertainties around Covid-measures.

The theatre and live events sector are different from other sectors in that events are planned months in advance and require considerable marketing efforts to ensure their viability. Their legal allowance to reopen, therefore, does not trigger a return to 'normal' trading for many theatres and other cultural venues.

Being able to put on events comes with a significant risk in a time where Covid cases are still fluctuating. While the Live Events Reinsurance Scheme was an initially welcome announcement, our members identified that for many arts and culture organisers, this scheme will not be helpful as they would need to purchase an additional cover for each event/show that they organise and does not cover reduced ticket income or refunds.

Building back better and fairer

Leisure and culture trusts will need to consider how they are going to balance the additional cost pressures, which may lead to reduced opening hours in the future, closure of facilities, or increases in activity costs that may be charged back to the public and those using the venues (including schools, clubs, and community groups). They will do all they can to prevent this as it will adversely impact those who need accessible and inclusive local leisure and cultural facilities the most, exacerbating existing inequalities. Inevitably though, some trusts may need to make the difficult choice to focus on commercial income as a priority in the immediate future to ensure business survival.

When asked for their priorities in the next few months, leisure and culture trusts responded that they will need to focus on the day-to-day business in the next few months, including increasing participation numbers, expanding their programming, exploring alternative income streams, renegotiating contracts, and addressing their recruitment and retention challenges.

Their focus on local programmes and recovery of their business supports the government in its priorities on preventing ill health, supporting good mental health, and tackling obesity, as members aim to bring back and expand their health programmes as a priority. Furthermore, early results from the Moving Communities platform clearly evidences that public leisure delivered by trusts generates a significantly higher social value than the national average[7].

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[7] Community Leisure UK is working with Sport England, DataHub and the Moving Communities platform to identify the value of public leisure delivered through the charitable trust model. A full report will be coming out in the next few months and a webinar for members will be set up to share all insights.

These programmes are the core of the public leisure and culture offer, with the focus of our members firmly on wellbeing for their communities, including exercise referral, social prescribing, falls prevention, activities to support mental health, support for care experienced young people, walking groups, classes for people with a range of long-term conditions, and weight management.

However, leisure and culture trusts, while ideally positioned as community anchor organisations, are at risk of being left out of national placemaking and economic development work, as they do not have the capacity to proactively respond to new projects and funds in collaboration with their local authority partners, such as the upcoming UK Shared Prosperity Fund and further rounds of the Levelling Up Fund. It is vital, therefore, that local authorities and national agencies work with leisure and culture trusts to ensure that they are actively consulted on and included in Levelling Up policies to ensure the well-being of our communities.

Differences across UK nations

While income recovery levels, the various cost pressures and the employment crisis are common themes across our membership, there are differences across England, Scotland and Wales, specific to each country, that may further impact leisure and culture trusts' ability to recover. As reported in earlier briefings, trusts in Scotland and Wales are in a relatively stronger financial position than their counterparts in England.

<u>England</u>

Local government in England is going through a reorganisation which causes further operational and financial uncertainty, with Councils in some areas merging to form unitary local authority areas. For some trusts, this means the transfer of existing contracts with their local authority partners to new combined authorities, losing established relationships and knowledge.

There are several leisure contracts coming to an end in the next two to three years, with uncertainty about the possibility to extend contracts with existing leisure trust partners. This is causing concerns about the level of support that local authorities can currently give to their local leisure trust, and puts a leisure trust in limbo, unable to make decisions on important investments in their business. If the contracts are not extended, then there will be an unavoidable disruption to the local leisure provision, which has a proportionally greater impact on more deprived communities.

To illustrate, one member told us: *"We have faced uncertainty about our LA contract […] We have been unable to invest in anything but essential maintenance […] and buildings are very tired and feel old and less welcoming than we would like. The link between a lack of investment and the cost of keeping venues open is understood by the LA, but a tender process is almost certain and bids for performance after investment will certainly be much better than current performance. It isn't possible to project recovery when there's so much uncertainty about the timing and extent of any investment and a tender process."*

The risk of a perceived need to go out to tender is potentially very harmful as many operators are in a weakened financial position post pandemic, and the temptation for local authorities to tender on lowest cost will inevitably be heightened due to financial pressures. There are alternative routes within the existing procurement regulations, including approaches such as innovation partnerships, but local authorities need to be supported and enabled to seriously consider alternatives to procurement.

The support received through the National Leisure Recovery Fund (NLRF) for leisure trusts has been insignificant compared to the support provided by Local Authorities and the support available to culture trusts through the Culture Recovery Fund. To illustrate, one member received £1.1m in NLRF while their local authority provided £7.5m in additional funding, with more required over the next few years.

Scotland

Local authorities across Scotland have provided financial support for their leisure and culture trust partners, through increased management fees, underwriting losses, letters of comfort and offering loans. However, unlike in England and Wales there has been no support through National Government for leisure, with the responsibility entirely on the shoulders of local authorities. There has been culture funding, however, this has been significantly less than across England, with many of the grants not open to culture trusts.

Wales

Similar to Scotland, members in Wales have not been able to access a second and third round of Culture Recovery Funding that helped them prepare and plan their cultural programming post-lockdown. This lack of continuity funding hinders their ability to invest and innovate in new programmes. However, unlike Scotland, Welsh leisure trusts have been able to access sector-specific funding thanks to various Covid funding programmes developed by Sport Wales, with access for leisure trusts guaranteed.

The Hardship Fund for Local Authorities has been a lifeline for Welsh leisure and culture trusts, especially as Local Authorities face their own financial challenges. Thanks to this Fund, Welsh trusts have had to use significantly less of their reserves than their counterparts in Scotland and England.