

PLYMOUTH ACTIVE LEISURE CONTRACT EXTENSION



1. EXECUTIVE SUMMARY

Being physically active is key to living a long, healthier, happier and more independent life. Plymouth Active Leisure Ltd (PAL) was set up to be a city leader in this space, being well placed to support the residents of Plymouth to get and stay active to reduce their risk of lifestyle related diseases including obesity, diabetes, cardiovascular disease and dementia. PAL was created in 2022 replacing the previous provider Everyone Active. Plymouth City Council (PCC) established PAL quickly to ensure that the residents of Plymouth had a physical activity offer and to support PCC's own corporate agendas including addressing inactivity and other health outcomes.

PAL has had a strong 12 months seeing improvements across its strategic and operational business functions and has seen its financial position improve year-on-year. PAL also provides a significant social value contribution to the city through increased participation and broader community engagement. PAL is now seeking a long-term commitment to make significant new investments across its sites to drive better outcomes linked to its new strategic plan. This will allow PAL to deal with its startup costs, reduce its PCC management fee, and invest in facilities. This report sets out the recommendation to extend the existing contract and provide further financial investment in PAL to support its ambitious new strategic plan to grow and provide a £160m investment into sport and activity into the City over the medium term and to provide an increase in social value, outcomes and new income for PCC.

Extending the contract will enable PAL to repay outstanding loan debts over a longer period, provide operational stability, and allow PAL to continue to align its services with PCC's wider corporate priorities and those priorities of the City. This approach supports the reimagining of local public sector leisure services focused on active wellbeing, while maintaining income growth and fulfilling financial obligations to PCC.

2. BACKGROUND

2.1 The Thrive Programme

The Thrive programme in Plymouth was launched in 2014 to address health inequalities in Plymouth with an initial focus on 4-4-54 construct to address four health behaviours (poor diet, lack of physical activity, tobacco use and excess alcohol consumption), contribute to four diseases (coronary heart disease, stroke, cancer and respiratory disease), responsible for 54% of deaths in Plymouth. We also

know that mental health indicators have worsened over time, as has obesity, and Plymouth shows high levels of physical inactivity. Our ageing population also presents a likely increased demand for services such as dementia care. Wider issues around community cohesion, safety, housing and poverty remain a challenge for some communities.

Being physically active can improve all aspects of individual wellbeing and is protective against excess weight, heart disease, stroke, diabetes, and cancer. It also improves mental health, delays the onset of dementia, and can help prevent falls and fractures. The NHS recommends 150 minutes of moderate exercise per week for adults, and 60 minutes of physical activity per day for children aged 5-18 years. The estimated cost of physical inactivity to the UK is £7.4 billion annually, including £0.9 billion to the NHS. Physical activity levels are known to vary with deprivation, with those in lower socio-economic groups being less likely to meet recommended amounts of activity. 18.4% of Plymouth adults do less than 30 minutes exercise per week; nationally 24% of men and 42% of women are not active enough for good health and 1 in 6 UK deaths are associated with lack of physical activity.

Plymouth is an ambitious city when it comes to improving the health and wellbeing of its residents, linked to the Thrive and Active to Thrive Programmes. PAL plays a key role in the city to support the residents of Plymouth to improve and maintain their own health and wellbeing to safeguard their health now and into the future. PAL is well placed to provide key opportunities to all our residents to give them access to assets and expertise to help them achieve happier, healthier lives in which they can maintain their independence for longer.

2.2 The Creation of Plymouth Active Leisure

In August 2021, PCC approved the creation of PAL, a local authority trading company (LATCo), to manage its leisure facilities under an initial 10-year contract. PAL began operation in April 2022 following the end of the Everyone Active contract. At the time, procuring a new operator was not viable because the leisure sector was severely impacted by COVID-19 and no operators were bidding. The decision aimed to align leisure services with PCC priorities, particularly reducing health inequalities, supporting vulnerable communities and collaborating to maximize opportunities around the National Marine Park (NMP).

PAL is a Teckal company, wholly owned by PCC but governed by an independent Board. It manages sites including the Plymouth Life Centre, Plympton Pool and Gym, Tinside Lido, and Mount Wise Outdoor Pools, and works to embed physical activity into health pathways such as social prescribing and rehabilitation. PAL has established strong partnerships with organisations such as the NHS Trust, Swim England, YMCA Plymouth, and NMP. PAL delivers key city initiatives such as Fit and Fed and Let's Ride. Using Sport England's Moving Communities platform, PAL's social value is estimated at £11.7

million, highlighting its role in improving health, wellbeing, and community outcomes. Under the current leases, PAL has tenant maintenance responsibilities.

2.3 Overview of PAL Progression since 2022

- PAL has shown resilience and been proactive in progressing the business since its startup, despite challenging circumstances. The back of house systems have seen improvements including financial reporting and other business critical systems that were failing or not set up correctly. Business KPIs have shown positive progress, for example, membership numbers and income have grown significantly and key projects at the Life Centre (gym) and Tinside (cafe and events space) have been delivered. There have been improvements and investment in the staff to help create a commercial and city focused team who are proud to work for the company. PAL has integrated across professional communities of the city and nationally with key collaborations created with not only PCC departments but also Active Devon, YMCA Plymouth, the NHS, Wolseley Trust, the Royal Navy and more. Nationally PAL has put Plymouth on the map with impressive work with the Local Government Association, UK Active and Swim England. PAL's Active Lifestyles team was created when PCC's Sports Development Team transferred into PAL in April 2024 giving them a renewed purpose to tackle inequalities and inactivity across the city. Work has been done to upskill this team and they now do impactful work on programmes such as Parkinsons, diabetes, safe cycling, Fit and Fed, SEND, children with excessive weight, mental health and an innovative programme working with Derriford Hospital that has seen one of their community physiotherapy clinics moving into the Life Centre permanently. The jewel in the crown for PAL is the Active Referral scheme that was launched in October 2024 which offers an 8-week free targeted session to those most in need. PAL is scheduled to begin working with Livewell to target residents who are on waiting lists for tier three weight management programmes where there is a pressure of around 2000 on a waiting list and an approximate two year wait for treatment. PAL has proven that it is able to significantly support health services to reduce pressure on them and the healthcare system. PAL has also been able to host events such as the National Junior Diving championships, with Plymouth Diving still being held in high regard nationally with currently one athlete on course to represent GB at the next Olympics.
- PAL continues to be ambitious with a team structure and a Board that shares the same vision. PAL is values driven but will act commercially and with the best interests of the city and its residents at its heart. Some highlights of PALs journey are noted in the table below and detailed in PALs annual report

<p>Fitness membership growth of 48% since 2022 (49,415 unique users)</p> <p>Swim School growth of 31% since 2022.</p> <p>Income growth of 29% (vs 22/23)</p> <p>Fitness income increase of 40%</p> <p>Swim School income increased 49%.</p> <p>Overall cost base increased by only 12% since 2022</p> <p>Payroll increased by 36% (NMW/NI)</p> <p>Profit and Loss improvement of 80% since the first year</p> <p>£11.7m of social impact from attendances per year</p> <p>Annual attendances of 1.4m forecast 25/26</p> <p>2453 young people attended youth nights at Tinside as part of NMP sessions</p> <p>668 children took part in Swim safe which is the largest campaign in England</p> <p>Active Lifestyles team secured £1,072,399 of funding in 24/25</p>	<p>The Sports Delivery Unit transferred over to become the Active Wellbeing Team – focusing on inactivity and inequalities.</p> <p>Collaborations with health services including Derriford Physiotherapists</p> <p>SEND and excessive weight programmes work is being done.</p> <p>Active Referral was launched to tackle inequalities in collaboration with partners.</p> <p>Improved exec team, governance, and structure of board</p> <p>National recognition – contributing to national agendas. Plymouth ‘on the map’.</p> <p>2025 Finalist Swim England Award for Innovative Pool Operator</p> <p>2024 PAL 2nd for National Employers for Gender Equality in Sport</p> <p>Staff Survey 2025 – 76% state they are proud to work for PAL</p> <p>Employed six leisure apprentices</p> <p>Improved the Looked After Children's and Care Leavers offer (best practice LGA) - 801 attendances in 24/25</p>
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3. PROPOSED CHANGES AND REASONS

3.1 Drivers for Change

PAL has made a significant impact in a very short time. The initial period of the contract was dominated by the startup phase and dealing with Covid recovery. In the past 24 months the PAL Board, working closely with PCC, has driven a full strategic review of the business and developed a new ambitious strategic plan (appendix E) and new financial model. To deliver the full impact of a new strategic plan, PAL has requested an extended contract for the following reasons:

- The current contract term does not take account of the time needed for handover and start up, and recovery from the Covid-19 pandemic took longer for the sector to recover from and remains an issue. Coupled with the impact of the Ukraine war on utility costs and the rapid rise in the national minimum wage, these factors mean that additional time is needed for PAL to

repay its startup costs - a longer term is required for business cases for investment to allow time for a sufficient payback period. It is likely that, with time and investment, a longer-term contract could generate income and lower net costs for PCC over time.

- Investment in buildings and facilities is required given the age of the assets; a longer-term contract will enable a strategic asset management approach to be taken in partnership between PCC and PAL, with the opportunity to maximise returns on investment to fund improved asset management.
- A longer contract, aligned with the new strategic plan, offers an opportunity for long-term transformation and would enable a significant investment in sports and physical activity for the City.
- It is proposed that PCC extend the contract term. PAL has demonstrated competence and resilience in addressing legacy issues inherited from the previous operator and has delivered improved financial and operational performance over the past two years. Social value outcomes continue to strengthen, with Sport England data confirming a high return on investment for every pound spent. The extension of contract time will enable PAL to repay their startup costs over a longer period and provide assurance that they can continue to trade, enabling them to provide city-focused exciting facilities that align with PCC's wider prevention agendas and opportunities that are centered on active wellbeing, whilst maintaining income growth.

3.2 The New Vision for PAL

Over the past 12 months, there has been a resetting of the PAL Board, including a new Board Chair and PCC Client lead, two new Board directors and the introduction of two high profile leisure industry non-executive directors. The executive team has also been strengthened with new appointments made to deliver a high-class service. Considerable time has been taken to ensure that the business plan is robust; a new strategic vision has been established, and financial planning has been done to set PAL on the right path to success for the future.

The strategic plan is as follows:

The Vision -To make Plymouth the most physically active coastal city and to help residents live happier, healthier and more active lives

The Mission - As systems leaders, we will unite with partners to foster meaningful connections that improve health and wellbeing, reduce inequalities, and inspire future generations.

The strategic aims are:

Increase participation and engagement - PAL will provide a safe, inclusive, and affordable community environment that empowers residents to lead more active, happy, and healthy lives.

PAL will ensure every young person has the opportunity to learn to swim, building life-saving skills and confidence around water.

Improving health and wellbeing – PAL will create and strengthen partnerships that deliver targeted opportunities to educate, reduce inequalities, and empower individuals to improve their health and wellbeing. Through collaboration, we will amplify impact and ensure support reaches those who need it most.

Inspiring Plymouth - PAL will maximise Plymouth's unique blue infrastructure to attract investment, support placemaking, and elevate the City's identity as a vibrant coastal destination. By inspiring future athletes and expanding access to aquatic opportunities, we will position ourselves as a national leader in aquatics and water-based sport development.

Operational Excellent - As an employer of choice, PAL will minimise our carbon footprint and deliver high-quality services through a compassionate, skilled, and motivated workforce. By investing in people and sustainability, we will consistently exceed customer expectations and lead with purpose.

Sustainable Business - PAL will lead with innovation, ensuring our organisation remains economically viable and socially responsible. Through creative thinking, sound financial management, and a commitment to community impact, PAL will deliver long-term value.

3.3 Engagement with Consultancy (Strategic Leisure)

In summer 2025, PCC engaged with an external leisure consultancy company (Strategic Leisure) to assess the proposed business plan for PAL. A summary of their findings is detailed below:

- When PAL was established in 2022 as a LATCO - the original rationale was based on an options appraisal that suggested a modest net benefit of £12,000 over five years, coupled with significant market uncertainty at the time. In practice, PAL was implemented quickly, with high start-up costs of around £500,000 and a number of operational considerations overlooked during handover.
- Since its inception, PAL has delivered a range of positive outcomes. These include the opening of a new gym at the Life Centre, increased participation in fitness and aquatics, integration of Active Lifestyles programmes, and a strong community offer. Social value has been quantified by Sport England at £11.7 million, and the agency model has generated VAT savings. However, PAL has also faced challenges: projected savings have not materialized; net costs to the Council have been higher than expected (between £400,000 and £750,000 per annum above projections), and cash flow difficulties have persisted. However, the financial position is improving with minimal losses in 2024/25 (although aided by a utility rebate). Market penetration remains limited, with the fitness market share estimated at just 1.9%.

- PAL has requested a long-term contract extension of 20–25 years. This represents a significant commitment for PCC, particularly given that leisure is a non-statutory service. Alternatives have been considered: ceasing the service is politically unrealistic; bringing operations fully in-house would be financially unviable; and establishing an independent trust would replicate existing issues with less PCC control. Outsourcing the contract could deliver economies of scale, access to capital, and some risk transfer, but would involve procurement costs, leave PCC responsible for building liabilities, and prevent recovery of existing losses.

4. ALTERNATIVE OPTIONS

<p>Option 1. Cease the Service</p> <p>As leisure provision is discretionary, PCC is not legally required to provide these services. However, the service delivered by PAL is critical to sustaining participation in physical activity and generates significant social value, including measurable socio-economic benefits. It also contributes directly to corporate objectives. Ceasing the service would risk displacement of participation and jeopardize long-term grant funding from Sport England and other bodies which was predicated on service delivery a 21-year term (commencement 2011). This option is not considered tenable.</p>	<p>Option 2. Establish a Fully Independent Trust</p> <p>Creating an independent charitable trust to operate leisure facilities was considered primarily for potential tax savings. However, recent HMRC changes to VAT rules have reduced the financial viability of this model. Since COVID-19, few new trusts have been established, and several existing trusts have experienced financial instability. Transferring operations to a new trust would not resolve current challenges; it would replicate existing issues with reduced PCC control and increased risk. This option is not likely to be viable.</p>
<p>Option 3. Bring the Service Fully In-House</p> <p>Returning the service to full PCC control would incur substantial additional costs, including NNDR liabilities and enhanced staff terms and pension obligations. Based on market knowledge and an assessment of the situation in Plymouth - independent advice taken has highlighted that there are only two viable options for PCC to consider. This option is not likely to be viable.</p>	<p>Option 4. Outsource the Contract (like the previous arrangement)</p> <p>Advantages and disadvantages are varied. There would be economies of scale and supply chain benefits – Large operators manage multiple local authority contracts and can reduce overheads, access specialist staff, and potentially secure cheaper goods and services such as utilities (though this is not guaranteed). There are national brands – some operators offer recognised health and fitness products, enabling customers to access facilities in other areas,</p>

though this may have limited benefit in the West Country. Market recovery – the public sector leisure management market has recovered from COVID-19, unlike in 2021. There is the opportunity to access capital – commercial operators may invest their own capital, but only in schemes delivering a positive financial return during the contract. Capital costs would be built into the financial bid.

Disadvantages of outsourcing are also noted. There would be costs and disruption – breaking the current contract and running a procurement exercise would cost around £200k and take approximately 12 months for a medium-term contract (10+ years) with social value targets and maintenance profiling. There would be no ability to recover debt – PAL is indebted to PCC, and start-up costs would be lost if PAL ceases to exist. There is a possible impact from Local Government Reorganisation (LGR) – operators may seek additional assurances around contract term due to LGR. There would still be building liabilities – PCC would still retain responsibility for major lifecycle maintenance, which many operators would avoid. Currently PAL aligns with the policy making of PCC - large operators with national brands are unlikely to fully align with PCC policies or adapt quickly to new priorities without formal contract changes/costs. There is not enough time – there is not enough time to complete a full procurement before February 2026.

The outsourcing option is not recommended at this stage but may be revisited at a future contract break point.

Option 5. Retain the Services of PAL (Recommended).**Advantages of retaining the service of PAL**

- Less disruption – PAL has shown it can manage the business and overcome challenges, with income and usage trending positively. PCC has already undergone one costly transition; another would incur further expense, significant officer and member time, and disrupt service users.
- Political support – the current administration values PAL's role in achieving corporate objectives and improving quality of life. PAL operates as an extension of PCC, and this support is essential for the partnership to succeed.
- Alignment with PCC priorities – PAL was created to deliver PCC's leisure agenda and corporate objectives. As an arms-length entity, its aims align closely with PCC, whereas outsourcing may not guarantee full alignment to PCC policies.
- Social value outcomes continue to strengthen, with Sport England data confirming a high return on investment for every pound spent.
- Debt repayment – retaining PAL allows for a long-term approach to repaying existing debt and any additional funding provided to it by PCC.

Disadvantages of retaining PAL

- PAL is wholly owned by PCC, meaning all financial and operational risks remain with PCC, as well as landlord maintenance and building replacement responsibilities. As a single-contract entity, PAL cannot access the economies of scale available to larger national operators, although this can only be confirmed through a full procurement exercise.
- Retaining PAL offers continuity, political support, and alignment with PCC priorities, but also places all financial risk with PCC and leaves staff costs high. Outsourcing presents opportunities but would require breaking the current contract and carries its own risks.

For the reasons given above, retaining PAL is recommended.

Strategic Leisure advised that, on balance, PCC should retain PAL, extend the contract, and agree the requested working capital support loan. Two contractual options were proposed: either confirming the current contract period to 2032 with an option to extend to 2042 or granting a 10-year extension to 2042 with a break clause in 2032. In either case, any extension and loan support should be conditional on quantified and agreed KPIs. These should cover financial performance (income, expenditure, net cost, cash flow, loan repayment), social value (usage by target groups, contribution to health outcomes), and operational delivery (programme development, staff cost ratios, membership metrics).

PAL has delivered tangible community benefits but remains financially fragile. PCC is asked to commit to a long-term extension and additional loan support, recognising both the risks and the potential for stabilization and improvement under a more disciplined contractual framework.

5. FINANCIAL IMPLICATIONS AND RISK

The proposed extension of the current contract offers opportunities for growth and service enhancement, while also presenting financial risks that require robust mitigation. Importantly, PAL has demonstrated an improving financial position, with modelling indicating that this trend will continue under the proposed extension.

However, PAL will require ongoing support from PCC to recover from a working capital deficit built in the early years of the current contract, which was an impact of COVID and start-up costs.

Contract extension will require PCC to commit to providing additional working capital support through an additional loan. Ensuring that all working capital loans are repaid through growth in income will be key to mitigating financial risk. This will be achieved through a robust review of business cases for income generation, the introduction of a KPI framework (appendix B) and the use of a break clause or similar to provide an opportunity for PCC to review, as lender and parent company, the financial position of PAL across the medium term.

The financial model underpinning the proposed extension is based on prudent assumptions, sensitivity analysis including conservative estimates for income growth. It incorporates opportunities to diversify income streams, and there are additional potential projects in the pipeline that are not factored into the modelling giving prospects for future growth.

An extended contract term is likely to reduce the level of operational subsidy required over time, and could ultimately generate a budget surplus for the Council.

As part of the engagement with external consultants; Strategic Leisure reviewed the underlying assumptions made in the modelling and business plan, commenting that it is 'comprehensive and credible' and the assumptions regarding income and expenditure are 'realistic and supportable'. However, it is important to acknowledge that these assumptions carry inherent risk, and actual performance could diverge from the financial modelling.

Governance

PAL has an established Board, chaired by the Service Director of Economic Development. The Board is made up of members that hold formal director positions including the Head of Procurement, Director of communities, a Public Health Consultant and two non-executive directors. The sole shareholder (the client) is PCC and is represented by the Director of Public Health.