

CABINET

**COUNCILLOR MAURICE SHEEHAN
OPERATIONAL SERVICES PORTFOLIO HOLDER
REPORT NO. OS2011**

28 APRIL 2020

**KEY DECISION?
YES**

**LEISURE OPERATORS' REQUESTS FOR FINANCIAL ASSISTANCE
RESULTING FROM COMPULSORY CLOSURE OF LEISURE CENTRES
DURING COVID-19 EMERGENCY**

SUMMARY AND RECOMMENDATIONS:

Given the current Covid-19 emergency and following Government instruction that all leisure centres must close, all of the Council's facilities closed within a matter of hours. Resultantly, the Council's leisure operating contractors (Places Leisure and Active Nation) are currently generating no income from the sites with memberships frozen and indeed almost zero income company wide.

This situation has created a very significant cash-flow issue for leisure operators and in particular, their ability to finance the salary bill for staff associated with the Rushmoor contracts. The operators have furloughed the vast majority of staff associated with the service and have applied for assistance through the Employee Retention Scheme with HMRC, but the funds may not arrive in time to cover the salary costs. Further clarification will be sought on this as HMRC has started paying companies now.

This report seeks the necessary authorisation to assist the Council's leisure operators with the funds to cover 100% of the salary bills for the Rushmoor contracts for the up to three months with 80% of the funds being repaid as soon as the funding arrives from HMRC and the remaining 20% to be repaid over the remainder of the contract year ending March 2021.

Cabinet is recommended to:

- Approve cashflow assistance to Places Leisure and Active Nation as outlined in the report once the necessary financial and legal assurances and controls have been agreed by the Executive Head of Finance and the Corporate Manager – Legal Services and that will protect the Council's financial and legal position.

1. INTRODUCTION

1.1 The C-19 emergency has placed unprecedented strain on the global and UK economy with many sectors and organisations facing enormous budgetary pressures. Specifically, the leisure sector in the UK has been

subject to government direction to close and as such has seen a reduction of income to zero, or very close to it.

- 1.2 This report seeks Cabinet approval to assist the Council's leisure operators with the required cash to pay staff wages until they are reimbursed through the HMRC employee retention scheme at which point, 80% will be returned to the Council with the remaining 20% returned over the remainder of the contract year.

2. BACKGROUND

- 2.1 On 20th March, the Government instructed that all leisure centres must close in an attempt to slow the spread of coronavirus. Within hours of the announcement, all of the Council's facilities were closed to the public and arrangements put in place to keep them safe and secure over the period that they are closed.
- 2.2 Income for most operators has fallen dramatically and the longer the restrictions on social interaction last, the greater the risk to the stability of the market and the viability of operators within it. The bulk of operators have frozen memberships, whilst some are seeking nominal contributions to help mitigate losses. Both Places Leisure and Active Nation have frozen memberships resulting in revenues falling to almost zero.
- 2.3 As a result, the vast majority of Places Leisure staff are subject to furlough and the company are applying to the HMRC registration scheme for furloughed staff. Active Nation have furloughed all staff associated with the operation of the Alpine Snowsports facility in Aldershot with the company applying to the HMRC.
- 2.4 However, the funds are may not arrive in time to meet the deadline for each organisation's payroll which has left both organisations with no income and significant salary costs to meet in the short term, resulting in a serious cash-flow issue. This will be clarified prior to any funds being paid over.
- 2.5 This situation is reflected across the sector and as such each operator has written to their local authority clients seeking assistance with cash flow to pay staff salaries in the short term. The Council has escalated this issue to the Government for their consideration and it is being considered.
- 2.6 The structures of Places Leisure and Active Nation are different and as such, their ability to weather significant financial uncertainty is different. Active Nation are a charity with no ultimate parent company and Places Leisure are part of a wider group. As a result of the current financial

challenges, Places Leisure have taken a loan from their Parent Company and are seeking assistance from their clients in addition to this.

- 2.7 The Government's Business Interruption Loans are another resource that could be utilised and clarity on why this isn't a suitable option will be obtained prior to any financial support being given.

3. DETAILS OF THE PROPOSAL

General

- 3.1 To help secure the financial position of the Council's leisure operators and the staff working in the Council's facilities, it is proposed that the Council fund the gap in meeting salary commitments until the furlough funds arrive from HMRC, which cover 80% of the salary costs for staff and the remaining 20% be paid back over the life of the contract year in equal instalments from the month that the centres are allowed to reopen.
- 3.2 The value of the financial support requested is in the region of £150k per month, with 80% of this (£120k per month) to be repaid to the Council once HMRC furlough funding has been received by PFPL. The remaining 20% (£30k per month) is subject to repayment in line with the conditions set out in paragraph 3.1.
- 3.3 The proposal has been discussed and agreed with senior staff at each organisation however this approach will be formalised prior to any funds being paid.

Alternative Options

- 3.4 There are limited options available to the Council in respect to the request for financial support. Essentially, the options are:
- Agree to the request for financial support, as set out in this report
 - Provide a different level of financial support (i.e. time-limited, lower financial value)
 - Do not provide any financial support
- 3.5 The Council could choose not to provide financial support to its Leisure operators. In doing so, the Council would potentially increase the risk of the operator not being able to pay salaries to furloughed staff and place the operator under further financial pressure.
- 3.6 Should a Leisure operator cease to trade, the Council would have to consider how to provide its leisure services in the future.

Consultation

- 3.7 This has not been subject to broad consultation outside of the usual decision making process.

4. IMPLICATIONS (of proposed course of action)

Risks

- 4.1 Outlined in Legal and Financial sections

Legal Implications

- 4.2 The agreement to be entered into to provide this funding for salaries will seek to ensure that the funding is solely for salaries payment 80% of which is to be immediately repaid on receipt of funds from HMRC. Without some form of additional security there is a risk that the leisure operators will default and if these companies are in financial distress whilst there is a legal obligation to pay in the worst case scenario it is unlikely that the Council would be successful in fully recovering all of the funding. Therefore every effort should be made to obtain some form of security for repayment of the Council funds.

Financial and Resource Implications

- 4.3 Payments made to suppliers in advance of services being received or to recognise cash flow issues is always a risk to the Council that services are not provided or the contractor ceases to trade.
- 4.4 In providing cashflow support to the Leisure operator, the Council would be exposed to risk of financial loss. Whilst some assurances have been provided by the Leisure operator, these do not form a guarantee that funds advanced to them will be repaid to the Council.
- 4.5 The worst case scenario is that the operator becomes insolvent not having made any repayment to the Council. In this event, the Council would rank as an unsecured creditor and would in all probability be unlikely to recover the sums advanced in full.
- 4.6 A number of risk mitigation measures are being considered for inclusion in the supplementary agreement with PFPL and to ensure the Council is aware of any material changes in the financial standing of the company:
- To provide the funds to the operator shortly before it is required on a month-by-month basis rather than as one more significant sum
 - Parent Company Guarantee where applicable (although in practice this may not offer any additional security)

- Deed in relation to Temporary Financial Support between the operators and the Council
- Security by way of an all-asset debenture
- Dun & Bradstreet financial report and alerts

4.7 The funding to be provided by the Council will be provided from general fund balances.

Equalities Impact Implications

4.8 None

Other

4.9 None

5. CONCLUSIONS

5.1 The leisure sector has been particularly affected by the measures put in place to slow the spread of coronavirus and the result of that is that operators have reduced income whilst still having significant staffing costs to meet in the short term.

5.2 Supporting the Council's operators with a cash-flow issue to pay staff salaries helps to safeguard both the staff working in the Council's facilities and helps to stabilise the companies that will be responsible for re-opening them when restrictions lift.

5.3 Given that this issue affects the entire sector, it is important that government give a view on any central support that might be available or how issues relating to this should be handled locally.

BACKGROUND DOCUMENTS:

Letters from Places Leisure and Active Nation

CONTACT DETAILS:

Report Author – James Duggin, Head of Operational Services,
james.duggin@rushmoor.gov.uk

Head of Service – James Duggin, Head of Operational Services,
james.duggin@rushmoor.gov.uk