

<b>Meeting of:</b>	<b>SOCIAL SERVICES, HEALTH AND WELLBEING OVERVIEW AND SCRUTINY COMMITTEE</b>
<b>Date of Meeting:</b>	<b>23 JANUARY 2026</b>
<b>Report Title:</b>	<b>HEALTHY LIVING PARTNERSHIP – AGENCY MODEL</b>
<b>Report Owner: Responsible Chief Officer / Cabinet Member</b>	<b>CLAIRE MARCHANT CORPORATE DIRECTOR – SOCIAL SERVICES AND WELLBEING</b>
<b>Responsible Officer:</b>	<b>SOPHIE MOORE GROUP MANAGER PREVENTION AND WELLBEING</b>
<b>Policy Framework and Procedure Rules:</b>	<b>There is no effect upon the policy framework or procedure rules.</b>
<b>Executive Summary:</b>	<p>The purpose of this report is to update the Social Services, Health and Wellbeing Overview and Scrutiny Committee on a proposed variation to the Healthy Living Partnership Agreement between Bridgend County Borough Council (BCBC) and Greenwich Leisure Limited (GLL) / HALO Leisure. The proposal seeks to transition from the current principal operating model to an agency model, whereby GLL/HALO would deliver leisure services on behalf of the Council rather than as an outsourced provider.</p> <p>The change is driven by updated HM Revenue &amp; Customs(HRMC) guidance issued in March 2023, which enables local authorities to treat leisure income as non-business for VAT purposes. Adoption of the Agency Model is expected to improve VAT efficiency, resulting in ongoing financial savings for the Council without adversely impacting service quality or customer experience.</p> <p>The report outlines the background to the existing contract, the rationale for the proposed variation, the anticipated financial benefits, and governance considerations. External legal and VAT advice has been sought to inform the proposal. The Committee is asked to consider the report and provide feedback to inform the next stage of decision-making.</p>

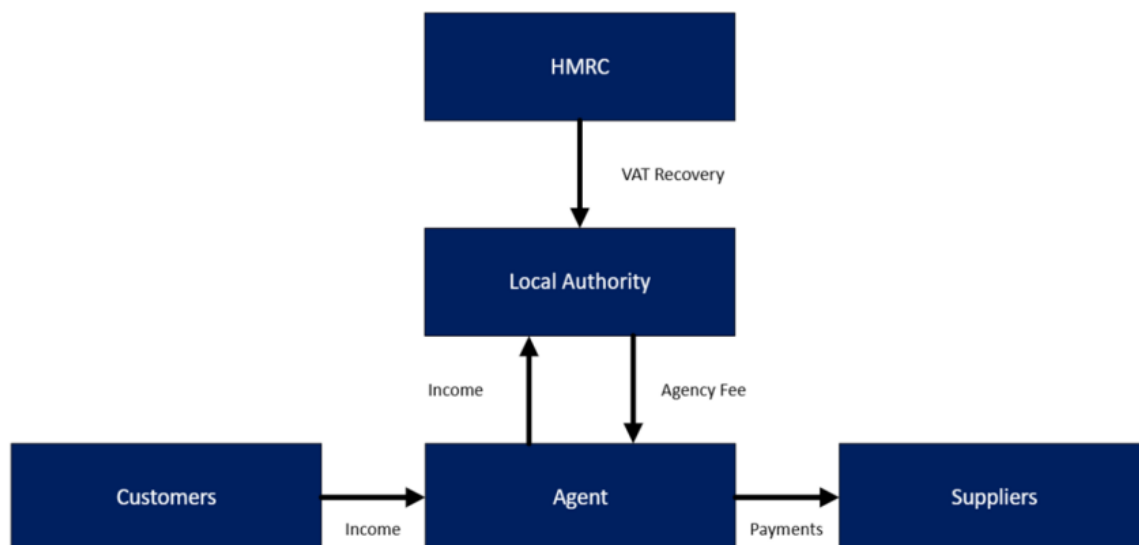
## **1. Purpose of Report**

- 1.1 The purpose of the report is to set out the reasons for the proposed variation to the Healthy Living Partnership Agreement between Bridgend County Borough Council and Greenwich Leisure Limited (GLL) /HALO Leisure to operate as an agent rather than as principal, together with the anticipated financial benefits that will accrue.

## **2. Background**

- 2.1 The existing Healthy Living Partnership Agreement is with GLL and managed by HALO Leisure. The current contract model outsources the management of leisure services/assets to GLL/HALO as outsourced supplier acting as principal. There is an option to vary the agreement to allow GLL/HALO to manage the leisure assets as an agent (referred to as 'the Agency model') rather than as a principal.
- 2.2 In October 2024 Cabinet agreed to the proposed extension of the term of the Healthy Living Partnership Agreement with GLL/ HALO until 2032. Officers for the Council have since agreed the terms and entered into a deed of variation to extend the term of the agreement and published the required contract modification notice.
- 2.3 The agreed extension to the Healthy Living Partnership Agreement from April 2027 – March 2032 will support circa £200,000 per year savings linked to the Council's medium term financial strategy (MTFS). This supports the budget reduction proposal included in the draft Medium Term Financial Strategy 2026-27 to 2029-30 – SSW1 Achieve better value for money by Cabinet considering a recommendation to extend the Healthy Living Partnership (£200,000 saving proposed for 2027-28).
- 2.4 The Healthy Living Partnership has been working on solutions to reduce costs, increase income and deliver savings without impacting fundamentally on service delivery. The proposed contract variation for GLL/HALO to operate the leisure facilities as an agent rather than a principal delivers significant on-going financial benefits to the Council without impacting on the quality of service to our customers and could secure an additional saving of circa £200,000 per annum. This supports the budget reduction proposal included in the draft Medium Term Financial Strategy 2026-27 to 2029-30 – SSW3 Achieve better value for money by Cabinet considering a recommendation to explore an agency model for the Health Living Partnership (£200,000 saving proposed for 2027-28).
- 2.5 In March 2023, following an Upper Tribunal (Tax and Chancery Chamber) decision in 2022, HMRC published a policy paper (Appendix 1) setting out changes to VAT treatment of local authority leisure services which states that where local authorities provide leisure services to the public, they can treat income from leisure services as 'non-business' for VAT purposes. This change to VAT treatment presents an opportunity to secure savings through adopting the Agency Model.
- 2.6 Under the Agency Model, GLL/HALO would act as the Council's agent for the delivery of leisure services rather than as an outsourced supplier acting as principal so that the arrangement would entail the Council providing leisure services to the public through its agent GLL/HALO. The intention being that under such an arrangement the income generated could be treated as non-business for VAT purposes. GLL/HALO would continue to provide services and staff to run the centres.

Figure 1. Overview of VAT recovery



### 3. Current situation/ proposal

- 3.1 The Council's contract with GLL/HALO is a "traditional" leisure concession contract, where the Council leases the leisure facilities to GLL/HALO for a peppercorn rent, and HALO operates the facilities as principal providing the leisure services to the public. GLL/HALO retains the income from the leisure facilities and pays the Council an agreed share of any surplus generated.
- 3.2 As HALO provides the leisure facilities to the public as principal, the VAT liability of the sporting income is defined by HALO's status. As an eligible body for the provision of sport, some of GLL's/HALO's supplies are exempt from output VAT and some are liable to output VAT at the standard rate. GLL/HALO is therefore required to undertake a partial exemption calculation to determine how much input VAT it is able to reclaim on the costs incurred in running the services. The irrecoverable portion of input VAT is incurred as a cost and is reflected in the costs of the services between GLL/HALO and the Council.
- 3.3 It is believed that up to 2024, the above arrangement represented the most VAT efficient route legally available, with the benefit of VAT exempt income outweighing the irrecoverable portion of input VAT.
- 3.4 However, following the court rulings in favour of local authorities and the determination that treating leisure services as non-business would not distort competition; HMRC issued Brief 3 in March 2023 (Appendix 1). The Brief makes it clear that a local authority's income direct from users from the provision of leisure services can be treated as 'non-business' for VAT purposes, rather than 'exempt'. This is the key change of circumstances from which the Agency Model opportunity is derived.
- 3.5 The change to HMRC policy potentially provides the Council, and its current partner GLL/HALO, with an opportunity to implement an arrangement, the 'Agency Model',

with benefits to all parties by way of reduced costs, whilst protecting the Council's risk position.

3.6 Under the Agency Model, GLL/HALO would become the Council's agent for income collection. GLL/HALO would continue to commission / provide services and staff to run the facilities. The Agency Model would result in GLL/HALO providing a standard rated, taxable service to the Council.

3.7 Due to the changes in the VAT liability of supplies of leisure services by local authorities, there would be no adverse impact on the Council's VAT recovery position such that VAT should remain recoverable in full and therefore there will be an overall 'saving' on the basis of moving from a position where GLL/HALO can recover VAT only partially, to one where full VAT recovery is achieved for both parties, with no additional cost for the users.

3.8 VAT Implications on Land and Property Transactions

3.8.1 The Council has obtained initial external VAT advice regarding the Agency Model and its potential implementation with more in depth advice to be sought.

3.8.2 This initial advice advised the Council that provided the Agency Model arrangements are structured in the correct way, and the legal agreements reflect this, it would be acceptable from a VAT perspective for GLL/HALO to run the leisure centres as an agent rather than a principal.

3.8.3 However, in working towards the implementation of the Agency Model the following will have to be considered and addressed:

- The signage, website, marketing and other documentation related to the leisure facilities would need to make it clear to users of the facilities that the facilities were being provided by the Council and that GLL/HALO was acting as its agent and invoices issued would need to show the Council's VAT number.
- Procedures would need to be put in place to ensure GLL/HALO provides the relevant information to the Council in a timely manner to enable it to correctly declare any VAT that is due on income on the Council's monthly VAT returns.
- The land interest in relation to the facilities may need to change from a lease to a license to occupy.

3.9 Legal and procurement implications

3.9.1 The Council has obtained initial external legal advice regarding the Agency Model with more in depth advice to be provided.

3.9.2 This initial advice advised that the Agency Model variation would amount to a modification to the procured terms of the contract and that there is a risk that such a modification could be subject to a procurement challenge. Further advice is being prepared setting out the potential options to compliantly modify the contract and associated risks.

3.9.3 Any risk of a procurement challenge will need to be balanced with the financial benefit for the Council of adopting the Agency Model. Any decision also needs to reflect that the most likely procurement challenge would come from the small number of GLL/HALO's direct competitors in the sector, who are also likely to be exploring the same type of agency model arrangement with their partners.

### 3.10 Preferred Option

3.10.1 The preferred option is for GLL/HALO to operate the Council's leisure facilities as an agent rather than a principal in order to deliver ongoing savings.

3.10.2 An alternative option would be to continue the current operating model. GLL/HALO would continue to operate the Council's leisure facilities for the remaining term of the current/extended contract (up to 31st March 2032). Under this option the Council would not benefit from the significant financial savings to be achieved from implementing the 'Agency Model', as outlined in paragraph 2.4 and therefore would not achieve the identified draft MTFS saving of £200,000 in 2027-28

3.10.3 It should be noted that a number of GLL's other clients have either adopted the agency model of operation or are moving towards adoption.

## 4. Equality implications (including Socio-economic Duty and Welsh Language)

4.1 The protected characteristics identified within the Equality Act, Socio-economic Duty and the impact on the use of the Welsh Language have been considered in the preparation of this report. As a public body in Wales the Council must consider the impact of strategic decisions, such as the development or the review of policies, strategies, services and functions. It is considered that there will be no significant or unacceptable equality impacts as a result of this report.

## 5. Well-being of Future Generations implications and connection to Corporate Well-being Objectives

5.1 The proposed variation to the Healthy Living Partnership contract supports the Well-being of Future Generations (Wales) Act 2015 and directly contributes to Bridgend County Borough Council's Corporate Well-being Objectives, particularly those relating to improving the well-being of residents, reducing inequalities, and ensuring sustainable use of resources.

The proposal demonstrates the five ways of working as follows:

- **Long-term:**

By strengthening the financial sustainability of the Healthy Living Partnership through the Agency Model, the Council is better placed to secure the long-term future of its leisure facilities and services. This supports the ongoing delivery of affordable and accessible opportunities for physical activity, contributing to improved physical and mental well-being for residents now and in the future.

- **Prevention:**

Leisure services play a key role in preventing ill health and supporting active

lifestyles. Protecting and sustaining these services through a more efficient operating model helps reduce future demand on health and social care services and supports the Council's objective to help people live healthier, more independent lives.

- **Integration:**

The proposal aligns with the Council's wider priorities around financial sustainability, community well-being, and tackling health inequalities. It complements strategies aimed at supporting inclusive communities and improving outcomes for those most at risk of poor health.

- **Collaboration:**

The Agency Model has been developed in partnership with GLL/HALO. This collaborative approach supports effective partnership working and reflects a shared commitment to delivering value for money and positive outcomes for Bridgend residents.

- **Involvement:**

The proposed change does not alter service delivery from a customer perspective. Existing engagement and feedback mechanisms will continue to ensure that the needs of local communities and service users inform the ongoing development of leisure services.

Overall, the proposal supports Bridgend County Borough Council's Well-being Objectives by maintaining high-quality leisure provision in a financially sustainable way, helping residents to be healthier, more active, and more resilient.

## **6. Climate Change and Nature Implications**

- 6.1 The proposed Agency Model is a contractual and financial change and does not directly impact the day-to-day operation or physical use of the Council's leisure facilities. There are therefore no immediate negative impacts on climate change, nature, or biodiversity arising from this decision.

By improving the financial resilience of the Healthy Living Partnership, the proposal supports the Council's commitment to the sustainable management of its assets and its wider decarbonisation ambitions. A more financially stable partnership strengthens the Council's ability to plan and invest in energy efficiency measures, carbon reduction initiatives, and environmentally responsible maintenance of leisure facilities over the life of the contract. The proposal is not expected to have any adverse impact on wildlife, nature, or biodiversity within the County Borough.

## **7. Safeguarding and Corporate Parent Implications**

- 7.1 There are no safeguarding or corporate parent implications arising from this report.

## **8. Financial Implications**

- 8.1 This is an existing long-term contract and the proposed Agency Model with GLL/HALO will secure recurring savings of circa £200,000 from 2027-28 without adversely affecting the on-going delivery or quality of service to local residents.
- 8.2 The proposed contract variation for GLL/HALO to operate the Council's leisure facilities as agent will not result in increased costs to the contract but will offer significant ongoing saving
- 8.3 Both GLL/HALO and the Council will continue to undertake high-level modelling over the coming months to establish the exact income/expenditure levels for the remainder of the contract. How much of this potential financial benefit accrues to the Council will depend on subsequent negotiations with GLL/HALO. However, the Council has already indicated to GLL/HALO that if the Agency Model is implemented then the Council's expectation is that the full financial benefit of the Agency Model arrangement should accrue to the Council.

## **9. Recommendation(s)**

- 9.1 It is recommended that the Committee consider the content of the report and provide feedback to be considered by Cabinet in advance of the decision as to whether to approve the variation of the Healthy Living Partnership Agreement between the Council and Greenwich Leisure Limited to operate the leisure centres as an agent rather than a principal for the remainder of the current contract term.

## **Background documents**

None

Policy paper

## **Changes to VAT treatment of local authority leisure services**

Published 3 March 2023

### **Purpose of this brief**

This brief explains a change in the VAT treatment of leisure services provided by local authorities.

### **Who needs to read this**

You should read this brief if you are a local authority.

### **Background**

Local authorities are currently treated as undertaking a business activity if they provide leisure services to members of the public.

This treatment is based on the understanding that when local authorities provide leisure services they are not acting as a public authority. A local authority acts as a public authority when they're carrying out their statutory public interest activities for the service of the community.

This treatment was challenged by a number of local authorities and the matter was considered by the courts.

This litigation has now concluded. The courts have found that local authorities' leisure services are provided under a statutory framework and can be treated as non-business for VAT purposes.

The relevant cases are:

- Midlothian Council v HMRC [2020] UKFTT 433 (TC)
- Mid-Ulster District Council v HMRC [2020] UKFTT 434 (TC)
- HMRC v Mid-Ulster District Council [2022] UKUT 00197 (TCC)
- HMRC v Chelmsford City Council [2022] UKUT 00149 (TCC)

Before a public body, such as a local authority, can treat a supply as non-business it must be shown that this treatment would not significantly affect competition.

HMRC has conducted a detailed analysis of the leisure services sector. We have found that allowing local authorities to treat their supplies of leisure services as non-business would not significantly affect competition.

### **Impact on local authorities**



Local authorities that provide in-house leisure services to members of the public currently treat these supplies as business activities for VAT purposes and either:

- charge their customers VAT at the standard rate
- apply the exemption

Local authorities can now revisit this position and apply the non-business treatment to their supplies of leisure services. They can also submit claims to HMRC.

If you've previously submitted a claim, you need to review and resubmit this with supporting evidence. This is to reduce the delay in authorising repayments.

If you've made a claim for overpaid output tax, you must only include the VAT paid in relation to leisure services.

You should send your claim to: [lasector.mailbox@hmrc.gov.uk](mailto:lasector.mailbox@hmrc.gov.uk). You should include '2023 LA VAT non-business' in the subject line of your email.

### **More information**

Any other income received by a local authority is not affected by this change. For example, this includes income from supplies of:

- catering
- adult or children's clothing
- water bottles
- sporting goods
- items from vending machines
- car parking
- sporting lets or other sporting activities previously treated as exempt

Find more information about [how to correct VAT errors and make adjustments or claims \(VAT Notice 700/45\)](#).