

Abbeycroft COVID-19 Loan facility

Report No:	CAB/WS/20/051	
Report to and date:	Cabinet	21 July 2020
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Decisions Plan: The decision made as a result of this report will usually be published within 48 hours and cannot be actioned until five clear working days of the publication of the decision have elapsed. This item was not included on the Decisions Plan; however, as it constitutes a Key Decision and the matter may in part, be considered in private session, a General Exception Notice was published on 10 July 2020.

Wards impacted: All wards

Recommendation: It is recommended that the Cabinet:

- 1. agrees the business case to create a £1,000,000 loan facility for Abbeycroft Leisure, funded from the Investing in our Growth Agenda Fund, as set out in section 5 of Report No: CAB/WS/20/051;**
- 2. delegated authority be given to the Council's Section 151 Officer, in consultation with the Portfolio Holders for Resources and Performance, and Leisure, Culture and Community Hubs, and the Director, to agree the final details of the loan and enter into a loan agreement(s) with Abbeycroft Leisure; and**
- 3. agrees for the Council's Section 151 Officer to make the necessary changes to the Council's prudential indicators as a result of recommendation 2. above.**



1. Background / Context

- 1.1 Abbeycroft Leisure was established as a Leisure Trust in 2005, is a registered charity and gained the Social Enterprise mark in 2010. West Suffolk Council has a long term collaboration agreement with the Trust to operate its five leisure centres and to deliver wider health and wellbeing activities and support the Council in its strategic objectives.
- 1.2 The importance of the offer from the leisure centres was underlined in 2016 when the former St Edmundsbury and Forest Heath Councils both created a Leisure Investment Fund (joint value £5m) to deliver upgrades to three centres to both improve physical and mental wellbeing, and to improve the financial performance of the centres. Investment in Haverhill was completed in 2019, Newmarket this month, and plans for Brandon leisure have been drawn up.
- 1.3 The Council's commitment to leisure provision is set out through its agreement with Abbeycroft, its investment fund and its Promoting Physical Activity Framework.

2. Current Position

- 2.1 On 20 March 2020, Abbeycroft closed its leisure centres, in line with Government guidance, and lost all its income (other than the management fee the Council pays).
- 2.2 Abbeycroft furloughed the majority of its workforce, maintaining a skeleton team to oversee operations. The closure of the centres has been undertaken following industry guidance, with the necessary checks and maintenance regimes in place. At the same-time Abbeycroft has continued to offer activity opportunities to members (and Council staff) through on-line offerings and has been offering support to the wider Suffolk public sector system.
- 2.3 At the time of writing this report, there has been no Government decision as to when centres can reopen, but when they do it will be a notably different offer with the impact of social distancing and hygiene measures, and some facilities within centres may not be able to come back on line in the near future.

3. Financial Position

- 3.1 As for all leisure providers across the country, centre closures meant complete loss of income for Abbeycroft, other than any financial support the Council could provide. The Council has supported Abbeycroft's cash flow position by paying the annual management fee upfront for 2020/21 (£275,000) and a grant of £154,000 (funded from the Government's COVID-19 grant to West Suffolk Council). The grant was in recognition of the fixed costs that Abbeycroft was incurring in keeping the Council's leisure centre assets safely closed. Further, Abbeycroft has benefitted from 2 x £25,000 Government business support grants, under the retail hospitality and leisure grant scheme, for two (based on rateable value being within scheme parameters) of its centres.

- 3.2 Abbeycroft has undertaken financial modelling of a number of scenarios to show what opening with less attendance will mean, and the financial picture is very challenging. This has been shared and developed with the Council following the open book relationship that is in place. This is set out in Confidential Appendix One.
- 3.3 What is very clear is that, even after taking account of its own reserves, which Abbeycroft are currently utilising, and with centres able to open in some way in July, Abbeycroft are facing very significant medium-term losses. The losses are incurred through low footfall, albeit anticipated to increase over a six-month period, and limitations on the level of services able to re-open, combined with the increased costs of opening. This will result in a considerable financial gap that could threaten the future provision of leisure services in West Suffolk. Even with the Council's support to date and accessing all available government support Abbeycroft Leisure will still have to make changes to its operating model and the services being provided as part of its recovery strategy and on-going business planning. The Council will also need to review its management fee arrangements with Abbeycroft as part of its agreed quarterly review process once the full impact of Covid is understood when centres have been open for a number of months.

4. The Strategic case

- 4.1 Whilst the post-Covid shape of the leisure market and customer demand is not known, what we can be confident of is the need to ensure that there is support for people's health and wellbeing, and that Abbeycroft will have a role to play in that so its survival is in all our interests. *"Resilient families and communities that are healthy and active"* is a key priority for the Council and we have committed *"to use our community, leisure, public open space, countryside and heritage assets so that they give maximum benefit to West Suffolk communities.* (West Suffolk Strategic Framework 2020-24)
- 4.2 Provision of a loan facility is in line with Local Government Association advice: [Options for Councils in supporting leisure providers through COVID.19.](#)

That suggests a number of forms of support including:

- Offering their leisure contractors an interest free loan or a grant to cover the months of closure and concession on future measures when allowed to re-open; (proposal in this paper);
 - Paying operating subsidy, as an advanced payment; (management fee for year has been paid in advance);
 - Offering to fund all staff related costs that are required to attend the centres to perform building checks, therefore complying with building checks and contractual obligations; (grant paid £154,000);
 - Proposing to pay the anticipated costs of maintenance, utilities, cleaning, finance charges, professional fees, irrecoverable VAT and a proportion of central overheads, subject to an open book reconciliation being undertaken to determine the actual cost when the centres re-open.
- 4.3 In 2018, West Suffolk Council approved its [Growth Investment Strategy](#). The mission of this strategy is:

"To use our investments, assets, leadership and influence to maximise the benefits for our communities and businesses, to support services and generate economic, social and financial return."

- 4.4 This loan facility will deliver a direct social return in enabling an important leisure provider to remain viable, and to deliver essential health and wellbeing activities as part of our West Suffolk Covid recovery. In offering this facility we are requiring Abbeycroft to develop new markets and offers and innovate their leisure delivery, in line with the fund objective of *"Support creation of new markets & actively encourage business and community innovation"*. In addition, it will *"Increase our influence in delivering the best outcomes for our communities"* and support the objective that *"More people are economically active longer as we have encouraged healthier lifestyles and more of our businesses adopt a culture which nurtures employee health & wellbeing as well as their talents and ambition"*.

5. The Financial Case

- 5.1 The proposal is to provide a £1 million loan facility to Abbeycroft Leisure to ensure the Trust has access to cash balances enabling it to honour the direct costs associated with running the Council's leisure facilities, including utilities and staffing costs. It is proposed that an initial interest free period is offered up to March 2022 (equivalent to £30k pa on a full £1m drawdown – funded from within the overall growth fund), offering further financial support to the Trust during this difficult time.
- 5.2 The loan period is expected to be offered up to September 2026 (six year loan) with the loan fully repayable by the end of that six year loan term. The loan agreement will include a default loan repayment plan, with repayment due from April 2024, however there will be the opportunity to review this default repayment plan up to March 2023. Early repayment will be allowable. The final details of the loan are proposed to be delegated to the Council Section 151 Officer and will be part of the negotiations with Abbeycroft Leisure.
- 5.3 Whilst the loan will not initially provide a return to the Council, it will ensure the ongoing viability of the Council's strategic leisure provider, whilst also protecting the Council's leisure assets. The current performance of the investing in our growth agenda fund creates the financial capacity to offer this loan on an initial interest free basis, which is also in line with support measures set out in section 4.2 above.
- 5.4 It is anticipated that Abbeycroft will need to draw down at least £500,000 during the current financial year to support its cash flow requirements during the COVID-19 recovery phase. The proposed loan facility of £1,000,000 allows for future loan provision to support potential invest to save initiative and the cost of change to enable Abbeycroft to adapt to a new operating model post COVID. Each drawdown request will be assessed on the grounds of affordability by the Trust and the security risk for the Council.

- 5.5 If a loan facility wasn't available and should Abbeycroft then fail, the service would become the responsibility of the Council and a costly transfer and remobilisation exercise would have to take place. Staff would have to be transferred to the Council, and the Council would not have the financial and operational benefits the Trust model provides. Since transferring leisure services to Abbeycroft (and previously Anglia Community Leisure that delivered services to Forest Heath District Council up to 2015) the costs of that service have reduced from over £1.8m (2009/10) to £275,000 in 2020/21.
- 5.6 The Council's Loans Policy (Report No: E102: SEBC Cabinet – 10 September 2013) seeks to place appropriate safeguards in place where the Council is providing finance to external organisations. Each loan has to be judged on its own merits and ensure that the loan contributes to achieving Council objectives, the organisation is financially sound, and/or there is appropriate security in place. Consideration will be given to the loan policy as part of the due diligence and exercising of the delegations proposed. However, Members should note that it is possible that part of this loan facility may be unsecured given the limited security available from the Trusts fixed asset base (the leisure centres themselves are of course owned by the Council).
- 5.7 The merits of the loan are set out in the strategic case above, and economic and social cases below.

6. The Economic Case

- 6.1 Abbeycroft is a Not for Profit Company (Charity) that saw a £12 million turnover in 19/20 with all profits reinvested in the services and initiatives. The social value calculator (developed by Datahub/4Global) calculates that in 2018/2019 Abbeycroft Leisure generated £6.2 million of Social Value in West Suffolk alone. It works very much as part of the wider "Suffolk System" as a willing and trusted partner to complement existing services and activity, delivering schemes for the benefit of health partners such as Active Mums and Keep Active Over 55s, and numerous studies have quantified the value of such prevention activity.
- 6.2 In 2017 UK Active reported in its study "Physical Activity: A Social Solution" that nationally community leisure has a huge impact on wellbeing (£2.4bn) and health (£715m), together with benefits for wider social issues like education and crime, not traditionally considered to be impacted by the physical activity sector.

7. The Social and Community Case

- 7.1 Leisure centres are community assets. The range of facilities offered from them and range of users shows how they play an important part of many people's lives. The opportunity to have them run by a Trust whose Mission is Inspiring Healthier Active Communities through Excellent Facilities and Services, Great Experiences and Strong Partnerships and where any return is reinvested into community activities is clearly positive. The work undertaken by Abbeycroft goes beyond the Council's leisure centres though and delivers events in communities such as park runs and explore outdoors as well as

special events such as Bury goes Biking. Further information can be found in [Abbeycroft Leisure's Impact Report](#)

8. Legal Implications

- 8.1 Advice has been sought as to whether this loan would constitute State aid and consideration has been given to the temporary framework for State aid measures published by the EU and the LGA advice. Public support for a project will only amount to State aid if the aid given affects trade between Member States of the EU. This proposal is focussed on West Suffolk immediate locality and therefore falls outside the scope of State aid.
- 8.2 A loan facility agreement will be agreed with Abbeycroft which will set out the terms under which the loan is to be drawn down and repaid.

