

Report of urgent key decision taken by the Leader –
Appendix B (original report accompanying decision)

East Herts Council Report

REPORT TO LEADER OF THE COUNCIL

Date of Meeting: 21 July 2020

Report by: Head of Operations

Report title: Sport and Leisure Management Ltd Financial Support
Request for re-opening leisure centres.

Ward(s) affected: All

Summary

As a result of the Coronavirus outbreak all leisure centres nationally were closed on Friday 20 March 2020 under Government instruction. This report outlines East Herts Council's leisure operator's (SLM) request for financial support for the recovering services following the easing of lockdown measures.

RECOMMENDATIONS FOR THE LEADER OF THE COUNCIL:

- (a) Approval for a loan of the sum set out in the exempt from publication Appendix C2 to be provided to the Council's leisure operator, Sport and Leisure Management Ltd to fund the projected loss of income as a result of implementing a COVID secure environment for re-opening.**
- (b) That the loan is approved based on the conditions set out in para 2.10 being included in the final version of the loan agreement**
- (c) That delegated authority is provided to the Head of Strategic Finance and Property in consultation with the Head of Operations to release funds following a review of SLM's accounts on an open book and monthly basis.**

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1.0 Proposal(s)

- 1.1 To provide the Council's leisure operator (SLM) a loan for the amount set out in appendix C2 to fund the re-opening of East Herts leisure centres in a phased manner.

2.0 Background

- 2.1 On Friday 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 In April 2020, the Chief Executive acting under the authority delegated within Part 3c, paragraph 9.2 (g) of the Council's constitution, approved a loan to SLM to support payroll costs for furloughed staff for one month prior to SLM accessing the Governments Job Retention Scheme of the amount set out in appendix C. This funding has been re-paid to the Council. A further loan of £39,140 was also provided to maintain the buildings during closure to allow re-opening to take place promptly when permitted to do so. In the legal agreement it was agreed that this part of the loan would be paid back to the Council within six months of re-opening the facilities.
- 2.3 The Government have now confirmed that leisure centres can re-open from 25 July 2020.
- 2.4 SLM have approached East Herts District Council to provide financial support to bridge the gap between expenditure and projected income. The loan requested is for the sum detailed in appendix C2 for the projected loss of income for the remainder of the financial year 2020/21. It should be noted that this income is to support cash flow and that profit for the organisation will not be supported.

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- 2.5 The anticipated loss of income is due to reduced levels of participants allowed to enter the centre in order to adhere to COVID-Secure requirements. It is also unknown at this stage whether members will return to the centres in the initial months due to safety concerns and individual financial circumstances. In addition, some participants may have found alternative ways to exercise.
- 2.6 SLM have continued to engage with customers through virtual memberships, email and social media. A national survey carried out by leisure-net solutions in May across the industry from a swimming perspective, reported 50.5% of customers would return to leisure centres immediately and another 45% would consider a return in September. From a fitness perspective, a Sport England survey in April across the industry indicated that 87% of gym users were keen to return, with a 17-18% keen to return but visit less.
- 2.7 Should the Council agree to provide financial support, one payment will be made at the beginning of August 2020, with future payments transferred once the Head of Strategic Finance and Property in consultation with the Head of Operations have scrutinised the accounts through open book accounting on a monthly basis. Payments will be adjusted based on actual income levels.
- 2.8 The current contract with SLM requires the Council to pay the operator a management fee to operate the facilities the Council will continue to pay this in line with the guidance set out in the government Procurement Policy Notice (PPN). The current monthly management fee for 2020 is set out in appendix C1 and increases in 2021. The contract then moves to an income position once the new leisure centres have been completed and

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handed over, i.e. SLM pay the Council a management fee.

- 2.9 The repayment of the loan will be over the remaining life of the contract (14 years)
- 2.10 A loan agreement with the following minimum conditions will be developed:
 - a) The loan will consist of 8 monthly payments of approximately the amount set out in appendix C2, provided at the beginning of each month (August 2020 to March 2021)
 - b) A review of the accounts will take place on an open book basis every month with SLM, EHC's Head of Strategic Finance and Property and the Head of Operations.
 - c) Further payments will be adjusted based on actual income levels and the loan is capped at the loan amount detailed in appendix C2. Losses over this amount will be at the risk of the operator.
 - d) The repayment of the loan will be over the remainder of the life of the contract (14 years) with the first annual repayment due in December 2021.
 - e) Confirmation from SLM of a guarantor for the loan received.

3.0 Reason(s)

- 3.1 Sport and physical activity is an important contributor to physical and mental well-being for East Herts residents. The Council has recognised this by investing approximately £30,000,000 into improving leisure facilities and responding to the anticipated population growth. The Council is currently underway with the construction of the new Grange Paddocks Leisure

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Centre and progressing with a planning application for Hartham Leisure Centre. The business case for the investment for these centres was based on reducing the on-going deficit to the Council from outdated leisure provision no longer suitable from a growing population in East Herts. It is important to re-engage residents and customers to re-build the customer base ready for these new facilities, minimising the risk of losing customer to competitors and getting back on track with the business plan.

- 3.2 Without the agreement of financial support the risk to SLM is deemed high and therefore the leisure centres would not open on Saturday 25 July 2020. This could in turn lead to making significant numbers of staff redundant and associated costs.

4.0 Options

- 4.1 A number of options have been explored including (a break-down of all options in available in Appendix C1):
 - 4.1.1 Opening all sites in July 2020, this is at a greater cost of the sum detailed in appendix C2. A phased approach allows for a period of review of social distancing measures prior to opening joint use facilities ready for the academic year in September 2020.
 - 4.1.2 Keeping all sites closed until April 2021 – the impact of this includes redundancy costs detailed in appendix C2, which are over double the amount of the recommended approach.
 - 4.1.3 Extending the furlough scheme for the joint use facilities staff to the end of October with the Council topping up the scheme to 80% salary. This would incur a cost of the amount detailed in

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appendix C2, almost £100,000 more than the recommended option.

4.1.4 As this stage, termination of the contract has not been discussed. The Council entered this contract with SLM in January 2020, the local management team have demonstrated that SLM are committed to this contract having already delivered an excellent service for the past 11years. Working relationships are and always have been very positive with SLM colleagues.

5.0 Risks

5.1 The key risk this proposal presents is SLM's ability to repay the funds. However, repayment could be deducted from the annual management fee paid to SLM as a result of delays to the capital projects therefore this risk is low. As a guarantor has been confirmed, this is also a route to retrieve funds. The risk of not providing funds and entering termination has a greater financial and social impact. Though these costs have not been quantified at this stage, the value of the contract at the amount detailed in the appendix which indicates the magnitude of potential costs.

6.0 Implications/Consultations

6.1 The Head of Strategic Finance and Property and the Head of Legal and Democratic Services have been consulted.

Community Safety

No

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Data Protection

No

Equalities

No

Environmental Sustainability

No

Financial

The Council has a number of alternative options to consider in re-opening the leisure centres. Of these options, the loan of the amount detailed in appendix C2 carries the least risk and the lowest financial consequence.

Health and Safety

No

Human Resources

No

Human Rights

No

Legal

With a properly drafted and executed loan agreement in place, the Council would be well protected should SLM default on their loan, with recourse to the civil courts open to it to enforce repayment in the worst case scenario.

Specific Wards

Leisure provision service the whole district

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7.0 Background papers, appendices and other relevant material

7.1 Appendix C1 – Confidential

7.2 Appendix C2 – Confidential

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