LONDON BOROUGH OF CAMDEN	**WARDS:** All
REPORT TITLE Camden Leisure Centre Management Contract Potential Modifications (SC/2025/71)	
REPORT OF Cabinet Member for Voluntary Sector, Cohesion and Equalities	
FOR SUBMISSION TO Cabinet	**DATE** 10th December 2025

STRATEGIC CONTEXT

Camden's leisure centres are operated by Greenwich Leisure Limited (GLL). Our six centres offer a mix of universal and targeted opportunities for residents (and non-residents) to be physically active. There is compelling evidence that being physically active at any age will improve physical and mental health and wellbeing. With over 2.5 million annual visits Camden's leisure centres are playing an important part of delivering the We Make Camden health ambitions.

SUMMARY OF REPORT

This report seeks approval of the proposed variations to the Leisure Centre Management Contract between the Council and GLL. The first variation aims to implement an 'agency model' that will allow the contract to benefit from recently updated His Majesty's Revenue and Customs (HMRC) tax rules, helping the Council achieve a previously agreed Medium Term Financial Strategy (MTFS) saving. The second variation requests approval to extend the Contract with GLL by five years, enabling better financial recovery following the Covid-19 pandemic.

The report is coming to the Cabinet for a decision to modify and extend the Leisure Centre Management Contract outside the terms of the original contract.

Local Government Act 1972 – Access to Information

The following document(s) has been used in the preparation of this report:

'No documents that require listing were used in the preparation of this report'.

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RECOMMENDATIONS

That the Cabinet;

1. Agree to modify the Camden Leisure Centre Management Contract so that GLL can operate the centres as an ‘agent’ for the Council rather than the ‘principal’ as set out in paragraphs 3.1 to 3.9 of this report.

2. Agree to extend the Camden Leisure Centre Management Contract for a period of five years from 2030 to 2035 as set out in paragraphs 3.10 to 3.24 of this report.

Signed:

Oliver Jones
Director of Recreation and Public Safety

Date:27th November 2025

1. CONTEXT AND BACKGROUND

1.1. Camden's Leisure offer is the foundation of residents' access to affordable exercise options in the borough. Our six leisure centres provide a mix of universal and targeted opportunities for residents and our working population to stay physically active as can be seen in appendix 2.

1.2. The Leisure Centre Management Contract is outsourced and offers excellent value for money in terms of income to the Council as well as social and health outcomes for our residents and contributes to our prevention agenda.

1.3. GLL is a staff owned, charitable social enterprise and a trusted partner. They have managed Camden's Leisure Centres since 2005 and were successful in bidding for the 2020-2030 contract. They understand and share the Council's strategic vision and values.

1.4. Given the immediate and varied impacts of the Covid-19 pandemic coinciding with the start of the contract, the period from 2020 to 2022 is recognised as the 'interim period'. The Council and GLL have been negotiating the effects of this interim period since 2022 the main impact of which has meant contract income is much less than anticipated. A further impact of the pandemic was the delayed capital improvement projects (now completed) and the later than anticipated opening of the new Kings Cross Fitness, both of which have also negatively impacted on contract income. All of this is overlayed against abnormal energy costs. The wider leisure industry was also affected therefore; the impacts of this period are not unique to Camden.

1.5. The impact of Covid-19 was particularly acute in Camden due to its high daytime population as a central London borough. The change in office working led to a significant drop in corporate members which saw Camden's leisure centre membership reach a low of 22,488 in December 2022. The trend has now reversed and there are currently 27,548 members who visited our Leisure Centres over 2.4 million times in the last 12 months, which is the most ever recorded. While a return to office working will have had a positive influence, GLL have also invested circa. £1.5m in Camden's leisure centres over the past three years to improve the customer experience and increase capacity.

1.6. While the contract with GLL delivers a financial benefit to the Council, the health and wellbeing benefits for its citizens are arguably more important. Of Camden's 27,548 members 12,447 are concessions, enjoying on average a 41% discount on memberships and activities, making access more affordable for those that need it. Leisure Centres make a positive contribution to physical activity participation in the borough. The latest Active Lives data 2023/24 (Sport England survey) highlights Camden as the most active borough in

London, with 77.4% of adults achieving the recommended levels of activity. This is further supported by an enhanced focus on social and health outcomes within the leisure contract, building on existing initiatives such as free swimming for residents aged 60 and over, the expansion of women-only programmes and pathways with the healthcare system such as stroke and neurorehabilitation.

1.7. While both organisations have done much work to restore memberships following the pandemic, which has subsequently led to a financial recovery, there is still more to be done to achieve a healthier financial position and deliver all of the intended social value outcomes of the current contract. As such, this report recommends two contract variations that will enable the Council and GLL to conclude negotiations (items mentioned in 1.4) with a mutually acceptable position.

2. PROPOSAL AND REASONS

2.1. The first contract modification is predicated on adopting an ‘agency model’ which will allow the Council and GLL to benefit financially from a more tax efficient contract structure. This is needed to deliver a £400k p.a. saving identified as part of the 2022 Medium Term Financial Strategy.

2.2. The second contract modification has been borne out of the negotiations regarding the ‘interim period’ between the Council and GLL, with GLL proposing to extend the current contract terms. The rationale for this includes:

- A longer opportunity for both organisations to financially recover from the Covid period.
- An opportunity for additional capital investment for Camden’s Leisure Centres.
- An opportunity to better deliver against the social value outcomes identified in the original contract.

2.3. Officers are recommending that the contract is modified to take both proposals into account described in more detail in section 3.

3. OPTIONS APPRAISAL

3.1. <u>Modifying the contract to adopt ‘an agency model’.</u>

3.2. The Council’s contract with GLL is a “traditional” (concession) leisure contract, where the Council leases the leisure facilities to GLL and GLL operates the facilities as principal providing the leisure services to the public. GLL retains the income from the leisure facilities and pays the Council a management payment as guaranteed in their bid; but essentially this is calculated on forecasted income and expenditure with GLL taking the risk on actual performance.

3.3. The current contractual arrangements follow the widely adopted model for local authority leisure outsourcing, which was until recently the most VAT-efficient structure, particularly for local authorities. It transfers what would have been relatively significant levels of VAT-exempt business activity (i.e. from sports tuition and blocked bookings) to another party. By doing so, the local authority can invest in its facilities or keep them running without threatening its wider VAT recovery position.

3.4. In March 2023, His Majesty's Revenue and Customs (HMRC) announced a change in the VAT treatment of leisure services provided by local authorities. Previously, local authorities that provided in-house leisure services to members of the public were to treat those supplies as business activities for VAT purposes.

3.5. However, following a decision of the Upper Tribunal in Chelmsford City Council v Commissioners for HM Revenue and Customs [2022] UKUT 00149 (TCC) (the Chelmsford Case), HMRC changed its position. HMRC has stated that these services are classified as non-business supplies for VAT purposes. This means that local authorities pay no VAT on their income, as well as reclaiming all the VAT they incur on the related costs.

3.6. Now that the VAT liability of local authority leisure services has changed there is an option to switch to a compliant and more VAT-efficient approach for the operation of Camden's Leisure Centres. A contract modification to implement an arrangement, the 'agency model' will benefit both the Council and GLL by way of reduced costs whilst protecting the Council's VAT risk position. The Council will continue to pay VAT as normal, but leisure income will be treated differently in accordance with new HMRC requirements.

3.7. The contract terms will need to be altered in such a way so that GLL acts as the Council's agent in making the supplies to the public on the Councils behalf as the 'principal', but the liability position remains the same as before the agency arrangements were introduced.

3.8. Advice has been sought from the Council's Tax Advisors, PS Tax and from external legal advisers Sharpe Pritchard LLP on the detailed contractual and HMRC implications for adopting the Agency Model. This detailed advice can be found in the Part II exempt report. However, for the avoidance of doubt PS Tax confirm that the 'agency model' is a completely legitimate business arrangement for Camden to adopt.

3.9. There will need to be some additional financial processes set up as GLL will be collecting income on the Council's behalf. Income will be properly accounted for and form part of the Council's monthly VAT reporting to HMRC. The Council's finance department do not anticipate any problems in putting robust systems in place.

3.10. <u>Extending the Leisure Centre Management Contract</u>

3.11. The contract is structured in such a way that GLL manages all the Council's leisure centres at no cost to the Council. Instead, the Council receives an annual average management payment from GLL worth up to circa £1.9m which is adjusted for inflation and risk share items.

3.12. GLL are offering five additional years management payment at the same value as year 10 of the current contract, which officers view favourably given the market is less buoyant than when GLL originally tendered. The five-year extension provides significant financial benefit and insulates the Council from future potential changes in the leisure market.

3.13. There are three options open to the Council in respect of extending the existing leisure management contract.

3.14. **Option 1 – do nothing – not recommended.**

3.15. The do-nothing option would mean the contract terminates on 31st March 2030. Given the impacts of the pandemic, it is highly unlikely that the contract will reach its full potential within the current contract period in terms of income.

3.16. Whilst GLL and the Council are working towards restoring income to forecast levels and delivering against the anticipated health and social value outcomes, to do so fully with less than half the contract term remaining will be challenging.

3.17. There remains a level of instability in the leisure market particularly in central London as work habits and trends continue to change. There is a risk that should Camden to go to market in 2030 bidders will submit management payments below the value proposed by GLL.

3.18. Uncertainty around future leisure income will hinder long term budget planning and stability both in terms of service provision and MTFS savings. Re-procurement would need to begin at least 20 months before the end of the current contract and carries significant costs.

3.19. **Option 2 – extend the contract for 3 years – not recommended.**

3.20. This option provides Camden with a substantial management payment in what would be years 11-13 but with a slightly longer extension GLL can offer additional benefits, as set out in option 3 below.

3.21. **Option 3 – extend the contract for 5 years – recommended.**

3.22. The longest extension brings with it the biggest financial benefit to Camden. Given the length of this extension GLL would assign substantial capital investment to Camden leisure centres. This would mean we are able to respond to shifting leisure trends by way of physical improvements to centres.

3.23. To improve on existing social and health outcomes, GLL in partnership with the Council will co-design a health prevention / intervention programme that will link with the existing healthcare system to tackle issues early and expand the targeted support already on offer to improve residents' health.

3.24. As with option 2 the management payment to the Council would be at the year-10 value of the current contract plus indexation in each year of the extension.

4. WHAT ARE THE KEY IMPACTS / RISKS? HOW WILL THEY BE ADDRESSED?

4.1. The following risks and mitigations have been identified and are summarised in the table.

Impact / Risk	Mitigation Strategy
Modifying the contract to an ‘agency model’ This will require a modification to the Camden Leisure Centre Management Contract.	GLL have moved to an agency model mid-contract in other Local Authorities, we will adapt our process using the learning from those that have gone before.
Extending the contract by 5 years This will require a modification to the Camden Leisure Centre Management Contract.	Such modifications have already been carried out by other Local Authorities in response to the significant and drawn-out impact of Covid-19.
Not modifying the contract to an ‘agency model’ This will create a £400k MTFS pressure per annum.	A larger proportion of the management payment would need to be used towards MTFS. This would reduce the amount of resource available to fulfil the landlord repair and maintenance obligations and for centre investment and almost certainly lead to future approaches to the Council’s Capital Programme.
Not extending the contract will hinder long term budget planning and stability.	GLL’s management payment offer for the extension is at year 10 value of the existing contract which officers believe to be strong based on contract performance and changing market trends.

5. CONSULTATION/ENGAGEMENT

5.1. The Leisure Centre Management Contract service specification was developed following a period of intense citizen and stakeholder-focused research, internal and external engagement. It follows a set of key service design principles shaped by resident feedback to ensure leisure centre services align to Camden's strategic priority outcomes. Should the contract be extended, the existing contract service specification will guide service delivery and performance standards.

6. LEGAL IMPLICATIONS

6.1. Legal Services has reviewed this report in the context of the Council's Contract Standing Orders ('CSO') and the Public Contract Regulations 2015 (as amended) ('PCR') that must be complied with.

6.2. The Council is seeking to extend the contract for a period of 5 years and at the same time vary the contract to an agency model. As is explained in the report these changes are to take advantage of recent legal rulings on treatment of VAT in the leisure services in the public market.

6.3. The Council employed third party solicitors, Sharpe Pritchard, with expertise in the leisure services field, rather than its in-house legal team, to advise the Council's leisure services department and the procurement team on the procurement and to draft the variations into the agreement. The procurement strategy has therefore been drafted accordingly to procure in compliance with the PCR. Advice received from Sharpe Pritchard can be found in exempt Part II appendix.

6.4. The Council have also instructed tax advisors, PS Tax, to enable the Council and GLL to implement the agency model consistent with HMRC's guidance.

6.5. Under Contract Standing Orders, the recommendation seeks Cabinet approval for extending and modifying the contract outside the terms of the original contract.

6.6. In coming to any decision Cabinet Members must take into account the Council's equality duties. In summary these legal obligations require the Council, when exercising its functions, to have 'due regard' to the need to 1. Eliminate discrimination, harassment and victimisation and other conduct prohibited under the Act; 2. to advance equality of opportunity between people who share a relevant protected characteristic and those who do not; 3. Foster good relations between people who share a relevant protected characteristic and those who do not (which involves tackling prejudice and promoting understanding). Under the Duty the relevant protected characteristics are Age, Disability, Gender reassignment, Pregnancy and maternity, Race, Religion, Sex, Sexual orientation. In respect of the first aim only i.e. reducing discrimination, etc the protected characteristic of marriage and civil partnership is also relevant. Cabinet also need to carefully consider the results of consultation undertaken and take it into account within their overall consideration of the recommendations. It is important that original consultation has informed the formulating of recommendations and that consultation undertaken was a reasonable, proportionate and effective exercise which meets the basic requirements of good consultation being that it was clear, had enough time allowed to ensure adequate participation and that the results have and will be fully taken into account.

7. RESOURCE IMPLICATIONS

7.1 The “Chelmsford Case” mentioned in 3.5 made clear that the local authority leisure services are a non-business activity and therefore not subject to VAT on the income generated from them. This also applies to local authority leisure services delivered by a contractor, provided that the contractor is acting as an agent. HMRC have set out six factors that it would typically expect to be present in any agent and principal relationship. These factors will be reflected in the contract modifications recommended by this report which have been guided by professional advice.

7.2 The proposed five-year extension to the contract will provide significant financial benefit to the Council by bringing in additional capital investment and a health programme. It will also provide certainty about the Council’s income from the management payment from GLL for a further five years, which will help the Council’s medium term financial planning.

8. ENVIRONMENTAL IMPLICATIONS

8.1 The proposed contract modifications do not alter the contractual environmental performance standard previously agreed. GLL have undertaken several energy and carbon reducing measures, such as upgrading lights to LED and improving ventilation, installation of pool covers and supported the Council with photovoltaic panels installation at Talacre Community Sports Centre.

8.2 The Council is scheduling two major decarbonisation schemes at Kentish Town Sports Centres and Swiss Cottage Leisure Centre which GLL is supporting.

9. TIMETABLE FOR IMPLEMENTATION

9.1. Subject to Cabinet approval the leisure centre management contract will be modified in accordance with recommendations in this report in line with the following timetable.

December 2025 – Cabinet decision

December (end) 2025 – Contract variation documentation prepared.

January 2025 – Contract variation signed.

February 2025 – Implementation of necessary changes / mobilisation.

10. APPENDICES

Appendix 1 – Part II Not for Publication
Appendix 2 – Leisure Centre Contract Health and Social Value Outcomes

REPORT ENDS