

East Herts Council Report

Report to: Executive

Date of Meeting: 2 June 2020

Report by: Head of Operations

Report title: To note a decision taken under delegated powers to approve an emergency loan to the leisure contractor, Sport and Leisure Management Ltd (SLM) as a response to COVID-19 restrictions.

Ward(s) affected: All

Summary

An urgent decision taken by the Chief Executive under delegated powers is required to be reported to the Executive. The decision was for funding approval to provide a loan to the Council's leisure centre operator, Sport and Leisure Management Ltd (SLM).

RECOMMENDATIONS FOR EXECUTIVE

To note a decision taken under delegated powers by the Chief Executive:

- (a) To approve a loan to SLM of the sum set out in the exempt from publication Appendix B to this report, to support the cost of SLM's payroll costs for furloughed staff for April 2020 only.**

- (b) To approve funding for a further loan of £16,171 in April, £12,391 in May and £10,578 in June 2020 (subject to a monthly review of Government instructions) to support the cost of a core team of staff carrying out essential maintenance of East Herts leisure centres.**

1.0 Proposal(s)

- 1.1 That Executive note the following. All information set out below is the same as that provided in the report accompanying the published decision. Certain information is exempt from publication to the press and public, where indicated.
- 1.2 The decision which was sought was that Council provides a loan of the amount set out in Appendix B to SLM to support the cost of SLM's payroll costs for furloughed staff for the month of April 2020 whilst SLM apply for funding through the government's Job Retention Scheme
- 1.3 The decision also sought to approve that the Council provides a loan to SLM to support the cost of a core team of staff to maintain the leisure centres whilst they are closed following government instruction on 20 March 2020. The loan amounts requested were as follows: £16,171 in April, £12,391 in May and £10,578 in June 2020 and subject to review on a monthly basis in line with government instruction.
- 1.4 The decision was approved by the Chief Executive acting under the authority delegated within Part 3c, paragraph 9.2 g) of the Council's constitution.

2.0 Background

- 2.1 On Monday 20 March 2020, the government issued instructions to close all leisure centres as a response to the COVID-19 outbreak. Leisure centres closed with immediate effect.
- 2.2 Prior to closure of the facilities SLM were in regular contact with the Council updating business continuity plans and seeking financial assistance to manage the increasing number of staff self-isolating, the reduced participation (and therefore income from customers)

and forecasting the impact of a potential closure of facilities through a government instruction.

- 2.3 As of March 2020, SLM had funding, details of which are set out at Appendix B, at their disposal to meet their payroll obligations for March, leaving SLM with only a third of the money they would need for the payroll run in April 2020. SLM are a high generating cash business, which on a normal month will, across the group, generate more than sufficient funds to meet payroll requirements, predominantly through direct debit collection. This income effectively has gone down to zero from the start of April due to the government's instruction to close the facilities and SLM's reserves will very quickly be used up without financial assistance from its client teams.
- 2.4 In essence SLM have furloughed the vast majority of colleagues in the contract leaving a small team of staff to check over the building.
- 2.5 Due to the time it will take SLM to access the funding from the Government's Job Retention Scheme, SLM sought a loan from East Herts Council of the sum set out in Appendix B to cover the cost of furloughed staff (80% of staff costs) in April 2020. East Herts Council stipulated within a loan agreement with SLM (Appendix A), that this loan is paid back to the Council within 3 days of SLM receiving funds from Government.
- 2.6 In order to continue maintaining the buildings and to cover the running costs such as utilities SLM are requesting East Herts Council provide an additional loan of:
- £16,171 in April 2020
 - £12,391 in May 2020
 - £10,578 in June 2020
- 2.7 East Herts Council has stipulated that this aspect of the loan is to be repaid to the Council within 6 months of

leisure centres re-opening.

- 2.8 The total funding request for a loan to SLM is therefore the sum set out in Appendix B.
- 2.9 It should be noted that the Council will continue to pay SLM's management fee of the sum set out in Appendix B each month in line with our contract.

3.0 Reason(s)

- 3.1 Without the loan, the company simply does not have the reserves to pay its staff. In line with our corporate approach to contract management the Council would seek to work in partnership to support SLM's ability to retain staff where practically possible in readiness of the re-opening of facilities.
- 3.2 Also, this approach is in line with procurement advice issued by the Government on supporting key contractors.

4.0 Options

- 4.1 The Council could choose to not provide a loan, this would invoke a Force Majeure event as SLM would have no means of trading and therefore delivering the operational management of East Herts Leisure Centres.
- 4.2 The Council could chose to only provide a loan for the April 2020 payroll costs and not the core staff. This is likely to result in a much longer lead in time for the facilities to re-open and therefore impacting SLM's ability to repay the Council in a timely manner.

5.0 Risks

- 5.1 The key risk in providing a loan to SLM is their ability to repay the loan to the council. In accordance with the guidance on the HMRC website SLM would be eligible for the job retention scheme. They would also be eligible for government backed business loan schemes and therefore, as they have access to funds, the risk is

low.

- 5.2 Prior to COVID-19 the Council undertook a procurement exercise to re-tender the leisure operating contract. SLM's financial standing is not a cause for concern in normal business circumstances, these are exceptional circumstances and therefore an emergency loan is requested and is not seen as a high risk.

6.0 Implications/Consultations

- 6.1 Both the Head of Strategic Finance and Property and the Head of Legal and Democratic Services were consulted.

Community Safety

No

Data Protection

No

Equalities

No

Environmental Sustainability

No

Financial

Yes – the financial and service risks to the Council would be far greater if SLM was unable to pay staff and continuing trading. The amount of the loans is small relative to the Council's reserves and the risk of non-payment is not high. SLM have access to funds through the Government's Furlough Scheme and through the extended arrangements for business loans and so should be able to repay the loans and continue trading.

The action was the most efficient and economic way of mitigating the risk of the leisure contract failing.

Health and Safety

No

Human Resources

No

Human Rights

No

Legal

Yes – The document signed by both parties provides a legal basis for the loan, setting out the intentions of both parties and for the repayment of the loan in a timely manner upon receipt of the funds through the Government’s Furlough Scheme by SLM.

Specific Wards

No

7.0 Background papers, appendices and other relevant material

- 7.1 Appendix A – loan agreement
- 7.2 Appendix B – loan amount (exempt paper)
- 7.3 Appendix C – decision sheet

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