

Provision Of Grant Funding to Hyndburn Leisure : Subsidy Control Assessment

Project name:	Payment Of Grant Funding Support To Hyndburn Leisure
Project description:	Provision of a grant of £1 million by Hyndburn BC to Hyndburn Leisure in respect of the period 1 st April 2024 – 31 st March 2025
Officer completing this form:	Jane Ellis: Executive Director (Legal & Democratic Services) Jody Spencer-Anforth: Acting Section 151 Officer
Date:	14th January 2025

Section A. Identification of the Subsidy

1. Please set out the activities that will be funded by a subsidy.
2. Set out the total value of the subsidy. Please specify any other public funds that will be public funding towards the activity (including what the basis of the funding is i.e. a xx grant).

The proposed subsidy is the provision of a grant of £1 million to be paid by Hyndburn BC to Hyndburn Leisure in respect of the period 1st April 2024 to 31st March 2025.

The grant will be paid to support the activities and running costs of Hyndburn Leisure in providing public “pay and play” sports and leisure facilities in Hyndburn. These activities include:

- The operation of Hyndburn Sports Centre
- The operation of Mercer Hall Leisure Centre, Great Harwood
- The operation of Accrington Town Hall
- The operation of Bank Mill House, Great Harwood

In addition to sport and leisure activities, Hyndburn Leisure also provides a range of programmes aimed at tackling poverty and health inequality in the Borough (such as: school holiday activity and food programme, management of the Household Support Fund, free family teatime programme, cardiac rehabilitation programme and healthy weight programme)

The Council considers Hyndburn Leisure to provide “services of public economic interest” (“SPEI”) and has already provided subsidy to Hyndburn Leisure up to the £725,000.00 SPEI threshold pursuant to section 38 Subsidy Control Act 2022, having already paid subsidy to Hyndburn Leisure as follows:

2022/23 – the sum of £235,000.00

2023/24 – the sum of £490,000.00

A subsidy control assessment is therefore required in respect of the proposed further grant.

Hyndburn Leisure is currently in receipt of the following additional grants / loans from public funds:

1. Household Support Fund which they administer on the Council’s behalf to residents in the Borough, this has been £698,276 in 2024/25. A small amount (8%) of the funding is retained by Hyndburn Leisure to cover administration costs
2. The Council also passport over grant received for Health Weight and Family Programme, which Hyndburn Leisure run on the Council’s behalf, this was £66,770 for 2024/25.
3. The Council also passport over Together and Active Future grant, which HL run on the Council’s behalf, in the sum of £150,184 for 2024/25.

The proposed subsidy will not be physically paid over the HL , but will be offset against the trading debt due to HBC relating to outstanding staff salary payments.

Section B. Application of the TCA principles for each subsidy. Please complete a separate table per subsidy.

Principles	How does the subsidy comply with the principle?	Applicants Response to the principles (including references to supporting attachments)
<p>A. The Policy Objective. The subsidy pursues a specific public policy objective to remedy an identified market failure or to address an equity rationale such as social difficulties or distributional concerns (“the objective”).</p>	<ul style="list-style-type: none"> ● Provide details of specific policy objective ● Establish the existence and significance of the market failure and/or the inequality the subsidy seeks to address ● Identify how the subsidy will remedy the market failure (i.e. provide a more efficient outcome) and/or address the equity objective (reduce an inequality) ● State the desired outcome(s) <p>Evidence may include:</p> <ol style="list-style-type: none"> 1. Confirm activities that are a subsidy. 2. How does the activity link to the defined market failure or equity rationale. Evidence must be provided to demonstrate the market failure or equity principle i.e data on deprivation levels, worklessness, skills, etc 	<p>The proposed subsidy has an equity rationale.</p> <p>Hyndburn is the 16th most deprived area out of 317 district and unitary councils in England by rank of average measure. Around 34.3% of the local population live in the 20% most deprived areas in England, against a national average of 21.7%. Child poverty is 15% above the national average, yet 20% of the population are under 16 years of age. The number of dependent children under 16 living in absolute low income families is 11% higher than the national average.</p> <p>As such Hyndburn is an area with a high level of health inequality, whilst many of the population lack the disposable income to access private sport and health club provision. For example:</p> <ul style="list-style-type: none"> - the level of obesity in adults is 71.7%, against a national average of 64% - the level of obesity in children is 23.5%, against a national average of 22.7% - life expectancy is below the national average for both men and women and, in the Borough’s most deprived wards, is 11.8 years below average for men and 10.3 years below average for women - the rates of type 2 diabetes and dementia are above the national average - hip fractures in the over 65’s are above the national average (at 673 per annum compared to a national average of 558) <p>Moreover, activity levels for adults and children are below the national average and have declined further since the Covid pandemic. In 2018/19 62.8% of adults were judged to be active, against a national average of 63.3%, but by 2022/23 this had declined to 57% against a national average of 63.4%. In children the figure was 45.9% in 2018/19 with a national average of 46.8%, but by 2022/23 this had declined to only 25.3% against a national average of 47%.</p> <p>The Council’s corporate strategy 2023-2028 identifies the improvement of health and wellbeing, and the reduction of health inequality, as a key priority and says that the Council will seek to work with those addressing local health priorities.</p> <p>The proposed subsidy will enable Hyndburn Leisure to continue to provide its existing leisure, health and wellbeing offer in the Borough in venues that are locally accessible. Unlike private sector providers, Hyndburn Leisure offers pay and play participation and membership rates that are deemed to be accessible to those on lower incomes.</p>

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<p>B. Proportionality The subsidy is proportionate and limited to what is necessary to achieve the objective.</p>	<ul style="list-style-type: none"> ● Demonstrated that the subsidy is limited to what is necessary to achieve the policy objective. ● How is this specific level of intervention necessary? ● Detail the impact of the subsidy on any areas outside the area of focus and explain how it will be negligible. <p>When reviewing the value of the subsidy in relation to developing / refurbishing an asset, the subsidy provided should reflect the difference between the value of a completed development and the cost of the development. If there is a 'viability gap' (i.e. a difference between the value and the cost) there would appear to be grounds to award the subsidy. However, if there is no viability gap, a more appropriate funding instrument could be a loan.</p> <p>When reviewing the value of the subsidy in relation to land remediation activity please consider the land remediation costs and the estimated uplift in land value of the remediated land. The estimated uplift in land value of the remediation land should be determined by valuation evidence. Remediated land which has benefited from a subsidy should usually only be disposed of at market value.</p> <p>Evidence may include:</p> <ol style="list-style-type: none"> 1. QS report identifying costs of the subsidised activity. Evidence must demonstrate that costs are based on market rates, are based on industry standard and based on an independent assessment rather than produced by in-house estimate. Costs must be proportionate and relevant to the project. 2. A financial viability test or financial analysis. This could be in the form of a development appraisal or cashflow forecast over a set period to identify the funding gap. The level of subsidy provided should plug the funding gap. 	<p>In 2008/09 Hyndburn Leisure received £1.2 million in grant funding from the Council. As part of its response to the Government's austerity measures, the Council encouraged Hyndburn Leisure to become financially self-sufficient and, by 2021/22 the subsidy had reduced to nil. Since then the Trust has faced significant financial pressures in common with leisure providers nationally. These cost pressures include:</p> <ul style="list-style-type: none"> - Increased energy costs (an increase of 590% between 2019/20 and 2024/25) - Increased staffing costs (an increase of 17% between 2019/20 and 2024/25) - Inflation rate increases leading to higher supplier, maintenance and repair costs - Increases in irrecoverable VAT <p>In addition, the Trust has lost income as a result of the partial closure of Mercer Hall Leisure Centre.</p> <p>These cost pressure have resulted in a need for subsidy, with £235k being paid by the Council in 2022/23 and £490k being paid in 2023/24. A further subsidy is required in respect of the current financial year to enable affordability levels, opening hours and service provision to be maintained at the current level. It is considered that this will support the Council's objective of supporting affordable and locally accessible health and wellbeing provision to help address the health inequalities in the Borough.</p> <p>Public pay and play sports and leisure facilities are widely recognised as being services of public economic interest that are likely to require public subsidy in order to be viable. It is common for leisure trusts to receive (often significant) local authority grant funding.</p> <p>The above demonstrates that the level of subsidy is proportionate to the Council's policy objective and does not exceed the amount reasonably required by Hyndburn Leisure to enable it to continue to maintain the current level of service. The Council has not sought to meet the entirety of the Trust's funding gap and has required the Trust to find in-year savings and efficiencies. As such, the proposed grant does not exceed the amount reasonably required by Hyndburn Leisure. In addition, monies will not be physically paid over to Hyndburn Leisure and the subsidy will be ring-fenced to repayment of the current indebtedness to the Council.</p> <p>In March 2024, Hyndburn Leisure set a budget with a forecast deficit of £1.065million. This deficit has arisen as a result of several factors impacting on HL:</p> <ul style="list-style-type: none"> - Energy costs and supplier costs at Hyndburn Leisure Centre have increased substantially and will require an estimated £400,000 to cover current unit cost increases and supplier increases,

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		<ul style="list-style-type: none"> - Employee costs across the organisation have risen in recent years, in line with the NJC terms and conditions, resulting in £200,000 of additional employee costs across Hyndburn Leisure Centre, Accrington Town Hall and Head Office employees, - The closure of the pool at Mercer Hall has resulted in lower membership and participation levels at the site, leading to a subsidy of £160,000 being required to maintain current operations, - Whilst the operating model at Accrington Town Hall has improved compared to previous years, the model continues to require an annual subsidy of around £60,000, and - Head Office costs, particularly irrecoverable VAT and supplier costs, have increased and facility profits are no longer available to cover central costs, resulting in a subsidy of £245,000 being required to maintain the overall operation of the organisation. <p>The majority of Hyndburn Leisure's customers live in the Borough or nearby. The impact of the subsidy outside of Hyndburn is therefore considered to be negligible.</p>
<p>C. Additionality - output The subsidy is designed to bring about a change of economic behaviour of the beneficiary that is conducive to achieving the objective and that would not be achieved in the absence of the subsidy being provided.</p>	<ul style="list-style-type: none"> ● Demonstrate how this behaviour would not be achieved in the absence of the subsidy ● Demonstrate that the subsidy enables a change of economic behaviour ● Set out the change of behaviour (by the beneficiaries) that the subsidy will bring about, how that will occur, and how it helps achieve the policy objective ● Would the project happen without the subsidy or a reduced subsidy? Why is the subsidy necessary to bring about the change in behaviour? <p>Evidence may include:</p> <ol style="list-style-type: none"> 1 Output from any public or industry consultation exercises. 2 The demonstration of a viability gap may also support the argument that the subsidy is incentivising behaviour. 	<p>Without subsidy at the proposed level Hyndburn Leisure's current sport and leisure offer could not continue. The Trust would have to quickly take steps to maintain its financial viability which may well include increasing prices, reducing opening hours, reducing the scope of services offered, closure of one or more facilities, or some combination of all of these. Such steps would significantly impair the provision of public sport and leisure facilities in the Borough, to the detriment of efforts to reduce the significant health inequalities faced by the Borough.</p>
<p>D. Additionality - input The subsidy should not normally compensate for the costs the beneficiary would have funded in the absence of any subsidy.</p>	<ul style="list-style-type: none"> ● What are the types of costs the subsidy is to be used to support ● Have any of the planned activities physically started ● Have you reached the point of no return of any of the planned activities <p>Evidence may include:</p> <ol style="list-style-type: none"> 1. A future options analysis identifying various scenarios if 	<p>The costs could not be funded by Hyndburn Leisure in the absence of the proposed grant. The budget shortfall would presumably have to be met by price increases and reductions in service, which would have a significant impact on achievement of the policy objective.</p> <p>The subsidy will cover costs for the current financial year. It will cover the general costs of providing the leisure services for 2024/25, which the Council has</p>

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	<p>no funding was provided; i.e. site remain/deteriorate including social, environmental and economic impact including how the initial policy objective and or market failure will improve, remain or worsen</p> <ol style="list-style-type: none"> 2. Procurement exercises are underway 3. Recent photographs of site yet to be developed. 4. Development programme to show that works have not commenced. 	<p>essentially cash flowed so far this year in that the debt due from HL has increased. The subsidy will be used to repay that cash flow to the Council to enable Hyndburn Leisure to achieve a balanced budget for 2024/25.</p>
<p>E. Appropriateness The subsidy is an appropriate policy instrument to achieve a public policy objective and that objective cannot be achieved through other less distortive means.</p>	<ul style="list-style-type: none"> • Justify why a subsidy is the most appropriate instrument for addressing the identified policy objective when compared against other options, such as regulation, direct provision of the good or service by the authority, or loans or equity investment on commercial terms • Detail other interventions which have been considered, demonstrating that the policy objective cannot be achieved through less distortive means. <p>Evidence may include:</p> <ol style="list-style-type: none"> 1. A funding options analysis identifying all options and why the full value of the subsidy is option of last resort. 2. The viability gap may also support the argument that a subsidy is the most appropriate instrument. 3. Consideration of other non-subsidy interventions. 	<p>Given the viability gap relating to services of public economic interest such as the pay and play leisure services offered by Hyndburn Leisure, the most appropriate instrument for achievement of the Council's policy objective is grant funding. As a charity providing public pay and play leisure in a deprived area, Hyndburn Leisure does not have the capacity to generate commercial returns to attract equity investment from the private sector. It is unlikely that the customer base could pay significantly increased prices, for example.</p> <p>On the same basis, Hyndburn Leisure also doesn't have capacity to generate returns to cover capital and interest repayments in respect of a loan, whether on commercial terms or on the more favourable terms that could potentially be offered by the Council. The need to generate income to repay the loan, plus interest, would have a detrimental effect on achievement of the Council's policy objective as it would be likely to require the Trust to increase prices and / or reduce services.</p> <p>Hyndburn Leisure is expecting to set a budget for 2025/26 which will require £650k of further subsidy for that year. This need for ongoing subsidy demonstrates that HL would be unlikely to be in a position to be able to repay a loan and that interest requirements could generate a need for further subsidy. This is backed up by the requirement for subsidy from the Council in 2022/23 and 2023/24.</p>
<p>F. Minimising distortion The subsidies' positive contributions to achieving the objective outweigh any negative effects, in particular the material effect on trade or investment.</p>	<ul style="list-style-type: none"> • Demonstrate how the subsidy could have an effect on trade or investment between the UK and the EU, and how the positive contribution of the subsidy outweighs any negative effect of impact on trade or investment with the EU. • To evidence this, set out the positive contributions of the subsidy and anticipated negative effects, with comments as to why negative effects are outweighed. Explain how potential negative impacts have been fully explored and weighed. • Consider future benefits that could be accrued from the subsidy against the possible negative effects on competition or investment both in the United Kingdom and internationally. 	<p>As a local provider of leisure services, the proposed grant to Hyndburn Leisure will not have an effect on trade or investment between the UK and the EU. Similarly, there will not be a distortive effect within the UK as the majority of customers live within the Borough or very close by.</p> <p>Hyndburn Leisure has over 5,400 active members at their Hyndburn and Mercer Hall Leisure Centres (including Feel Good members). Mapping of members showed that 87% of the total live within the Hyndburn local authority area.</p> <p>The proposed subsidy is considered to have minimal impact upon competition and investment, regionally or more locally. As such the proposed benefits of supporting achievement of the policy objective are considered to easily outweigh any negative effect upon competition.</p>

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	<p>Evidence may include:</p> <ol style="list-style-type: none"><li data-bbox="825 436 1576 636">1. An independent market review offering a quantitative analysis of the positive and negative impacts on trade/investments. Ensure the review identifies all competitors potentially affected to understand the net impact of the subsidy on all competitors or investors between the UK and the EU.<li data-bbox="825 642 1605 705">2. Demand analysis to demonstrate where likely occupiers of the local infrastructure are likely to come from.	