

Report to:	Cabinet	Date of Meeting:	4 February 2021
Subject:	Crosby Lakeside Adventure Centre - Business Case update		
Report of:	Executive Director (Place)	Wards Affected:	Church;
Portfolio:	Cabinet Member - Regeneration and Skills		
Is this a Key Decision:	Yes	Included in Forward Plan:	Yes
Exempt / Confidential Report:	No		

Summary:

The purpose of this project is to provide a sustainable future for, and to optimise the benefits from, the Crosby Lakeside Adventure Centre (CLAC). This report and its appendices provide the revised full business case (FBC) for this project, following a further review of the proposed operating models in the context of the COVID-19 pandemic.

Recommendation(s):

1. The Full Business Case is agreed and option 2 within the Full Business Case is approved.
2. The Executive Director (Place) is authorised to implement the delivery plan outlined within the Full Business Case in consultation with: the Cabinet Member – Regeneration and Skills; the Cabinet Member – Regulatory, Compliance and Corporate Services; and the Cabinet Member – Health and Wellbeing.
3. In alignment with option 2, the new operating company is to be incorporated, with board members nominated and appointed in accordance with the Council's Constitution.
4. That £500,000 working capital is loaned from Sefton Council to the new hospitality company to cover the launch and the first 18 months of operation. After this time the loan will be paid back to the council over the 10 years of the business plan and as the first financial commitment from profits generated.

Reasons for the Recommendation(s):

To ensure readiness for the completion of the construction project and prompt reopening of the asset, and to ensure that the facility and the operating model deliver economic, social and environmental outcomes to the benefit of the local community and the borough of Sefton.

Alternative Options Considered and Rejected: (including any Risk Implications)

This review reassessed options for operation of the facility in the context of the COVID-19 pandemic, which are summarised in the table below.

The assessment of these options identified the Preferred Option to be Option 2: a Sefton Council wholly owned hospitality company to deliver operational transformation within a fully refurbished hospitality facility.

The summary of the outcome of the assessment is shown in the table below:

OPTION	VALUE AND RISK ASSESSMENT
<p>Option 1</p> <p>Changes to management, in-house council delivery</p> <p>New JV and operating model</p>	<p>Partner with hospitality operator to run facility using a new operating model and new team. Also invest in the refurbishment and reconfiguration of the facility.</p> <p>Financial outcome: current c.£217k pa subsidy fully removed and a surplus generated for the Council of c. £70k pa average over 10 years (total c. £320k pa average) after fully funding on-going maintenance (c. £100k pa average over 10 years) and paying profit share to operator partner.</p> <p>Backlog maintenance requirements covered in full refurbishment.</p> <p>£3.4m benefit to the Council (improvement on current position) over 10 years.</p> <p>Overall assessment: could be financially sustainable, but concerns about ability to attract and retain appropriate partner.</p>
<p>Option 2</p> <p>New wholly-owned operating company</p>	<p>Recruit new team, including MD, with hospitality experience to run facility. Work to new operating model. Also invest in the refurbishment and reconfiguration of the facility.</p> <p>Financial outcome: current c.£217 pa subsidy fully removed and a surplus generated for the Council of c. £81k pa average per annum (beginning after year 5 of operations) after fully funding on-going maintenance (c. £100k pa average over 10 years).</p> <p>£3.4m benefit to the Council (improvement on current position) over 10 years.</p> <p>Overall assessment: financially sustainable, also delivering positive social outcomes; recommended option.</p>
<p>Option 3</p> <p>Changes to management, in-</p>	<p>Retain the existing operating model and team and hire new management with hospitality experience. Also invest in the refurbishment and reconfiguration of the facility.</p>

OPTION	VALUE AND RISK ASSESSMENT
house council delivery	<p>Financial outcome: current c.£217k subsidy not removed with insufficient new income to fully fund on-going maintenance requirements.</p> <p>(Backlog maintenance requirements will be covered in full refurbishment).</p> <p>Overall assessment: not a financially sustainable option.</p>

More details of this assessment are provided in **Appendix A – Full Business Case** to this report.

What will it cost and how will it be financed?

(A) Revenue Costs

Following a high-level review in the context of the COVID-19 pandemic, the Business Case is forecast to deliver the following revenue cost improvements over 10 years:

£3,393k total improvement over 10 years comprising: -

	£'m
Removal of current council subsidy	2.170
Council Dividend	0.409
On-going maintenance costs	0.503
Interest Repayment Benefits	0.311
Total	3.393

The business case provides the detailed information to support decision making and it outlines the increase in income and assumptions that have been made by service officers having been advised by a commissioned industry expert that result in the income figures for the new operation. This is the most important element of the business case that will drive financial performance and reflects both the opportunity and the key risk to the council.

The report outlines that under the preferred option and with the estimates provided by the industry expert and evaluated by the service, that the council's current subsidy to the existing facility can be removed and that after a short initial period, an annual surplus will be generated which will be delivered to the council as a dividend at the end of each financial year. As a result of this, the £0.217m subsidy will be removed as part of the 2021/22 budget setting process (half year effect in 21/22).

Similarly, the need for the Council to identify £0.503m of maintenance funding in the next MTFP period will not be required- at this stage there is no budget for this therefore this does not represent a saving on current budget plans but does mean that additional funding is not required.

The £0.409m represents the estimated distributable profits over the 10 years of the business plan (payable from year 5 onwards).

The business case also references that working capital of £0.5m will be required for initial costs and to support the business for the first 18 months of operations. This will be provided via a loan agreement on commercial terms to the new company and will be paid back to the council over the 10 years of the business plan. The £0.5m represents the total value of support that will be provided to the company. This will be charged at a commercial rate for compliance with relevant UK state aid equivalent legislation and will generate an additional return of £0.311m.

As stated the key issue for the delivery of this business case is the financial forecast and most specifically the income forecast. The recommended option outlines that annual income will rise from £0.9m presently to £1.6m following investment. This increase in income is facilitated by the significant investment in the asset and the new operating model. These assumptions follow review with industry specialists, albeit with greater prudence than the business forecasts proposed by those third parties.

With such a significant growth in income forecast and this being the key driver of financial performance a number of income scenarios are presented within the business case as part of the sensitivity analysis, that outline the impact that both over and under achievement will have on the company's annual outturn and in turn any dividend that will be returned to the council or losses that would be experienced by the company for that period.

It will be inevitable that the income forecasts contained within the business case will be the subject of change and as these represent such a significant increase compared to the current levels being generated, any material change will be notified to the council immediately. In the event that this changes the financial assumptions for the council then a further report will be presented to Cabinet for consideration. It is expected that a revision to the business case will take place during 2021/22, and a three-year business plan for the new company will be delivered during that period.

These income forecasts will be further influenced, certainly in the medium-term, by the current global pandemic. The impact on the leisure and hospitality sector has been far reaching and the true impact on the long term viability of the sector and individual businesses is not yet clear. An allowance in the business case has been made for this following advice from industry specialists.

Following inception, the company will provide monthly and quarterly financial monitoring and risk management information to the council for review and an annual business plan will be reported to cabinet each year together with any further reports that are required should financial assumptions materially change. The annual outturn position for the company will be reported as part of the council's year end process, with financial performance being reported to Audit and Governance committee.

Whilst the removal of the current subsidy and the generation of annual dividend is positive, in the event that the company makes losses, the council will be fully liable for these if and when they are realised.

(B) Capital Costs

The Business Case includes £3.1m capital investment in major refurbishment, reconfiguration and improvement of the hospitality facilities at the CLAC.

This includes both the professional fees for project management and all construction costs. Unfunded back-log maintenance is also included in this total.

The capital funding of the business case, £3.1m, is funded through the LCR Combined Authority through its SIF funding.

Implications of the Proposals:

Resource Implications (Financial, IT, Staffing and Assets): Details of the resource implications are contained within the Full Business Case.
Legal Implications: Pursuant to the General Power of Competence under sections 1 to 4 of the Localism Act 2011 the Council has the power to set up and participate in a company. Section 95 Local Government Act 2003 and the Local Government (Best Value Authorities) (Power to Trade) (England) Order 2009 provide that the Council must establish a company through which to trade.
Equality Implications: The equality Implications have been identified and mitigated.

Contribution to the Council's Core Purpose:

Protect the most vulnerable: Not Applicable
Facilitate confident and resilient communities: Development of Crosby Lakeside to maximise its potential for visitors to the region and the local community, to enjoy all the current uses within this facility now and for years to come, including water sports, fitness, hospitality and accommodation. The operating company will create sustainable, quality employment and career opportunities for local people.
Commission, broker and provide core services: Not Applicable.
Place – leadership and influencer: For the Council to be seen to directly contribute to an improved and sustainable visitor offer for the Crosby Coastal area in accordance with the Sefton Coast Plan 2017.
Drivers of change and reform: To provide a sustainable future for an important asset in a key coastal gateway that supports long term benefits for the health and wellbeing of the local community, users and visitors to this coastal location.
Facilitate sustainable economic prosperity: To provide a financially viable operating model for Crosby Lakeside which will provide a revenue generating position for the Council and sustainability for the centre. The operating company will create sustainable, quality employment and career opportunities for local people.

Greater income for social investment: To provide a financially viable operating model for Crosby Lakeside which will provides a revenue generating position for the Council.
Cleaner Greener: For the Council to be seen to directly contribute to an improved and sustainable visitor offer for Crosby Coastal area in accordance with the Sefton Coast Plan 2017.

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Head of Corporate Resources (FD 6273/21) and the Chief Legal and Democratic Officer (LD 4474/21) have been consulted and any comments have been incorporated into the report. Other Directors and Heads of Service in relevant service or support function areas have also been consulted, and comments have been incorporated into the report.

(B) External Consultations

Not applicable.

Implementation Date for the Decision

Following the expiry of the “call-in” period for the Minutes of the Cabinet Meeting

Contact Officer:	Stephen Watson
Telephone Number:	0151 934 3710
Email Address:	stephen.watson@sefton.gov.uk

Appendices:

Appendix A: Full Business Case

Background Papers:

1.0 Introduction/Background

- 1.1 The Crosby Lakeside Adventure Centre is an important council asset in a key coastal gateway that is now 12 years old. There is a significant backlog of maintenance work required and a need to provide for planned maintenance year on year, none of which is currently funded. The hospitality functions provided from the Centre currently require a substantial council subsidy each year.
- 1.2 The purpose of this project is to provide a sustainable future for the Centre.

1.3 This Full Business Case is a revision to the FBC completed in November 2019 and reflects changes in the market due to the impact of the COVID-19 pandemic. These impacts have affected many sectors, but hospitality has been particularly hard hit. The FBC provides an options appraisal of the previous preferred option against alternative options, as well as a Recommended Option and seeks approval from Cabinet to progress to the next stage in delivering a hospitality operation at CLAC. If the FBC is approved legal advice on the proposals will be taken. The document provides a Transition to Delivery (T2D) plan for that Recommended Option. The FBC also provides an update on the building enhancement and refurbishment works at the Centre. The T2D would include the following key activities:

- (a) the completion of a refurbishment and enhancement of the hospitality facilities within the Crosby Lakeside
- (b) the formation of a new hospitality company, which will be wholly owned by the Council, managed by a suitably experienced hospitality managing director and delivered from the enhanced CLAC facility.

Following the completion of the T2D, the new venture would move to the on-going delivery stage. The company would also be intended to grow into the management of other assets elsewhere in the borough.

1.4 Crosby Lakeside Adventure Centre is a fully inclusive Water Sports and Visitor Centre located in the heart of Crosby Coastal Park, Waterloo in an ideal location. Part of the gateway to the Mersey Estuary, sitting alongside the internationally renowned Antony Gormley's Another Place Iron Men statues, CLAC is in an area of outstanding natural beauty. Just 10 minutes out of Liverpool, CLAC is easily accessed with Waterloo train station on the bustling South Road just five minutes' walk away.

1.5 Previously the Centre provided the following to visitors:

- A bistro, serving food and alcoholic and non-alcoholic drinks.
- 14 hotel rooms.
- A selection of event suites available to hire.
- A fitness suite and group fitness studio.
- Wet side changing rooms and offices for access to the lake.
- Lake activities.

1.6 The building is now circa 12 years old and has had little investment in maintenance. As a result, there is a back-log of maintenance required in the hospitality facilities estimated at c. £1m, with some parts of the hospitality facility now at end of life.

1.7 The existing design of the interior of the hospitality side of the Centre does not well support efficient, flexible use of the space or the provision of a compelling, quality offer to customers.

- 1.8 As part of the Council's Framework for Change programme, a strategic review has been undertaken of the Council's assets. As part of that review the strategic importance of the CLAC as part of a key coastal gateway was confirmed as well as the potential for the asset to deliver a revenue saving and possibly a net surplus for the Council.
- 1.9 The potential investment in the CLAC has been confirmed as one of the priority projects in the Growth and Strategic Investment Programme.
- 1.10 The Council intends that the CLAC continues to contribute in the long-term to the strategic priorities it currently supports. To provide a sustainable future the Centre requires investment in:
- Enhancing the declining physical infrastructure to keep the building in good repair and reconfigure it to support an enhanced hospitality offer.
 - Transforming the hospitality offer and operations within this new fit for purpose facility to:
 - Provide a high-quality visitor experience.
 - Attract more visitors and manage all visitors more effectively (including mitigating the impact on the ecological environment).
 - Provide a financially viable business to underpin the sustainability of the centre in the medium to long-term.
- 1.11 The Full Business Case (FBC) attached at Appendix A to this report provides the detailed justification and plans for the transformation of the Hospitality Operating Model and related building enhancements at the Centre.
- 1.12 This FBC provides an options appraisal and seeks approval from Cabinet to progress to the next stage, Transition to Delivery (T2D) for the Preferred Option. The T2D would include the following key activities:
- (a) The refurbishment and enhancement of the hospitality facilities within the Crosby Lakeside Centre.
- (b) The formation of a new hospitality company, which will be wholly owned by the Council, managed by a suitably experienced hospitality managing director and delivered from the enhanced CLAC facility.
- 1.13 The FBC document is attached to this report:
- Appendix A – detailing the 5-case justification for the project and the plans.
- 1.14 If this Business Case is approved, the officers will work with staff and unions to ensure full consultation about any changes to employment that may arise. In

developing the options, the Council has sought to avoid solutions based on outsourcing (e.g. granting a concession to a 3rd party). The Council has also endeavoured to avoid compulsory redundancy, and no existing employees at the venue are affected by the recommendation. As per the updated FBC, the new business will focus on the offer of career opportunities for staff in the sector, via the CLAC project, other areas of operation for the business, and the wider industry.

2.0 Summary of Amendments from November 2019 Report:

- The construction project is now being funded through a grant of £3.1m from the LCR Combined Authority SIF Fund.
- Option 2 – New Wholly-owned hospitality company is now the recommended option due to changes in the hospitality market and the ability to deliver financial sustainability and positive social outcomes.
- Additional prudence has been built into the financial data to reflect the current hospitality sector position and the on-going impact of COVID-19 pandemic.
- The sum of £500,000 working capital is loaned from Sefton Council to the new hospitality company to cover the launch and the first 18 months of operation. After this time the loan will be paid back to the council over the 10 years of the business plan and as the first financial commitment from profits generated.