

Title of meeting: Culture, Leisure and Economic Development Decision Meeting

Subject: Pyramids Performance 12 Months After Re-opening

Date of meeting: 17 March 2023

Report by: Director of Culture, Leisure and Regulatory Services

Wards affected: St Jude (facility); Citywide (stakeholders)

1 Requested by

1.1 Cabinet Member for Culture Leisure and Economic Development

2 Purpose

2.1 To provide the Cabinet Member with performance metrics at the Pyramids over the past 12 months to inform a judgement on the effectiveness of the 2020-21 investment into the facility.

3 Information Requested

3.1 Background

3.1.1 The Pyramids has been a highly prominent leisure facility on Southsea seafront since it opened in 1988. Since 2013 it has been operated by BH Live.

Key dates	
Sep 2019	End of contract with BH Live
Oct 2019 to Mar 2022	Period of open-book operation when PCC underwrote trading deficits (for large parts of this period the Covid-19 pandemic restricted opening)
Nov 2020 to Jan 2022	The Pyramids underwent substantial re-purposing to convert the leisure pools into Exploria and the Plaza events space into a new gym.
Apr 2022	Main leisure facilities management contract varied to include the Pyramids - initially for 2 years.
Jan 2023	Pyramids completes 12 months in its new configuration

3.1.2 Between Nov 2020 and Dec 2021 the Pyramids underwent a phased re-purposing to address the significant and ongoing operational losses it had been making. In its final year of operation in its former configuration it made an operational loss of £714,870. While the last two weeks of March saw the centre close due to the Covid-19 pandemic the main reason for the losses was the leisure pool. The high energy costs and staffing costs of running the pool along with the declining

demand for leisure pools nationally (mirrored locally) made it impossible for the leisure pool to operate without substantial subsidy. Neither the operator nor the council was able to provide the high levels of subsidy needed to keep the pool open.

- 3.1.3** In March 2020 the operator BH Live proposed a re-purposing of the facility into a soft play and bounce attraction and a large health and fitness gym. This essentially retained the parts of the former configuration that were popular, enlarging them in the process, and removed the elements that were loss-making. Officers evaluated the options available (including closure of the Pyramids) and concluded that the most financially advantageous option which kept the Pyramids open as a leisure facility was BH Live's proposal.
- 3.1.4** The Pyramids already had £1.5m in the capital budget for refurbishment of mechanical and electrical systems and building fabric repairs. The Cabinet Member for Culture Leisure and Economic Development took the decision to re-allocate capital funds from various other capital schemes that, due to the Covid-19 pandemic, would no longer go ahead, along with funds from the Pyramids maintenance reserve, to add to the existing £1.5m to allow the project to proceed. This delegated decision was reported to CLED on 16 October 2020.
- 3.1.5** This re-purposing produced Exploria, an indoor play and bounce attraction in the former pool hall and a large well-equipped gym with group exercise studios in the former Plaza events space.
- 3.1.6** Exploria opened in August 2021 and the gym, under the BH Live Active brand, opened in January 2022. Consequently in January 2023 the Pyramids had been open fully for 12 months.
- 3.1.7** When BH Live were awarded the contract to operate the newly re-purposed Pyramids it was done so via a variation to the main Leisure Facilities Management Contract (which had included provision to do so when it was tendered in 2017). BH Live were awarded an initial two years rather than a longer period as it was not known how the facility would perform. The parties agreed to review performance after a year and decide whether to extend the Pyramids contract to be co-terminus with the main contract. The report to cabinet with details of the post-Covid deal was on 22 March 2022.
- 3.1.8** This report presents performance metrics that will be used in the ensuing review and is intended to provide the Cabinet Member with early insight into the performance of the facility after 12 months of fully open trading. As the main Leisure Facilities Management Contract is classed as a Strategic Contract under the council's Contract Procedure Rules approval to extend must be sought from the Cabinet. So, following negotiation with BH Live, a report will be brought to Cabinet with appropriate recommendations.

3.2 Trading

3.2.1 Pyramids trading account pre-Covid-19 FY (2019/20): **£714,870 deficit.**

Pyramids trading account current FY (2022/23): projected **£74,498 deficit.**

This represents a **90% reduction in the subsidy required** to operate the Pyramids, and as data below will show this is still an improving picture.

3.3 Energy consumption

3.3.1 Energy consumption/cost in the pre-Covid-19 configuration

	Gas	Electricity	TOTAL
Annual energy consumption in the pre-Covid configuration (ie leisure pool, small gym, events space) (kWh)	4,094,277	1,883,599	5,977,876
Annual energy cost in pre-Covid configuration (ie leisure pool, small gym, events space) (£)	£95,904	£253,825	£349,729

	Gas	Electricity	TOTAL
Annual energy consumption in the current configuration (ie Exploria, large gym) (kWh)	1,149,500	826,336	1,975,836
Annual energy cost in the current configuration (ie Exploria, large gym) (£)	£46,897	£146,261	£193,158

- The re-configuration of the Pyramids has reduced energy consumption by **67%**
- Despite the high levels of inflation in energy costs over the first year of operation, the re-configuration of the Pyramids has reduced energy cost by **45%**

The 'do nothing' option

3.3.2 One of the options officers evaluated was to reject the BH Live reconfiguration proposal and re-open after the Covid-19 pandemic in the same configuration. This was rejected as being financially disadvantageous to the Exploria/gym proposal.

3.3.3 Had the Pyramids re-opened in an unchanged configuration the energy market inflation would have had a severe impact on the trading account.

There is also no evidence to suggest that the operating deficit (excluding energy costs) would have improved. Indeed general (non-energy) inflationary factors would have tended to make the situation worse. If you then add the extremely high energy inflation to this picture the estimated trading deficit of operating the Pyramids in its pre-Covid configuration in 2023 would be a **£897,952 deficit**.

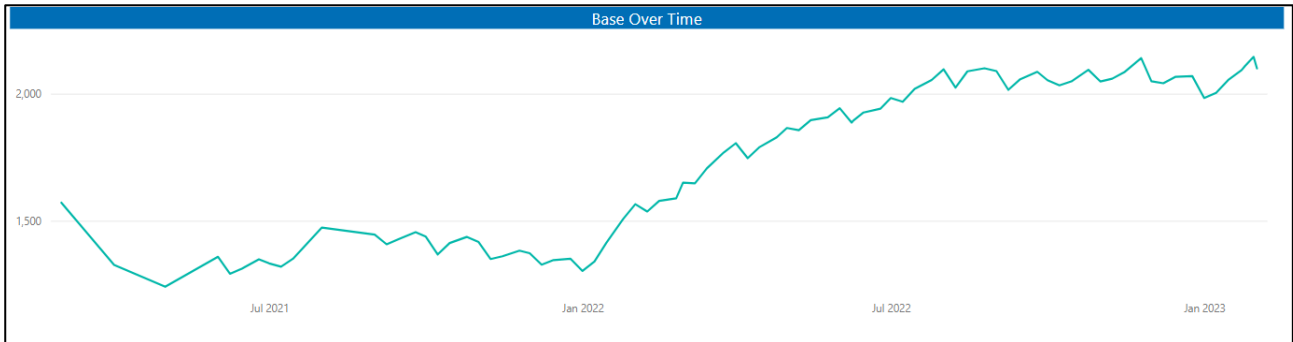
3.3.4 There is no PCC budget for this level of subsidy, and the operator would certainly not have contracted to run the Pyramids in this way. The clear conclusion is that if the re-configuration into Exploria and the new large gym had not taken place the Pyramids would certainly have been forced to close.

3.4 Participation

3.4.1 Financial factors are not the only ones worth considering in this context. The Pyramids provides a place for people to participate in physical exercise, indoor leisure and recreation, and social interaction. Declining participation levels for leisure pools, and the limitations of the small gym meant that the pre-Covid configuration was not maximising participation.

Since re-opening in its new configuration the Pyramids has seen growth in participation which exceeds pre-Covid levels in Exploria and is approaching pre-Covid levels in the gym.

3.4.2 Pyramids Health and fitness memberships

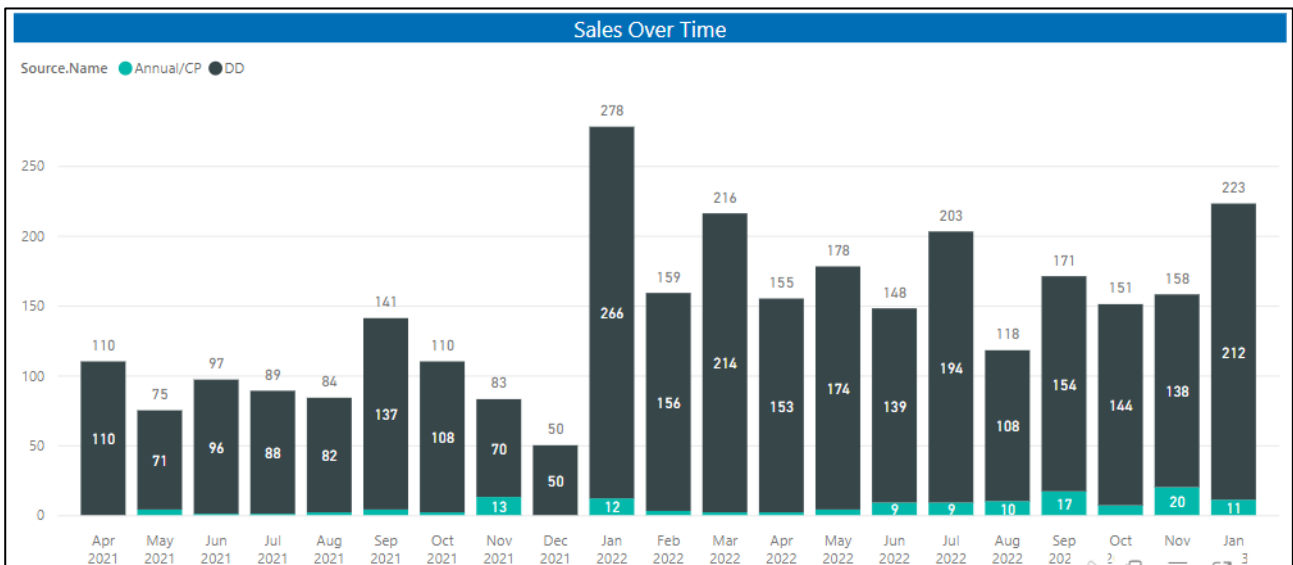


Gym membership before the Covid-19 pandemic was around 2,400. The graph above picks up membership levels early-pandemic and shows that while the temporary gym was open in the Glasshouse membership was between 1,200 and 1,400 (just before the new gym re-opened).

Once the new gym re-opened memberships have steadily grown over the following 12 months. Membership now is 2,164. This is projected to continue to grow towards pre-pandemic levels and beyond. Whilst growth in membership is continuing, the cost-of-living crisis is a constraint.

For comparison membership at the Mountbatten Centre is around 3,800.

3.4.3 Pyramids membership sales

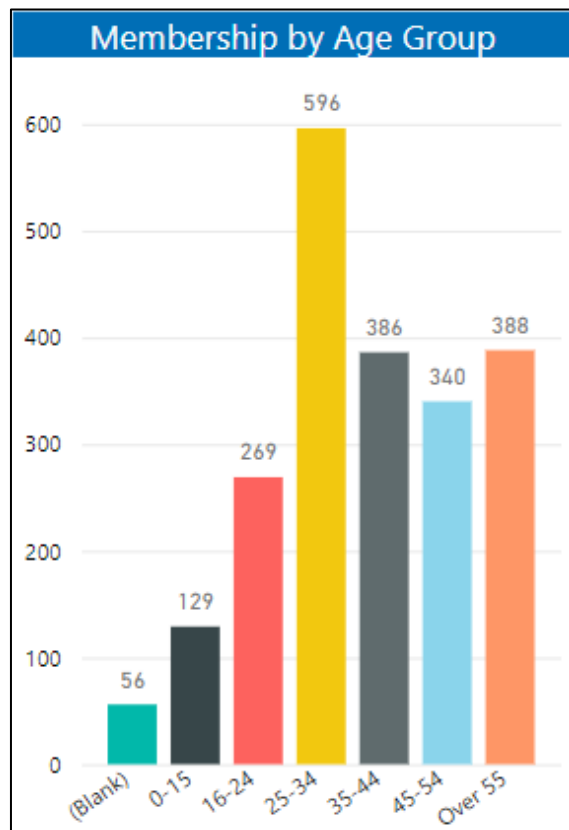


This graph shows the impact on the opening of the new gym on membership sales (ie new members) and that interest in membership has been sustained throughout the first year of opening.

3.4.4 Pyramids health and fitness postcode analysis



3.4.5 Pyramids health and fitness membership by age group



3.4.6 Exploria participation levels

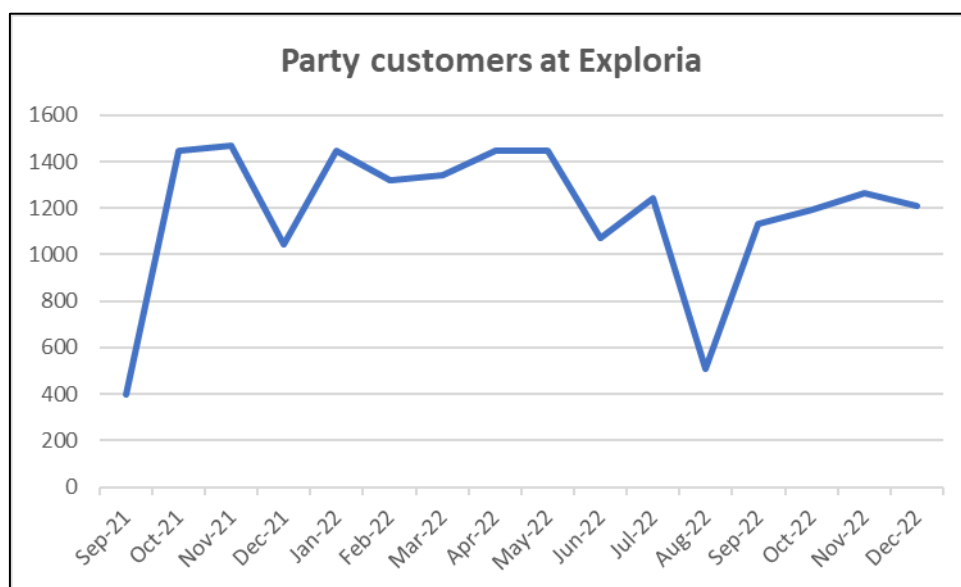
In its first 12 months since opening in August 2021 Exploria participation was higher by 27% than the pre-Covid-10 participation levels for the leisure pools.



This graph shows that periods of high ticket sales correspond to school holidays and half terms, and that interest has generally been maintained since opening.

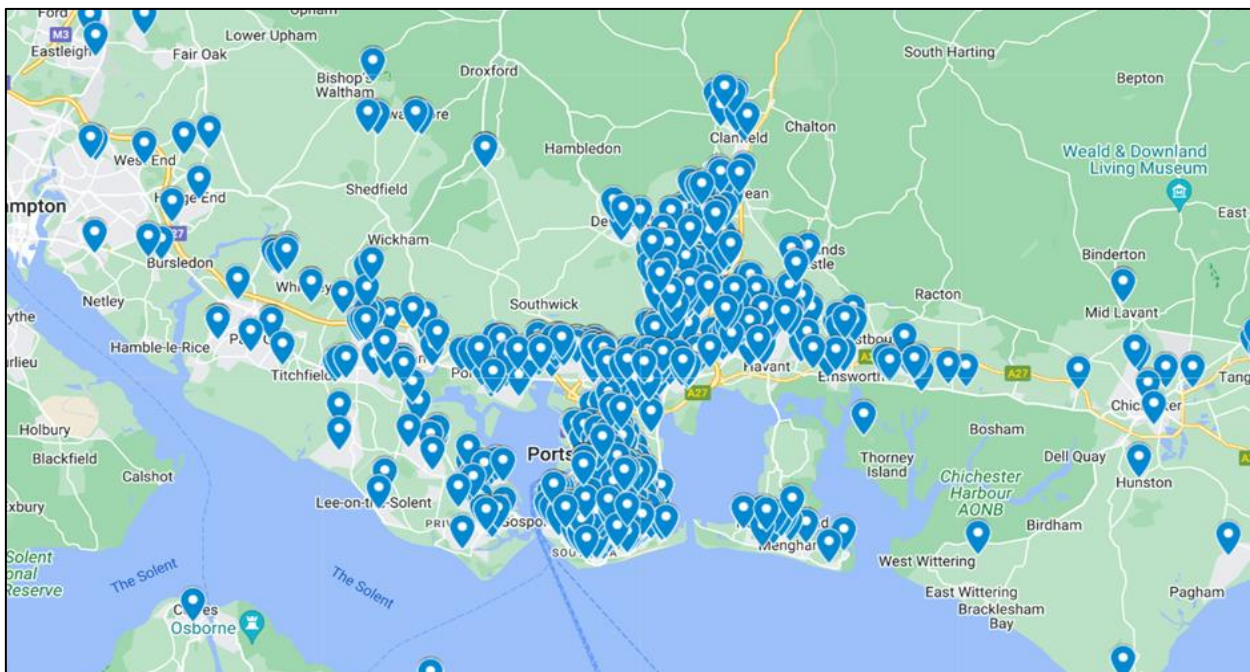
3.4.7 Exploria children's parties

An important element of ticket sales is children's parties, which were introduced in September 2021 (Exploria has four themed party rooms). These provide a consistent year-round income stream which has held up well since opening. Parties bring an average of 14 children per party, and Exploria hosts around 85 parties a month. Note the dips in December and particularly August.



3.4.8 Exploria customer post code analysis

Unlike the Pyramids health and fitness offer, which predominantly attracts memberships from Southsea (and slightly beyond), Exploria is more of a regional attraction.



3.5 Maintenance

3.5.1 Throughout the council's sports and leisure estate, buildings maintenance is considered separately and has a separate budget. Generally speaking the operator has responsibility for day-to-day repairs and maintenance, testing and servicing; the council has responsibility for building fabric repairs and maintenance and lifecycle replacement.

3.5.2 The removal of the leisure pool eliminated a great deal of ongoing running costs (staff, energy etc, see above) but also meant that a great deal of the buildings mechanical and electrical systems capacity could be taken away (boilers, pumps, filtration units etc). This has the potential to reduce the need for buildings maintenance budgets.

3.5.3 Initial estimates suggest that the building maintenance and lifecycle replacement requirements could be reduced by 40% or more. It is too soon to consider these as budget savings while the building is fully open, and while the long-term viability of the Pyramids is still being considered. Further work is needed on the future of the Pyramids building, and the site in general.

3.6 Conclusion

3.6.1 The investment in the Pyramids in 2021 has met its primary aims - to keep the Pyramids open as a leisure facility while eliminating any ongoing subsidy required from the council (please note that this protection from subsidy runs from April 2022 for 12 months - continuing it beyond April 2023 is subject to negotiation with BH Live).

- 3.6.2** Given the substantial positive change to the Pyramids trading account and the likelihood of further movement towards a break-even position, officers will negotiate the extension of the Pyramids management arrangements to align with the expiry of the leisure facilities management contract. Assuming a positive outcome from negotiations, a report will be brought for Cabinet to approve any ensuing deal.
- 3.6.3** The evidence of the first 12 months trading in its new configuration suggests that the decision in 2020 to re-purpose the Pyramids was the right one. This re-purposing has likely secured its ongoing operation for the 'medium term'. It is probable that (in the absence of any catastrophic event requiring major expenditure) this means up to 2030 or so.
- 3.6.4** The Cabinet Member is asked to consider at this stage that:
- Indoor play environments need regularly to be refreshed to maintain customer demand and address wear and tear (a good comparator to Exploria is Oxygen Free Jumping Trampoline Park in Southampton which opened in 2015. It was refurbished into Ninja Warrior in 2021 - probably a little earlier than planned to take advantage of the window of opportunity afforded by the Covid-19 pandemic).
 - Cardio gym equipment (spin-bikes, treadmills, cross trainers) normally have a lifespan of 6-8 years until they need to be replaced;
 - There are some systems in the Pyramids (like the air handling unit) that are original from 1988. The chances of these systems being fully operational in 2030 are low.
 - The Pyramids roof is in generally poor condition. The current management plan is to patch repair where possible and to tolerate water ingress in non-customer facing areas. This is clearly not a suitable approach for the long-term viability of the roof.

It is likely then, that by 2030 without significant capital expenditure the Pyramids will need to close due to exhausted mechanical and electrical systems, a failing roof and the need for new play equipment and gym equipment.

- 3.6.5** Consequently the Sports and Leisure service has begun work looking into the future of the Pyramids building (and the site in general) to ensure that the council is in as good a position as it can be, as the end of the decade approaches, to have a strategic vision for this important location on Southsea Seafront. Papers will follow in due course to keep the Cabinet Member informed of developments.

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Signed by
Stephen Baily
Director of Culture, Leisure and Regulatory Services

Appendices:

none

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location