

SENCIO COMMUNITY LEISURE

Cabinet - 15 December 2020

Report of: Sarah Robson, Deputy Chief Executive, Chief Officer, People and Places

Status: For decision

Key Decision: Yes

Executive Summary: The report sets out a formal request from Sevenoaks Leisure Limited t/a Sencio Community Leisure (Sencio) Board of Trustees for financial assistance to mitigate current financial difficulties related to the impact of the Coronavirus outbreak and subsequent recovery period.

This reports support the Key Aim of related elements of the District Council's Community Plan.

Portfolio Holder: Cllr. Lesley Dyball

Contact Officer: Sarah Robson, Ext. 7129

Recommendation to Cabinet:

- (a) To receive and note the report and appendices outlining a formal request from Sencio's Board of Trustees seeking financial support from the Council.
- (b) To consider Sencio's request for a grant of £300,000 to support cash flow forecasts for December 2020 - February 2021, as a result of the impact of Covid-19 on leisure, which would enable the three leisure centres to reopen on 2 January 2021. If approved by Cabinet, it is recommended that the grant payment is paid in three equal monthly instalments, with the first being released in December 2020 and conditional on Sencio agreeing to support and engage with the consultancy work identified in (c) below.
- (c) To consider Sencio's request for a grant of £249,000 to support their proposed business restructure. If Cabinet choose not to support the grant, it is recommended that approval for up to £30,000 is granted for the Council to commission an external leisure consultant to review Sencio's business recovery plan and restructure proposal to help future proof their leisure operating model and organisational structures. The consultant would be tasked to work jointly with Sencio, as the operator, and the Council, as the owner of the leisure property assets, with a recommendation report being presented to Cabinet in March 2021 for consideration; and

(d) Any grant will be funded from the General Fund Reserve. The General Fund Reserve balance will then be reinstated by transferring the same amount from the Budget Stabilisation Fund.

Reason for recommendation: Sencio has notified the Council that it now finds itself in a position that without urgent financial support it will be unable to continue to trade from as early as 31 December 2020 and will be forced to cease operating our three leisure centres and golf course. It is therefore important that Cabinet considers the financial support requested by Sencio to mitigate the significant financial difficulties and risk presented by the Covid-19 pandemic.

Introduction and Background

- 1 Sevenoaks District Council (the Council) owns three leisure facilities and a golf course, operated and maintained under lease agreements with Sevenoaks Leisure Limited (SLL) (operating as Sencio Community Leisure). These facilities are:
 - Edenbridge Leisure Centre
 - Sevenoaks Leisure Centre
 - White Oak Leisure Centre
 - Lullingstone Park Golf Course
- 2 Sencio is a society under the Co-operative and Community Benefit and Societies Act 2014, registered with the Inland Revenue for exempt charitable status. The organisation has been set up to benefit the community as a not-for-profit organisation.
- 3 The society was formed on 8 January 2004 when Sevenoaks District Council agreed for the transfer of its leisure services to a Non-Profit Distributing Organisation (NPDO). Sencio is an independent organisation owned and controlled by the members of the Society. There are leases for each of the facilities covering a term that terminates in 2029. The Council currently pays Sencio Community Leisure an annual management fee of £26,950.
- 4 On 23 March 2020, HM Government introduced a “lockdown” in the UK to tackle the spread of Covid-19, enforcing a mass closure of leisure facilities across the country. This placed leisure operators under the threat of insolvency as income streams effectively ceased, whilst continuing to incur costs relating to the maintenance of the facilities during closure, ongoing payments which could not be ceased or frozen and a skeleton staffing structure.
- 5 It was anticipated that leisure centres would be able to open with strict social distancing measures in place from 4 July 2020 as part of the third phase of lockdown easing. However, on 23 June 2020 the Prime Minister

announced this would not be the case, and eventually permitted facilities to reopen on 25 July 2020, but subject to rigorous restrictions, which has prevented the use of leisure facilities as we have previously known them to be used, with social distancing being paramount and restrictions on numbers using the facilities. As a result of Covid-19, there has been a substantial reduction in income levels for all leisure providers, whilst costs continue to increase, resulting in an inevitable and substantial operating deficit.

- 6 Leisure has been further impacted by the recent announcement of a further lockdown from Thursday 5 November to Wednesday 2 December 2020, when all leisure operators were forced to close their facilities. On leaving lockdown, Kent has been placed in highest tier (Tier Three - Very High Alert).
- 7 In November, Sencio's Board of Trustees approved for the three leisure centres in the district to remain closed from 2 December 2020 due to the membership arrangements and financial viability in reopening due to December being a challenging month for leisure income in 'normal' years. The golf course has reopened.
- 8 The leisure operating industry faces an extremely uncertain and financially challenging period over the coming months during which the operating capacity of gyms, pools and other sports and leisure activities will be significantly reduced. Swim England has reported (2 December 2020) that over 221 Council owned leisure centres and swimming pools will remain temporarily closed as a result of the latest tier restrictions in England, pointing to financial difficulties in their decision making.
- 9 It is nationally recognised that the leisure industry is facing an absolute crisis and it is anticipated that many leisure providers will fail.

Request for support

- 10 Sencio's Board of Trustees agreed at its meeting on 25 November 2020 to formally approach the Council for urgent financial support.
- 11 Leisure operators are facing particular challenges accessing Government support during the pandemic and are largely ineligible for emergency response packages.
- 12 Following the closure of the facilities, Sencio applied to the Coronavirus Business Interruption Loan Scheme (CBILS) and was unsuccessful. Nationally, no leisure trusts were successful in securing a CBILS loan. Sencio applied to Big Issue Capital for a Resilience and Recovery loan of £700k and unfortunately were informed that they were ineligible to apply.
- 13 As part of its Recovery Plan, Sencio has undertaken a review of the business and in October 2020, the Board of Trustees approved a restructure of the

business, which would result in some staff redundancies, but generate an annual salary saving of circa £430k. Sencio has consulted with the staff identified as at risk, however, the restructure was reliant on securing the Big Issue Capital loan and is now at risk as they will not have the funds to pay the redundancy costs.

- 14 Reorganising staffing structures in the face of budgetary reductions inevitably throws up some significant challenges. In this current operating environment, scarce resources must be used to full effect and value for money striven for at every opportunity. However, as the Council has seen with its voluntary and community sector partners, the pandemic has also encouraged innovation and improvements in how services can continue be delivered within the community during and beyond the pandemic.
- 15 Sencio's restructure proposals are based on delivering services in the same way they have always been provided to customers and it is not evidence where there will be innovation, for example, doing things differently, changing management accountabilities, and reorganising staffing structures. Therefore, it is difficult to make a judgement on whether Sencio's proposed re-organisation is fit for purpose, encourages innovation as a result of Covid-19 and provides service improvements for customers in order to avoid the risk of any challenges, but also to seek to ensure that such changes are introduced transparently and fairly, recognising at times, that difficult decisions affecting the lives of individuals need to be taken.
- 16 From the information received from Sencio during the lockdown period between March to July 2020, it reports that income of £1.8m was lost, whilst incurring costs of approximately £645k. Month on month since reopening, both income and customer numbers were increasing although income levels have only been at 30% of previous levels, which is in line with most leisure operators nationally. The second lockdown in November has had a further devastating impact on the organisation with £195k lost income and similar costs being incurred.
- 17 Sencio has notified the Council that it now finds itself in a position that without urgent financial support it will be unable to continue to trade from as early as 31 December 2020 and will be forced to cease operating the leisure centres and golf course.
- 18 Sencio's Board of Trustees is keen to avoid any continued closure, as from their customer feedback, it is evident how important the leisure centres are for the health and wellbeing of the district's local communities and the impact the closures have had on their mental health.
- 19 The Board of Trustees has submitted reports (see appendices 1-5 submitted by Sencio) outlining the current financial position of the Trust and a formal request to the Council for financial support, which is set out in the recommendations of this report for consideration.

Council support

- 20 Councils across the country have worked hard to support leisure providers and facilities during the pandemic. 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.
- 21 Since April 2020, the Council has provided support to Sencio by releasing its annual Management Fee of £26,950 for the whole year up front and relaxing the performance monitoring requirements linked to the payment. In addition, the Council agreed to suspend the Trust's loan repayments (in 2018, the Council provided Sencio with a loan of £600,000 repayable over ten years at a rate of 6% interest. The current outstanding loan repayment is £546,186.37) totalling £44,000 for six months up to September 2020.
- 22 Also considered by this Council was a request from the operator for further funding. A report was presented to Cabinet in July 2020, outlining Sencio's request for an interest free loan of up to £120,000 towards essential utility costs and concerns for future financial viability. Cabinet carefully considered Sencio's request, but decided not to support the provision of a further loan due to concerns about their recovery plan.
- 23 In September 2020, Sencio submitted a formal request for the deferral of loan repayments to be extended for a further 6 months to March 2021, equating to a further £44,000, which was approved by Cabinet on 15 October 2020.
- 24 In October 2020, Government announced that local authority leisure centres will receive £100 million in funding to help them through the challenges of the pandemic. Details of the funding scheme were due to be announced on 2 December and have been delayed to mid-December. Government will be seeking joint bids from local authorities in partnership with their leisure operators. Funding will be allocated to leisure centres most in need. The Council will work in partnership with Sencio to bid for the funding to ensure its leisure facilities will go on being a vital resource for the district's communities to keep as healthy and active as possible in the months ahead.

Other options considered and/or rejected

In the event, Members approve further financial support to Sencio, at this stage, due to the Government restrictions, current tier system restrictions and health and safety measures in place as a result of Covid-19, it is difficult to predict if the cash flow funding requested by Sencio will sustain the trust's recovery past March 2021. This will be dependent on changes in the national restrictions and Sencio's recovery in terms of its operational capacity and income levels. However, the

Council will continue to work with Sencio regarding an application to Government funding of £100 million to be made available in due course.

In the event Cabinet does not approve any further financial support to Sencio, the Council must take immediate steps to protect its leisure buildings. In the short-term, the Council's leisure buildings may need to be temporarily mothballed, whilst a procurement exercise is undertaken to secure the delivery of short term leisure support, before proceeding to a full procurement. This would incur significant costs, which would need to be borne by the Council.

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 £88,000 of loan repayments due between April 2020 to March 2021.

Failure to provide support could result in the ultimate permanent closure of Sencio and the loss of employment for its staff members. Significant costs would need to be borne by the Council if it wished to procure an alternative provision of leisure services for the District.

A grant is a sum of money awarded to a business that requires no repayment. Grants are generally awarded for a specific purpose, in this case £300,000 towards day to day operating costs and £249,000 towards the costs of redundancy.

Any grant awarded to Sencio would be funded from the General Fund Reserve. It would then be necessary to reinstate the General Fund Reserve to the recommended level of 10% of the net service expenditure budget. This amount would be transferred from the Budget Stabilisation Reserve. The remaining amount in the Budget Stabilisation Reserve would still be adequate to fund the agreed 10-year budget.

It is therefore advised that in making 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 as a result of future restrictions incurred as a result of Covid-19 regulations.

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

Covid-19 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 relates to the request to provide financial assistance to Sencio, based on their immediate need to meet costs resulting from the recent lockdown and current tier 3, together with an organisational restructure. The financial risks associated with this decision are set out in financial implications above.

Until 31 December 2020 the State Aid rules permit direct grants, selective tax advantages and advance payments up to EUR 800,000 to address urgent liquidity needs arising from the coronavirus outbreak. This permitted aid is additional to that permitted under the *De Minimis* provisions. Sencio must confirm that they have not received other State Aid which would take them above that limit.

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.

Conclusions

In line with Government guidance, Sencio temporarily shut its facilities, reopening the Golf Club in June and the three leisure centres in August 2020. Sencio was required to again shut its facilities in November due to a further lockdown and has been further impacted by Kent being placed into Tier 3 restrictions. This has had a significant impact on its ability to achieve any income to support their operations. Consequently, Sencio has formally requested assistance from the Council (see appendices 1-5, documentation submitted by Sencio) to help with the cash flow challenges and implications resulting from recent Covid-19 related closures.

We are advised by Sencio that failure to support could result in severe financial difficulties for them as early as 31 December 2020, which could impact the services provided to our residents, therefore, Sencio's request is clearly one of considerable urgency.

Sencio has requested a grant payment of £300,000, which will support cash flow forecasts for December 2020, January and February 2021, as a result of the impact of Covid-19 on leisure. Sencio has advised the Council that this would enable the reopening of the three leisure centres on 2 January 2021. If approved by Cabinet, it is recommended that the grant payment is approved and paid in three equal monthly instalments, with the first being released in December 2020.

Sencio has sought a further grant payment of £249,000 to support its business recovery plan and proposed business restructure, creating an estimated ongoing annual saving of £430,000. Sencio has confirmed that its business recovery plan and restructure proposals are based on delivering services in the same way they have always been provided to customers. There is no evidence of encouraging innovation, for example, changes in customer service delivery, changing management accountabilities, and reorganising staffing structures. Therefore, it is difficult to make a judgement on whether Sencio's proposed re-organisation is fit for purpose, supports innovation as a result of Covid-19 and provides service improvements for customers, in order to avoid the risk of any challenges, but also to seek to ensure that such changes are introduced transparently and fairly,

recognising that difficult decisions affecting the lives of individuals need to be taken.

If Cabinet decides not to approve a grant payment to support Sencio's restructure proposals, it could choose to allocate up to £30,000 funding to support the Council commissioning an external leisure consultant to review Sencio's business recovery plan, financial resilience and restructure proposal, making recommendations for improvements to ensure the Trust has a fit for purpose leisure operating model, business resilience and future viability. The consultant could be tasked to work equally in partnership with both Sencio, as the operator, and the Council, as the owner of the leisure property assets, with a recommendation report being presented to Cabinet in March 2021 for further consideration.

At this stage, due to the Government restrictions, current tier system and health and safety measures in place as a result of Covid-19, it is difficult to predict from the information provided by Sencio, whether the three-month cash flow funding requested from the Council will sustain the trust past March 2021. This will be dependent on changes in the national restrictions and Sencio's recovery in terms of its operational capacity and income levels. However, the Council will continue to work with Sencio regarding an application to Government funding of £100 million to be made available in due course.

Appendices

The following appendices are restricted items and have been submitted to the Council by the Sencio Board of Trustees:

Appendix 1a: Restructure of the business

Appendix 1b: Summary of savings and redundancy costs

Appendix 2: Cash flow Nov 2020 - Jan 2021

Appendix 3: 3 year profit and loss 2020-22

Appendix 4: Sencio Board Report Dec 2020

Appendix 5: Chairman's Letter - 1 Dec 2020

Background Papers

None

**Sarah Robson
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