

## SUPPORTING THE RECOVERY OF LEISURE IN THE DISTRICT

Cabinet - 9 July 2020

Report of	Chief Officer - People & Places
Status	For Decision
Also considered by	People & Places Advisory Committee - 16 June 2020
Key Decision	Yes

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**Executive Summary:** The report outlines the impact of the COVID-19 pandemic on the leisure industry and sets out a request from Sencio Community Leisure for financial assistance to mitigate current financial difficulties related to the closure of their facilities due to the Coronavirus outbreak.

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**This report supports the Key Aim of** related elements of the District Council's Community Plan.

**Portfolio Holder** Cllr. Lesley Dyball

**Contact Officer** Sarah Robson, Ext. 7129

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### **Recommendation to People & Places Advisory Committee:**

- (a) To consider the information provided in the report, the financial implications and risk assessment and advise Cabinet on the request for an extension to the current payment holiday on Sencio's loan repayments to the Council by a further 3 months to 30 September 2021.
- (b) To consider the information provided in the report, financial implications and risk assessment and advise Cabinet on the request from Sencio for a Council loan of up to £120,000 over the next 3 months towards essential utility costs.
- (c) To advise Cabinet on the loan terms, it is proposed that the loan will be interest free, but with the stipulation that it will be paid back to the Council in financial year 2021/22. If the loan is not paid within the repayment period, any outstanding balance will accrue and be charged a rate of 6% interest with effect from April 2022.

### **Recommendation to Cabinet:**

- (a) To consider the information provided in the report, the financial implications and risk assessment and advice from People & Places Advisory Committee and reach a decision on the request for an extension to the
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current payment holiday on Sencio's loan repayments to the Council by a further 3 months to 30 September 2021.

- (b) To consider the information provided in the report, the financial implications and risk assessment and advice from People & Place Advisory Committee and reach a decision on the request from Sencio for a Council loan of up to £120,000 over the next 3 months towards essential utility costs.
- (c) If it is decided to provide a loan, to approve that the loan will be interest free, but with the stipulation that it will be paid back to the Council in financial year 2021/22. If the loan is not paid within the repayment period, any outstanding balance will accrue and be charged a rate of 6% interest with effect from April 2022.
- (d) If the decision is reached to provide further financial assistance to Sencio, to delegate authority to the Portfolio Holder for People and Places in consultation with the Chief Officer People and Places to undertake any minor amendments.

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**Reason for recommendation:** Access to leisure services will play an essential role in reconnecting with communities and bringing people together through sport and physical activities once the current lockdown position changes. It is therefore important that the Council urgently considers the support Sencio Community Leisure may require to mitigate significant financial difficulties and risk during this difficult time.

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### Introduction and Background

- 1 The leisure sector across the country has been massively effected by the COVID-19 pandemic. Nationally it expected that the impact will be felt not only in the short term, but also for the medium to long term. Locally, we are seeing considerable pressure being placed on our partner organisation Sencio Community Leisure.
- 2 Councils across the country are working hard to keep supporting leisure providers and facilities during the coronavirus crisis. This includes introducing a range of emergency measures such as relaxing performance requirements, advance payments, waiving management fees and offering financial support. This is despite the impact coronavirus has had on councils own finances and their ability to generate income.
- 3 Leisure operators are facing particular challenges accessing Government support during the pandemic and are largely ineligible for emergency response packages.
- 4 Local authorities and leisure operators alike should anticipate that once lockdown restrictions are lifted, it will take some time to reach full operating capacity due to social distancing requirements.

- 5 The current challenge is to consider support that can alleviate the negative impacts in the short term.

### Leisure

- 6 The gym and fitness industry will have a vital role in ensuring the ongoing health and wellbeing of the nation following the lifting of COVID-19 restrictions. Whilst the industry awaits firm guidelines from the Government regarding the timing and mechanism for re-opening there is some advice already filtering through to support this process.
- 7 Leisure facilities across the country are exploring many options to ensure they are able to maximise attendance within the centres as soon as restrictions are lifted. Practical measures currently being considered by leisure operators nationally include moving equipment from fitness suites to sports halls to increase spacing between users, limiting numbers that can attend exercise classes in studios, keeping changing rooms closed and only allowing access to toilet facilities. It is unclear at this stage what actions will be required for wetside activities.
- 8 The Government has however lifted some restrictions on activities taking place outside, this includes golf courses, although does not include driving ranges at this stage.

### **Local partners**

- 9 Lockdown has had a significant impact on our partner organisations, in particular Sencio Community Leisure, in terms of its ability to realise any income to support its operations. Consequently, the organisation has requested urgent assistance with the cash flow challenges and implications resulting from lockdown as they look toward the future and business recovery.

### Sencio Community Leisure

- 10 Sencio Community Leisure (Sencio) became responsible for providing leisure services on a 25 year lease, with Sevenoaks District Council as Landlord, and currently have the following facilities:
  - Sevenoaks Leisure Centre
  - White Oak Leisure Centre
  - Edenbridge Leisure Centre
  - Lullingstone Park Golf Course
- 11 On 20 March 2020, due to the COVID-19 pandemic and Government instruction, Sencio closed all of its centres and the golf course.
- 12 Sencio was forced to suspend all direct debits and memberships in light of the situation, resulting in a lost income of approximately £320,000 per month, which includes front of house income. However, Sencio has

continued to be liable for monthly outgoings of approximately £160,000 per month, which includes utilities, supplier costs, salary costs (for non-furloughed staff) and some pension and PAYE costs.

- 13 Unfortunately, leisure trusts/operators are not eligible for Sport England funding and an application to Government's Business Interruption Loan for £1.5 million has been unsuccessful.
- 14 Information provided by Sencio has also confirmed that although they have no further access to borrowing at this current time, the bank has agreed to support their current overdraft facilities based on Sencio's recovery plan scenarios for reopening the golf course and leisure centres.
- 15 It is also known that a request for a loan to Big Issue Invest has been made, but no decision on that loan had been received at the time of writing.
- 16 The majority of Sencio's 343 staff have been furloughed under the government's Job Retention Scheme (JRS). The remaining staff are used to undertake daily building and plant checks, particularly relating to the swimming pools, alongside Human Resources, Payroll and Marketing support.
- 17 During closure, Sencio has negotiated reduced costs with its utility suppliers, organising payment holidays on leases/rentals for equipment such as fitness gym equipment, golf grounds maintenance equipment, golf buggies and photocopiers. It has also secured 3 month loan payment holidays from Big Issue/Co-operative and Sevenoaks District Council. Sencio has continued to provide their customers with access to online workouts and exercises to support their customers through this difficult time. Sencio also provided the use of Sevenoaks Leisure Centre for the Community Hub and storage of emergency food parcels organised by Sevenoaks District Council up until 17 April 2020.
- 18 The leisure centres are large, complicated buildings to operate and maintain and it is not possible to turn the key, walk away and then expect to return to open the buildings and become immediately operational. Sencio has followed Sport England guidance on essential maintenance on leisure facilities during the pandemic, in particular swimming pool and changing facilities. All non-essential plant, such as air conditioning units have been switched off, but some pieces of plant have to continue to operate in order to maintain services, for example, the water treatment and filter cleansing of the swimming pools, which will ensure that when the centres can re-open they can return to full functionality as quickly as possible. The golf course has also been maintained, including site maintenance and grass cutting.
- 19 The pandemic has had a severe effect on Sencio and to date the District Council has agreed the following support:
  - Released the Management Fee of £26,950 for the whole year up front.

- Provided a 3 month payment holiday on Council loan<sup>1</sup> repayments up to the end June 2020, equating to £22,000 for the quarter. The terms of which, defers payment of the loan without penalty for late payment.
- 20 With effect from 13 May 2020, Government removed restrictions on some outdoor facilities, including golf courses. Sencio successfully re-opened their golf facility on 1 June 2020, albeit in a limited capacity in accordance with social distancing guidelines.
- 21 Industry wide, Community Leisure UK and UK Active have been working with the government and leisure trusts on formulating a corporate strategy regarding recovery for the leisure industry. It is predicted it could take 8-12 months for leisure trusts to recover and even then some programmes/ activities that were previously offered may no longer be offered for certain groups of people such as the vulnerable/over 70s.
- 22 Members may also wish to note that some other local authorities have been able to provide financial and other support to their leisure trusts. Locally this includes Tonbridge and Malling Borough Council, who have awarded their leisure trust a direct grant of £300,000 towards core costs as part of a recovery package, rather than a loan.
- 23 Sencio has commenced work in line with the national strategy to identify the impact on re-opening their leisure centres and reshaping the business. The plan has been based on:
- Reopening the golf club on 1 June 2020, with the leisure centres opening on a phased approach from 5 July 2020.
  - Projecting a 10 month period for income to recover, starting at 30% of previous levels and achieving 80% by the end of the financial year. This is based on a reduction in classes/activities, restrictions on events/mass gatherings, reduction of membership fees if activities/facilities are not available and potential staffing redundancies.
  - Risk assessments and safe working practices in place for social distancing for staff and customers.
  - Marketing campaigns promoting health and wellbeing and providing reassurance on health and safety provision for customers.
  - Training for staff on new safe working procedures.
- 24 Sencio is confident that their recovery business plan will enable them to fully recover over the next 10 months, subject to Government's awaited guidance on reopening leisure centres and social distancing requirements.

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<sup>1</sup> In 2018 the District Council provided Sencio with a loan of £600,000 repayable over ten years at a rate of 6% interest.

- 25 Once operational, Sencio will need to meet full operating costs, whilst operating at reduced customer and therefore income capacity. Given the extraordinary circumstances, Sencio's ask of the Council is to consider the following:
- To extend the current payment holiday on Sencio's loan repayments to the Council by a further 3 months to 30 September 2021.
  - To make available to Sencio access to draw down from a Council loan of up to £120,000 over the next 3 months towards essential utility costs. The loan will be interest free, but with the stipulation that it will be paid back to the Council in financial year 2021/22. If the loan is not paid within the repayment period, any outstanding balance will accrue and be charged a rate of 6% interest with effect from April 2022.
  - The loan will support utility and staffing/engineer costs being incurred during the current COVID-19 closures, for example, the water treatment and filter cleansing of the swimming pools, in order to protect and minimise any future maintenance to the Council's property assets and ensure that when the centres can re-open, they can return to full functionality as quickly as possible.

#### **Other Options Considered and/or Rejected**

- 26 The Council could chose not to support Sencio Leisure Community Leisure. However, the organisation will have an essential role to play to reconnect with communities and bring people together through culture, sport and physical activities once the current lockdown position changes.

#### **Key Implications**

##### Financial

To date, the District Council has paid the Management Fee of £26,950 to Sencio for the whole year up front. It has also delayed £22,000 of loan repayments due between April and June 2020.

Sencio has requested a further loan repayment holiday of 3 months for the period of July to September 2020. Should this be approved, the Council will have delayed the receipt of a further £22,000 of payments.

Sencio has further requested an interest free loan amount of up to £120,000, which would be paid back during the 2021/22 financial year. If the loan is not paid within the repayment period, any outstanding balance will accrue and be charged a rate of 6% interest with effect from April 2022.

The total potential financial exposure to Sencio could therefore potentially amount to £164,000. This is in addition to the outstanding loan repayments that remain due for the extension to Sevenoaks Leisure Centre which total £546,186.37.

The likelihood of the financial assistance that Sencio are requesting being repaid to the Council is dependent on the success of its recovery business plan and customers returning to the leisure sector over the next 10 months and beyond.

At the time of writing there is no firm guidance on the re-opening of leisure centres from the Government. It is therefore difficult to assess the level of risk associated with loans to Sencio with high levels of accuracy.

It is therefore advised that in making any further financial assistance to Sencio that the Council should be prepared to burden the costs in full, should the Leisure Trust become unable to return to profitability.

#### Legal Implications and Risk Assessment Statement.

Sencio Community Leisure operate three leisure centres and a golf course across the District on a 25 year lease, with Sevenoaks District Council as Landlord. There are requirements under the lease for the Council to pay a management fee each year and for Sencio to meet service and performance targets in respect of their management of the centres.

From early 2022 Sencio will cease to become the operator of one of those leisure centres.

Coronavirus has had a profound effect on the leisure industry and there is a high risk to the ongoing operation of many leisure trusts, including Sencio, across the country.

This report related to the request to provide financial assistance to Sencio, based on their immediate need to meet costs for the next three months. The financial risks associated with this decision are set out in financial implications above.

#### Equality Assessment

The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

#### Community Impact and Outcomes

Failure to provide support could result in the ultimate closure of Sencio, which would require the Council to act quickly to continue the provision of leisure services for the District. Significant costs are likely to be associated with this.

#### **Conclusions**

In line with Government guidance, Sencio Community Leisure has temporarily shut down its facilities. This has had a significant impact on its ability to achieve any income to support their operations. Consequently, Sencio Community Leisure has requested assistance from the Council to help with the cash flow challenges and implications resulting from recent COVID-19 related closures.

