



APPENDIX A
Crosby Lakeside
Adventure Centre
Improvements
Full Business Case –
New Hospitality
Operating Model and
Building
Enhancement



Full Business Case

Introduction

This Full Business Case is for the transformation of the Hospitality Operating Model and related building enhancements at Crosby Lakeside Adventure Centre (CLAC).

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 all sectors in the market – however, hospitality has been particularly hard hit. Businesses that had discussions as part of the soft-market testing have indicated that forming a JVCo with Sefton Council is not something that they would be interested in at this time due to the current market conditions. The FBC provides an options appraisal of the previous preferred option against the current option, 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.

A detailed business plan for the new hospitality company will be produced once the new model has been agreed and incorporated.

The Council has the relevant powers to undertake this project under the following provisions:

- The general power of competence under the Localism Act 2011 section 4.
- The Local Government Act 2003 section 12.
- The Local Government Act 1972 sections 95 and 111. The Full Business

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1. Executive Summary

1.1 The importance of CLAC as a key asset

1.1.1. Crosby Lakeside Adventure Centre (CLAC) is an important Council asset.

1.1.2. Located at the southern end of the Crosby Coastal Park the Centre supports a range of key council priorities, including:

- a) Providing visitor facilities at a key coastal gateway, with an important role in helping both to attract visitors who contribute to the Sefton visitor economy as well as helping to manage visitors in the most sustainable way (in-line with the provisions of the Coastal Plan).
- b) Providing facilities that help support and promote the Council's Health and Well-being priorities, including indoor and outdoor activities with a membership gymnasium and water-based activities.
- c) Providing residential, activity and education facilities for community groups including Sea Cadets, Guides, Scouts and Schools.
- d) Increasing accessibility to leisure and recreational services, including for those with disabilities.
- e) Providing quality local employment opportunities.

1.2 The need for investment

1.2.1. This important asset is now 12 years old and in need of significant investment in improvements to secure its long-term future.

1.2.2. The main areas requiring investment are:

- a) To refurbish and enhance the declining physical infrastructure of parts of the building in a way that keeps it in good repair and reconfigures it to support an enhanced hospitality offer.
- b) To transform the hospitality operations and offer within a fit for purpose facility to provide:
 - a high-quality visitor experience;
 - attract more visitors;
 - manage visitors effectively and sustainably (environmental impact)
 - establish a viable business to underpin performance of the centre in the long-term.

1.3 The requirement for a revised business case

- 1.3.1 The original full business case for this project was taken to Cabinet in November 2019. The FBC addressed the transformation of the Hospitality Operating Model and related building enhancements at Crosby Lakeside Adventure Centre (CLAC).
- 1.3.2 Since this FBC was completed there has been a change in the source of funding for the construction work. Originally the project was to be funded through Capital Receipts. However, in February 2020 the Liverpool City Region Combined Authority agreed to provide £3.1million grant funding for this project.
- 1.3.3 There have also been significant changes in the economy as a result of the COVID-19 pandemic. All sectors of the market have struggled as a result of the pandemic, but hospitality has been particularly hard hit. According to recent research the UK hotel industry could take 4 years to return to 2019 levels even with effective vaccines. Occupancy in 2021 is estimated to be 45% (1). A recent survey of pubs, bars and other food and beverage venues indicated that 76% of businesses are currently loss-making, with 1 in 4 businesses expected to fail by the end of 2020. The same survey also suggested 750,000 job losses by February 2021 compared with February 2020 without further Government support. (2) This is across the UK. Businesses that had discussions as part of the soft-market testing have indicated that forming a JVCo with Sefton Council is not something that they would be interested in at this time due to the current market conditions. Wider engagement suggests that the appropriate partner, with the ability to bring the contribution to working capital that is required, will not be accessible in the medium-term.
- 1.3.4 A range of options for delivering these objectives was assessed in the November 2019 FBC and a Recommended Option developed. Given the changes to the hospitality sector as a result of the pandemic an external review of the original FBC has also been carried out. This review, along with the engagement with potential partners, have informed the revisions to the Full Business Case, and support a revision to the Recommended Option. The Recommended Option is:
- for the Council to form a wholly Council owned new hospitality company with a Managing Director, reporting to a board of directors, appointed.
- 1.3.5 Due to the agreement from the LCR CA to fund the project, the original FBC recommendation to Cabinet regarding project funding indicatively through Sefton's capital receipts is no longer valid.
- 1.3.6 The key features and benefits of the Recommended Option are as follows:
- a) The required capital funding will be provided by the LCR CA;
 - b) Refurbishment to address c. £1m of back-log maintenance for end of life parts of the hospitality facilities;

- c) Refurbishment and reconfiguration of the hospitality facilities to provide more flexible, fit for purpose spaces for hospitality services;
- d) Creation of a self-contained, purpose-built 'bunk barn' accommodation with self-catering and efficient space utilisation able to host young people of different genders with better safeguarding;
- e) New Hospitality Company MD input to the detailed interior design of the enhanced facilities to maximise the value of the new hospitality offer.
- f) Transformation of hospitality operations by the new hospitality company with an operating model that can be easily adapted to drive transformation to best practice business processes and a compelling hospitality offer.
- g) Step-change improvement in financial viability of the hospitality operations with the removal of the Council subsidy, full funding for on-going maintenance and delivery of a surplus for the Council.
- h) Council continued control of its priorities for the Centre, including: minimum levels of Business Plan performance; nature of the offer delivered by the new hospitality company; ensuring continued support to the Council's community and health and well-being objectives; and quality of employment opportunity created by the new company.

(1) *The Guardian 27th October 2020*

(2) *UKHospitality News November 2020*

1.4 The strategic objectives for the project

1.4.1 The strategic objectives for Crosby Lakeside are:

- To help deliver the Council's strategic vision and ambitions as set out within the Sefton Vision 2030;
- To implement a hospitality operating model for Crosby Lakeside which will provide a revenue neutral or revenue surplus position for the Council;
- 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.
- To provide long-term benefits for the health and wellbeing of the local community and visitors to the Sefton Coast.

1.5 The specific objectives for this project

1.5.1 The specific objectives for Crosby Lakeside are to:

- address a 12-year maintenance back-log (c. £1m) and on-going maintenance (c. £100k pa) needs currently unfunded;
- address the Council provided subsidy currently required to maintain hospitality operations amounting to c. £250k p.a.;
- remodel the layout of the hospitality facilities, which is too inflexible and restricts the ability to run concurrent hospitality activities and functions;
- provide alternative accommodation arrangements for the community groups

1.6 Headline financials

1.6.1 The high-level headline financials of this Full Business Case are summarised in the table below:

Previous operation	Nov. 2019	Feb. 2021
<p>c.£1m back-log maintenance requirement – unfunded</p> <p>Requirement for replacement of end-of life hospitality facilities with no allocated funding.</p>	<p>c. £1m investment in replacing end of life hospitality facilities.</p> <p>Back-log maintenance included within scope of the c.£3m capital investment.</p>	<p>c. £1m investment in replacing end of life hospitality facilities.</p> <p>Back-log maintenance included within scope of the c.£3m capital investment.</p>
<p>£0 - no investment in making the facility fit for purpose for hospitality operations.</p>	<p>c.£3m investment in enhancing the hospitality facilities (incl. maintenance) Extend and make more flexible the bistro, bar and events spaces; add a ‘bunk barn’; and refurbish the hotel rooms.</p>	<p>c.£3m investment in enhancing the hospitality facilities (incl. maintenance) Extend and make more flexible the bistro, bar and events spaces; add a ‘bunk barn’; and refurbish the hotel rooms.</p>
<p>c. £67k provision for on-going maintenance.</p> <p>Only covers reactive maintenance – no provision for replacement of FFE.</p>	<p>c. £102k provision for on-going maintenance.</p> <p>Includes sinking fund for replacement of fixtures, fittings and equipment (FFE).</p>	<p>c. £102k provision for on-going maintenance.</p> <p>Includes sinking fund for replacement of fixtures, fittings and equipment (FFE).</p>
<p>c. £250k pa Council subsidy.</p> <p>Hospitality functions currently operate at a loss, requiring a c. £250k per annum Council subsidy with insufficient funding for on-going maintenance.</p>	<p>c. £250k pa Council subsidy recovered plus c. £65k pa Council surplus achieved Recovery of subsidy and provision of £65k subsidy after provision for on-going maintenance.</p>	<p>c. £250k pa Council subsidy recovered plus c. £81k pa Council dividend achieved from year 5 onwards Working capital/subsidy required of c.£500k within the first 18 months of operations.</p>

1.7 Key assumptions

1.7.1 This Business Case is based on the following key assumptions and is subject to several risks (for which mitigation management provision has been made).

1.7.2 **Capital costs** - the construction work is being delivered as a fixed price project.

1.7.3 **Electricity capacity required.** The increase in activity forecast for the new venture is assumed to be within the capacity of the existing electrical supply to the Centre. (Adding additional capacity would incur a further cost of c. £250k).

1.7.4 **Added value from contractor.** The procurement process for the building contractor included requirements to deliver added value in terms of social benefits, including:

- a) Social benefits such as local employment and skills and training;
- b) Environmental sustainability provisions;
- c) Wider community benefits.

1.7.5 **Income growth.** The success of the new Hospitality Company is dependent on increased income for the venue and a sustained shortfall in this could put the viability of the Company at risk. This risk has been mitigated in the following ways:

- a) An industry specialist was commissioned to support the development of the forecasts in the following ways:
 - Undertaking local market research.
 - Designing an optimum hospitality Target Operating Model (TOM) tailored for the venue and its location, including menus, pricing schedules, and advertising plans.
 - Input to the designs for the redevelopment of the building to ensure it directly supports the proposed new operating model.
 - Developing an income generator model based on the market research and benchmarking other similar operations from the advisor's experience.
 - Producing a detailed Profit and Loss (P&L) account and Cash Flow forecast over 10 years based on the above.
- b) The information provided by the specialist has been recently reviewed (September 2020) by another hospitality expert to reflect the current position of the hospitality market, in light of the COVID-19 pandemic.
- c) The project team have reviewed the previous figures produced for the original FBC and have taken into account and modeled a high-level estimate of the potential effect of COVID-19 on the sector. These figures are summarised in section 6. The impact of COVID is subject to significant levels of uncertainty and so sensitivity analysis has been carried out and included in section 6.4 of this document. Note that this has been modelled

at a similar level to the approved Southport Market FBC, with a greater degree of prudence than that taken by the external reviewers and also with more prudence than the 2019 business case to reflect current conditions.

1.8 Hospitality Operations

There 3 key stages to this project:

- Stage 1: Project Development – Full Business Case
- Stage 2: Transition to Delivery – Formation of the new hospitality company/launch of new venture
- Stage 3: On-going Company Operations

This FBC covers stages 1 and 2 only. A more detailed business plan for the new company will be developed as part of the formation of the new hospitality company.

2 Full Business Case – Structure and Content

2.1. Structure and Content

This Full Business Case follows the structure of the Treasury Green Book template for business cases, which comprises 5 separate sections as follows:

CASE	CONTENT
[A] Strategic Case	The case for change and strategic fit: <ul style="list-style-type: none"> - Clarification of the purpose, objectives and importance of the Centre. - Assessment of the current performance and why change is required. - The scope of change required. - The key benefits. - Key constraints and dependencies.
[B] Economic case	The Economic Case considers: <ul style="list-style-type: none"> - The options available to the Council to deliver its objectives. - The critical success factors. - The recommended option.
[C] Commercial case	The viability of the procurement approach: <ul style="list-style-type: none"> - Contractual arrangements. - Risk management/allocation. - Personnel implications.
[D] Financial case	Affordability and funding.
[E] Management case	Demonstrating that the preferred option can be successfully delivered: <ul style="list-style-type: none"> - Best practice management. - Independent assurance of arrangements for change and contract management, benefits realisation and risk management.

3 Strategic Case

The Strategic Case details the case for change and the strategic fit of the project with the Council's priority objectives. The key components of the Strategic Case for investing in improvements to the building and the hospitality operating model of the CLAC are detailed below.

3.1 Purpose, importance and objectives relating to CLAC

3.1.1 The CLAC is an important Council asset that supports a range of key council priorities, including:

- Providing visitor facilities at a key coastal gateway, with an important role in helping both to attract visitors and contribute to the local visitor economy as well as helping to manage visitors in the most sustainable way (in-line with the Coastal Plan).
- Providing facilities that help support and promote the Council's Health and Well-being priorities, including indoor and outdoor activities with a membership gymnasium and water-based activities.
- Providing residential, activity and education facilities for community groups including Sea Cadets, Guides, Scouts and Schools.
- Increasing accessibility to leisure and recreational services, including for those with disabilities.
- Providing quality local employment and career opportunities.

3.1.2 Sefton's coastline is an extensive natural asset which contributes to the unique character of the borough. This needs to be carefully managed and a balance achieved between the requirement for resident and visitor use with the need to protect the natural habitat.

3.1.3 The Sefton Coast Plan has been developed which identifies those areas most capable of managing visitor use – known as key coastal gateways – which can help to protect from further damage the more vulnerable areas and those of high natural habitat quality.

3.1.4 Crosby Coastal Park has been identified as one of those key coastal gateways.

3.1.5 Crosby Lakeside already makes a significant contribution to a number of key council priorities. It addresses the health and well-being agenda by providing gym, fitness and watersport opportunities for Sefton residents. It contributes to the climate change emergency by providing bike racks and EV charging points on site as well as having solar panels. The Centre is fully accessible with facilities available for people with a range of disabilities and health issues.

- 3.1.6 As part of this project there are opportunities to increase this contribution. The gym, fitness and watersports accommodation will be improved and will include a better 'meet and greet' space. The new bunkbarn will enable groups to stay overnight to increase the range of activities they can participate in. New bike racks and EV charging points will be installed and information about the Centre will include more detail of public transport, walking and cycle access. Centre information will also include details about the important habitats in the area and how visitors can minimise the effect that they have on these. Inclusivity will be further improved with the installation of a changing places unit, to help people with severe disabilities.
- 3.1.7 The new hospitality operation could work with local organisations such as Sefton@Work, Hugh Baird College and Sefton Adult Education Service to provide training and employment opportunities for local residents. The aim of the operation is to provide a route into career opportunities in the sector, with training and development planning to be implemented by management to ensure continued professional development opportunities for employees.

3.2 Current arrangements and the case for change

- 3.2.1 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.
- 3.2.2 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.
- 3.2.3 When the Centre was fully operational it 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.
- 3.2.4 The building is now c. 12 years old and has had little investment in maintenance. As a result, there is a significant back-log of maintenance required, with significant parts of the hospitality facilities now at end of life.
- 3.2.5 The current layout of the hospitality parts of the Centre do not efficiently support the objective to increase customer numbers, spend per head and thus overall annual income.



3.2.6 Strategic Review – value of maintaining the Centre.

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.

3.2.7 Growth and Strategic Investment programme priority.

The case for investment in the CLAC has been identified by Members as one of the Priority Projects in the Council's Growth and Strategic Investment Programme.

The Council intends that the CLAC continues to contribute to the strategic priorities it currently supports in the medium to long-term. This objective requires investment to provide a sustainable future for the Centre. Investment is required in:

- a) Enhancing the declining physical infrastructure in a way that keeps the

building in good repair and reconfigures it to support an enhanced hospitality offer.

- b) Transforming the hospitality offer and operations within a 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.

The LCR CA have agreed to provide £3.1m grant funding to pay for the work at the Centre. These works are due to start on site in February 2021, running through to Autumn 2021.

3.3 Scope of change and improvements required

3.3.1 The review of the current hospitality arrangements conducted at CLAC has identified the following improvement requirements and the scope of change required.

Current improvement needs	Scope of change required
Need to address a 10-year maintenance back-log (c. £1m) and on-going maintenance (c. £100k pa) needs, which are currently unfunded.	<p>Undertake refurbishment and enhancement of the hospitality facilities incorporating the backlog maintenance requirements.</p> <p>Transform profitability of operations to enable self-funding of on-going maintenance.</p>
Need to address the subsidy currently required to maintain hospitality operations amounting to c. £250k p.a.	Transform hospitality operations and overhaul interior design to be fully integrated with the food, drink, events and hotel to enable delivery of a high quality, profitable offer that can remove the subsidy, deliver a surplus after funding on-going maintenance.
Need to achieve more consistent levels of customer satisfaction and reputation for the hospitality offer.	Implement high design quality interiors along with excellent customer service and a quality food and beverage offer.

<p>Need to remodel the building's layout, to be more fit for purpose in provision of high-quality hospitality services (e.g. bistro closes during events such as weddings; only able to host a single event at a time; leisure and wet-side users mixed with diners and guests including groups of children)).</p>	<p>Refurbish and reconfigure the hospitality facilities to provide more flexible, fit for purpose restaurant, bar and events spaces and residential accommodation that provide high quality and efficient spaces in which to provide hospitality services.</p>
<p>Need to provide alternative accommodation arrangements for sea-cadets as these are currently unsustainable (unaffordable for them yet still must be subsidised by the Council).</p>	<p>Create self-contained, purpose-built accommodation with self-catering and efficient space utilisation able to host young people of different genders and providing better safeguarding.</p>
<p>Need to make a step change increase in operational efficiency and productivity.</p>	<p>The hospitality company MD, with the company Board, will drive transformation of the hospitality operations and customer offer embedding:</p> <ul style="list-style-type: none"> • a complete redesign of the hospitality operating model; • best practice business processes and systems including Point of Sale (POS) and Management Information (MI); • new compelling offers and 'up- selling and cross-selling to increase customer spend per head and profit levels; • more effective and efficient management arrangements and fit for purpose roles, responsibilities and skills; • hospitality expertise with credibility and respect able to lead and embed transformation and continuous improvement. <p>Form new Council wholly owned Hospitality Company, led by an MD with a proven track record in the industry. Develop a hospitality offer that can be readily tailored to the specific potential of the Crosby Lakeside venue and local market.</p>
<p>Need to reconfigure space to allow an increase in the number of covers provided within the bistro.</p>	
<p>Need to increase current spend per head per lunchtime visit.</p>	
<p>Need to achieve hospitality industry levels for quality and profitability on food and beverage sales.</p>	
<p>Need to increase average bedroom occupation and yield.</p>	
<p>Need to create a new evening dining offer.</p>	
<p>Need to create stronger non-summer season revenue receipts.</p>	

3.3.2 Specifics of the deliverables needed for these improvements are provided below.

1. Transformation of the hospitality model – quality and sustainability.
2. Major enhancement to the hospitality facilities.
3. Address backlog and on-going maintenance needs.
4. Provide new and better facilities for community groups.
5. Actively promote the venue to support financial sustainability.
6. Engage proactively with stakeholders.
7. Support wider strategic benefits for the borough.

Each of the above factors is described in more detail in the tables below.

1. Transformation of the hospitality model – quality and sustainability

Transform business processes to hospitality industry best practice:

- Further improvement requires transformation not incremental improvements to the current model, which is not fit for purpose.
- Need to introduce new compelling offers and 'up-sell and cross-sell across services to increase customer spend per head and profit levels on transactions.
- Need to improve effectiveness and efficiency of staff management arrangements with fit for purpose roles and responsibilities and relevant skills and experience.
- Need to provide effective business leadership including hospitality management expertise with extensive skills to design compelling offers and act as credible leaders of change able to gain support and respect from the workforce.

2. Major enhancement to the hospitality facilities.

Reconfigure spaces for hospitality, accommodation and events to create efficiency and flexibility and enhance the customer journey and experience:

- New bar and coffee area with discrete entrance and capacity for 120 seated and standing.
- Dedicated access to upstairs hospitality facilities.
- New separate, dedicated entrance for restaurant.
- Permanent restaurant extension located on lakeside terrace, fully glazed.
- Increase cover capacity within restaurant.
- Refurbished lakeside terrace decking outside restaurant.
- New decking on lakeside providing usable outside space for new events facility.
- 4 new events spaces fully configurable with dividers
- Work to improve the facilities for leisure users (gym and 'wet-side' facilities) including improved reception and 'meet & greet' space.
- Refurbished 1st floor kitchen.
- New staff facilities: changing area, common room and toilets.
- Significant refresh of all 14 existing bedrooms.
- New security facilities for accommodation areas.
- New rooftop decking to allow use of the space on the rooftop terrace.
- Rooftop power supply for potential summer 'pop-up bar'
- Financial provision for regular replacement of fixtures, fittings and equipment including new furniture in the bistro, bar and events spaces.

These images are for illustrative purposes only, detailed designs will be completed in due course.



3. Address back-log and on-going maintenance needs

Feature	Benefit
<p>Replacement of 10-year-old FF&E (fixtures, fittings, equipment) and finishes, including:</p> <ul style="list-style-type: none"> • new floor finishes; • re-covered/painted walls/ceilings; • replacement of aging sanitary facilities; • general updating of other (FF&E) including kitchen equipment and furniture. 	<p>Addresses part of an unfunded and reactive maintenance requirement.</p> <p>Enables the transfer of liability for future maintenance to the new hospitality company.</p>
<p>Refurbishment of some M&E (mechanical and electrical) end of life infrastructure.</p>	<p>Addresses part of an unfunded and reactive maintenance requirement.</p>
<p>Replacement of existing decking (lakeside in front of existing bistro space).</p>	<p>Addresses part of an unfunded and reactive maintenance requirement.</p>
<p>Maintenance and part replacement of existing kitchen facilities.</p>	<p>Addresses part of an unfunded and reactive maintenance requirement.</p>

4. Provide new and better facilities for community groups

Feature	Benefit
<p>Addition of a new rooftop 'bunk-barn' facility on part of the grass roof incorporating:</p> <ul style="list-style-type: none"> • Separation of genders and adults from young people. • Beds for 36 young people and 4 adults. • More accessible rooms in total. • Own common room with kitchen for self-catering. • Secure separation from other parts of the centre. • Dedicated access to leisure facilities. 	<p>Purpose built for community groups especially youngsters (e.g. sea cadets, scouts, guides and schools):</p> <ul style="list-style-type: none"> • More effective child safeguarding. • Reduced overall costs for groups. • Increased capacity/revenue • Provides self-catering facility making stays more affordable for users and removing Council subsidy on meals. • Frees up existing hotel rooms for additional revenue generation. • Overflow for hotel and eventsguests for additional revenue.

5. Actively promote the venue to support financial sustainability

Feature	Benefit
<p>Exceptional location in a key coastal gateway yet current reputation and customer satisfaction is mixed.</p> <p>Refurbishment will address current issues with quality and availability falling short of some customers' expectations, e.g.</p> <ul style="list-style-type: none"> • complete closure of the bar and bistro when events (such as weddings) are hosted; • closure of the bistro early due to a lack of staff availability; • customer expectations require improvements to some areas. <p>The new interiors, improved customer service and enhanced quality offers for food, drink and accommodation will directly address gaps in the current quality of the customer experience.</p>	<p>Increased customer satisfaction and customer loyalty with repeat business and new business through recommendation.</p> <p>Increased revenues as a result of longer dwell times and spend per head per visit.</p> <p>Reputational benefit for Sefton Council in terms of quality of visitor infrastructure at a key coastal gateway.</p> <p>Recognition of Sefton's commitment to accessibility for all and investment in the health and well-being agenda as well as providing educational opportunities for young people.</p>
<p>Full funding for backlog and on-going maintenance and removal of council subsidy including potential for a surplus contribution to help relieve pressure on Council revenue cost budget.</p>	<p>Sustainable solution to assure the future of the centre and continuation of the health and well-being and social and community offer in the leisure and wet-side activities. Reduction in the pressure on council budgets and the level of cuts needed. Improved stewardship of public finance and resources.</p>

6. Stakeholder Engagement

Previous engagement	Current engagement	Future engagement
<p>Had meetings with existing user groups to share proposals. Amended designs to reflect needs.</p>		<p>Will keep user groups updated on progress of project.</p>
<p>Held a drop-in session with local resident/community groups to share proposals.</p>		<p>Will keep local groups updated on progress of project.</p>
<p>Held meetings with staff to share proposals.</p>	<p>The Leisure Team/Project Team meeting has been</p>	<p>The Leisure Team will continue to meet with</p>

	re-established to provide updates on project progress.	project staff and there will be a weekly meeting between the construction project manager and the Leisure Team.
Information about the project was displayed in the Centre and put on the Centre web pages. There was also a formal opportunity to comment through the Planning Application process.		The information on the website will be updated and press releases will be sent out as the project progresses.

7. Support wider benefits for the borough.	
Feature	Benefit
High quality offer and facility attracting additional visitors to the area.	Increased contribution to the visitor economy.
Provision of a high-quality visitor facility at a key coastal gateway.	Direct support for the objectives of the coastal plan. Attraction of more visitors. Reduced pressure on environment through better management of visitors
Coordination with wider plans for investment in the Coastal Park on: <ul style="list-style-type: none"> • public toilets; • wayfinding and access; • lighting improvements. 	Improved facilities for Coastal Park users New facilities for the park at South Road will allow toilets at the centre to be dedicated for customers. A Changing Places unit is part of the centre refurb and advances the objectives for better access for those with high level additional needs. Improved signage to and around the Centre Lighting improvements along the route from Great Georges Road and South Road (funded through the cycle path scheme) will give increased safety to users of the Crosby Lakeside Centre.

3.4 Key constraints and dependencies

3.4.1 The key constraints and dependencies on the existing arrangements in achieving these target improvements are listed below.

- The performance of the hospitality operations at CLAC is constrained by its layout and facilities, which are not fit for purpose.
- The level of financial subsidy required to maintain the current hospitality operations at CLAC, which is expected to rise over 10 years as a result of the need to do unavoidable minimum maintenance of the aging facility, may not be sustainable in the medium to longer term.

4. Economic Case

The Economic Case considers:

- The options available to the Council for delivering the project.
- The critical success factors for assessing the options.
- The recommended option.

4.1 Critical success factors

In developing and assessing the options available to the Council to deliver the target improvements and changes detailed in the Strategic Case, several critical success factors have been identified.

4.1.1 Methodology

These critical success factors have been used to undertake a qualitative and quantitative options appraisal to identify the most appropriate operating and delivery model. This approach is in line with Government's guidance for informed decision making: identifying the options available; designing relevant evaluation criteria; and analysing the monetary and non-monetary costs and benefits of each option to identify a recommendation.

4.1.2 Identified evaluation criteria

The critical success factors developed for assessing the different options are listed below. These have been informed by discussions with key stakeholders, including Members and the main regular users of the CLAC.

Each option has been assessed in terms of its likely effectiveness in terms of the level to which it would:

- a) Retain council control for Member's priorities for the Centre, including, for example, Business Plan performance; the character and nature of the offer delivered by the JV; ensuring continued support to the Council's community and health and well-being objectives
- b) Transform operations in terms of achieving best practice and a strong quality offer, efficient operations capable of delivering the improved

financial returns needed to provide a sustainable future for the Centre.

- c) Fully provide for both the back-log and on-going building maintenance requirements of the hospitality facility.
- d) Remove the existing subsidy (which is expected to rise over 10 years as a result of the need to provide for unavoidable maintenance requirements).
- e) Deliver a financial surplus to the Council in the form of a dividend from year 5 onwards (over and above removing the subsidy, after recovering the project implementation costs and providing for all hospitality facility maintenance costs). Remove some of the existing Council subsidy plus provision for maintenance.
- f) Advance and support the Council's strategic objectives, including providing a sustainable quality visitor facility at a key coastal gateway.
- g) Improve customer satisfaction with and the reputation of the hospitality offer delivered by the CLAC.
- h) Improve the Council's stewardship of its public finances (in terms of ensuring council funding its directed to its priorities for funding).

4.2 Options

4.2.1 The options considered against these evaluation criteria were as follows:

Option	Approach
<p>1. JV Company. Transformed ops model. Full refurb (Capital).</p>	<p>Enter into a JV arrangement with a hospitality specialist partner to transform operations to a completely new hospitality industry best practice operating model with full refurbishment of the facilities. Refurbishment funded through the LCR CA (Council owns asset with peppercorn JV rent as no borrowing to fund and commercial rent reduces profit levels to less than market expects). Industry expertise, more flexibility, different culture. This has been adjusted to include a high level 20% COVID impact (for the first 12 months) and a 5% prudence factor based on gross profit levels.</p>
<p>2. New Sefton Wholly Owned Hospitality Company. Transformed ops model. Full refurb (Capital).</p>	<p>Sefton forms a new wholly owned hospitality company to deliver the hospitality operation at Crosby Lakeside. Industry specialist recruited to manage company. Refurbishment funded through the LCR CA. (Council owns asset with lease to new company). Industry expertise, more flexibility, different culture. A 20% COVID impact (for the first 12 months) and a 5% prudence factor on gross profit levels have been included. A full consideration of the impact of the performance of the hospitality company management has not been undertaken. An estimate of the impact on performance of 2.5% has been assumed. However, it is unknown at this stage what the full impact will be. Sensitivity analysis has been undertaken and has been included within section 6.4 of</p>

	this document.
3. Sefton In-house delivery. Changes to ops model. Full refurb (Capital).	Sefton delivers the hospitality operations in-house. Recruits staff with industry expertise. Refurbishment funded through the LCR CA. Less flexibility, smaller cultural change. A 20% COVID impact (for first 12 months) and a 5% prudence factor on gross profit levels have been included. A full consideration of the impact of the In-House model has not been undertaken. An estimate of the impact on performance of 5% has been assumed.

4.3 Options appraisal

4.3.1 Assessment of effectiveness of delivery – individual options

The tables below provide the details of the assessment of the three options identified in terms of how effective they would be against the primary objectives of addressing the maintenance requirements and transforming operations:

1. JV Company. Transformed ops model. Full refurb (Capital).	
Strengths and opportunities	Weaknesses and risks
<ul style="list-style-type: none"> • No council borrowing / debt repayment costs. • Hospitality specialist partner input to interior design to max value for new offer. • Expert partner takes responsibility for operations with proven model to drive transformation to best practice business processes and most compelling hospitality offer. • Will remove all the Council subsidy (c. £250k pa) and deliver a surplus (c. £70k pa) after funding maintenance (c. £100k pa) • Council retains ability to input to the offer ensuring support for strategic objectives. • Council retains freehold ownership of the asset and lets to JV via a peppercorn rent lease (as no borrowing repayments to fund). • Provides a replicable platform that can be used to bring other council assets back in to use. 	<ul style="list-style-type: none"> • Although JV liabilities are limited to the value of the shares (nominal value, c. £1 each) and these are shared between the partners, the ultimate risk of failure still sits with the Council. • Failure to achieve the income growth targets could result not only in the loss of any potential dividend to the Council but insufficient returns to fully fund on-going maintenance or possibly insufficient returns to fully remove the existing subsidy. • Current hospitality market makes it extremely difficult to recruit a hospitality expert partner in the timeframe for the project.

- | | |
|---|--|
| <ul style="list-style-type: none">• New culture of working and increased flexibility. | |
|---|--|

Overall assessment: this option is sustainable and was the strongest option in November 2019. Concerns relate to the ability to attract a suitable partner with the right culture and financial capacity.

2. Sefton Wholly Owned Company. Transformed ops model. Full refurb (Capital).

Strengths and opportunities	Weaknesses and risks
<ul style="list-style-type: none"> • No council borrowing / debt repayment costs. • Hospitality Company MD input to interior design to max value for new offer. • Hospitality Company MD takes responsibility for operations to drive transformation to best practice business processes and most compelling hospitality offer. • Will remove all the Council subsidy (c. £250k pa) and deliver a dividend from year 5 of operation (c. £81k pa) after funding maintenance (c. £100k pa) • Council retains ability to input to the offer ensuring support for strategic objectives. • Council retains freehold ownership of the asset. • Provides a replicable platform that can be used to bring other council assets back in to use. • New culture of working and increased flexibility. • Does not require the recruitment of a hospitality partner in a challenging environment. 	<ul style="list-style-type: none"> • The ultimate risk of failure still sits with the Council. • Failure to achieve the income growth targets could result not only in the loss of any potential profit to the Council but insufficient returns to fully fund on-going maintenance or possibly insufficient returns to fully remove the existing subsidy. • Unlike JVCo where the partner provides the working capital the Council will need to find this. A high-level estimate of c.£500k has been estimated. This has increased from approved FBC due to high level COVID, prudence and performance factor impacts on income.
<p>Overall assessment: this option is sustainable and strongest option.</p>	

3. Sefton In-House Model.

Strengths and opportunities	Weaknesses and risk
<ul style="list-style-type: none"> • No council borrowing / debt repayment costs. • Recruited Venue Manager input to interior design to max value for new offer. • Recruited Venue Manager takes responsibility for operations to drive transformation to best practice business processes and most compelling hospitality offer. • Council retains freehold ownership of the asset. 	<ul style="list-style-type: none"> • No new culture of working and reduced flexibility. • The ultimate risk of failure still sits with the Council. • Failure to achieve the income growth targets could result not only in the loss of any potential profit to the Council but insufficient returns to fully fund on-going maintenance or possibly insufficient returns to fully remove the existing subsidy. • Council subsidy will increase by c.£10k pa and

	deliver a loss of c.£250k pa after funding maintenance (c. £100k pa)
Overall assessment: this option is not sustainable and is weakest option.	

4.3.2 Assessment of effectiveness of delivery – overall summary

4.3.3 Option 3 retains full control for the Council but is unlikely to deliver the required level of transformation in operations to achieve hospitality industry best practice and thus to ensure the facility is financially sustainable in the long-term.

4.3.4 The option based on a hospitality specialist partner (1) is likely to provide that level of transformation and thus the removal of the Council subsidy after providing for on-going maintenance requirements. However, it is expected to prove difficult to identify a suitable specialist partner in the current climate, with an alignment of values to the Council's and with the ability to bring significant financial capacity to the partnership (for working capital and short-term resilience).

4.3.5 The recommended option is 2 – a wholly-owned company. The new management team, to be appointed, will take responsibility for operations to drive transformation. The Council will retain ability to input to the offer, ensuring support for strategic objectives, via a board of directors and as the shareholder.

4.3.6 The facility needs a full refurbishment to deal with the back-log maintenance and to deliver the wider strategic objectives for a key coastal gateway facility as well as to underpin transformation to a level capable of reversing the subsidy or delivering a surplus.

4.3.7 The required capital is part of the council's investment programme, which has been approved by council. As part of that programme this scheme will be funded by the LCR CA.

4.3.8 Only option 2 is likely to remove the subsidy and deliver a surplus whilst meeting the Councils social requirements.

4.3.9 Summary of the assessment of options in terms of financial performance

The table below summarises for each of the options the forecast financial performance of operations ('profit and loss' / 'P&L') and the overall financial benefits to the council taking account of wider business case financial costs and benefits ('Total Net (Benefits) / Subsidy for the Council').

		Option 1 JVCO	Option 2 NEWCo Ind TC's	Option 3 In House
		10 Year Term £000s	10 Year Term £000s	10 Year Term £000s
COUNCIL INVESTMENT	CAPEX TOTAL	3,100	3,100	3,100
P&L	INCOME TOTAL	(16,430)	(16,094)	(15,758)
	COST TOTAL (INCL. Cost of Sale)	14,785	15,254	18,206
	EBITDA TOTAL ((RETURN)/COST)	(1,645)	(840)	2,448
COUNCIL WIDER BUSINESS CASE	TOTAL COSTS/(BENEFITS)			
	REMOVAL OF MAINTENANCE LIABILITY	(504)	(504)	(504)
	(REMOVAL)/ADDITIONAL SUBSIDY REQUIRED	(2,170)	(2,170)	86
	DIVIDEND (AFTER TAX)/RETURNS	(719)	(410)	2,448
	INTEREST REPAYMENT BENEFITS	0	(311)	0
	TOTAL COSTS/(BENEFITS)	(3,393)	(3,394)	2,031
TOTAL NET COSTS/(BENEFITS) FOR THE COUNCIL		(3,393)	(3,394)	2,031

- Option 1 JVCo with full refurbishment will deliver a total net benefit to the Council (including removal of maintenance liability, removal of subsidy and dividend), amounting to an average of £339k per annum over 10 years. However, it would be difficult to secure a JV partner with the required working capital in the current economic climate.
- The next best option has been identified as the 100% Council owned company (option 2). This will also generate a total net financial benefit of £339k.
- Option 3 would generate substantial losses.
- Option 2 remains the preferred option due to the issues of appointing a suitable specialist partner for option 1.

4.3.10 Summary of the assessment of options against all evaluation criteria

Incorporating the assessment of the delivery effectiveness and financial performance of each option detailed in the tables above, the table below summarises the strength of the options against all the chosen evaluation criteria.

Option	Retain Council Control	Transform Operations	Provide for Maintenance	Remove Subsidy	Deliver Surplus	Quality of Employment	Advance Strategic Objectives	Improve Customer Satisfaction / Reputation
1. JVCo. Full refurb.	Yellow	Green	Green	Yellow	Yellow	Red	Yellow	Green
2. Sefton Wholly owned Hospitality Company. Full refurb	Green	Green	Green	Green	Yellow	Green	Green	Green
3. Sefton In-house Model	Green	Yellow	Red	Red	Red	Green	Green	Yellow

The best option that has emerged through this process is Option 2: Sefton Wholly Owned Hospitality Company.

Therefore, Option 2: Sefton Wholly Owned Hospitality Company with full refurbishment funded through the LCR CA is the Recommended Option.

4.4 Key considerations for the recommended option:

- 4.4.1 **Timescales:** the construction work has been tendered and a contract is expected to be signed by the end of January 2021. Completion is expected in Autumn 2021, although logistical and resource issues arising from the COVID-19 pandemic and EU Exit may impact programme. Project management will monitor such impacts, as well as delivery against the considerations below.
- 4.4.2 **Quality (Outputs and Outcomes):** the design has been based on the advice of an industry specialist, commissioned early on in the process.
- 4.4.3 **Cost (Financial implications):** detailed cost planning has been undertaken for the construction works and, likewise, detailed cost estimating for the target operating model.
- 4.4.4 **Value for Money:** The Recommended Option will contribute towards the economic growth of the area and will support the objectives of the 2030 Vision and Framework for Change Public Sector Reform (PSR) programme.
- 4.4.5 **Social Value:** The Recommended Option provides potential for realising social value over and above the provisions of the Social Value Act 2012 by including a c.5% weighting for social value in the procurement evaluation criteria. Bidders were asked to commit to a number for each of the following criteria, with the highest commitment contributing to the evaluation:
- The number of sub-contractors that will be based within a 25mile radius.
 - The number of employees being Sefton based residents.
 - The number of builders' merchants who are Sefton based
 - The number of suppliers who are Sefton based.
 - The number of apprenticeships being created via the main contract.
- 4.4.6 **Accessibility:** Improving access for persons with disabilities.

5. Commercial Case (Recommended Option)

The Commercial Case considers procurement and contractual issues in respect of the Recommend Option including the viability of the procurement approach and the proposed contractual arrangements.

5.1. Procurement approach

5.1.1 The Recommended Option requires:

- a) Procurement of contractor(s) for the building works.

5.1.2 All tenders have been sought in full compliance of Sefton Council's contract procedure rules and assessed bidders' financial standing in the evaluation criteria

5.1.3 Procurement evaluation criteria ensured that only those companies that could demonstrate appropriate capacity, capability, systems, expertise, evidence of ability to deliver to scope and timescales and recognition of desired social value were considered.

5.2. Procurement of contractor(s)

- 5.2.1 To enable the most economically advantageous tender to be returned whilst maintaining control of time, cost and programme building works were procured through competitively tendering the works using the following mechanisms:
- a) JCT Design & Build Contract.
 - b) Fully detailed drawings and specifications.

Separately tendering for specialist packages of work, such as bar installation.

- 5.2.2 The procurement undertaken for the appointment of a building works contractor was a two-stage design & build procurement.

5.3 Delivery of hospitality operations

- 5.3.1 In the original FBC, written in November 2019, the recommended and agreed option for this was to enter into a JV arrangement with a hospitality specialist partner to transform hospitality operations.

Since the FBC was written the hospitality market has changed dramatically as a result of the COVID-19 pandemic. A 3rd party industry specialist was asked to look at the original recommendation in response to the current position of the hospitality market and financial information has also been reviewed to reflect existing market research. The recommended option for the delivery of the hospitality operations at CLAC is to develop a wholly Council owned company to deliver this service.

- 5.3.2 The new hospitality company will:
- run day-to-day operations
 - be responsible for maintenance of fixtures, fittings and hospitality equipment

The Council would continue to be responsible for maintenance of the core fabric of the building as a whole.

5.4 The proposed contractual arrangements for contractor(s)

- 5.4.1 The contractual arrangements for the procurement of contractor(s) were as follows.
- The building works contractor appointment is a JCT Standard Form of Building Contract commonly used in the construction industry amended for any Sefton Council specific requirements.
 - Sefton Council are named as the Employer for the purposes of the contract with the Contractor(s) for the works. Sefton will act as the Contract Administrator for the construction project.

6. Financial Case (Recommended Option)

This section sets out the forecast financial implications of the Recommended Option 2 as set out in the Economic Case above.

6.1 Development of financial cashflow forecast model

- 6.1.1 Third-party specialist hospitality support: Expert advice was commissioned to support the production of a financial cash flow forecast model for the proposed hospitality operations. This identified:
- the removal of historic and future maintenance liabilities for the Centre
 - recovery of the Council subsidy
 - potential income generation for the Council
 - the above are subject to the risks identified earlier in the report.
- 6.1.2 The expert has supported the development of a detailed income generator model which underpins the cash flow forecast with market intelligence and assumptions about volumes, costs and prices including:
- a) Bistro covers;
 - b) Spend per head for each cover;
 - c) Number and size of weddings;
 - d) Number and size of events;
 - e) Rack rates for accommodation.
 - f) Impacts of seasonality
 - g) Level of new business market growth.
- 6.1.3 This model has been revisited by both a 3rd party specialist and by Sefton's Project Team and it has been revised to reflect the current position of the hospitality sector as a result of the COVID-19 pandemic. The review has suggested a more cautious approach is required to the income generated than was originally reflected in the 2019 FBC to take into account the on-going impact of COVID-19 on the hospitality sector.
- 6.1.4 A summary of the key assumptions has been included below.
- a) *Launch Date* – October 2021 (albeit subject to external factors that may impact the construction project).
 - b) *Pre-Opening and Design*: Final detailed design will be completed after the appointment of the building contractor(s). An investment of c.£250k is included for this mobilisation, which is amortised in the model over 10 years – this has been included as part of the working capital amount of c.£500k which will need to be funded up front.
 - c) *Revenue Streams for bistro, bar and coffee lounge*: Forecast revenue per day benchmarks closely to comparable operations assessed by the expert advisor. These have been adjusted for COVID impact (for the first 12 months), performance factor and prudence factor as stated in this Business Case.
 - d) *Functions, Weddings Conference and Banqueting*: The forecast combined income level per day also benchmarks closely to comparable operations assessed by the

expert advisor. The income for this area is underpinned by the ability to split the rooms and reduce the space to provide an atmospheric event but more importantly to allow separate events to run concurrently on the same day/evening if required. These have been adjusted for COVID impact (for the first 12 months), performance factor and prudence factor as stated in this Business Case.

- e) *Roof Terrace*: power supply will be provided to enable potential use as a 'pop-up' bar facility.
- f) *Bedrooms*: The Investment in the building includes refurbishment of all 14 rooms as ensuite doubles, with high specification finishes and comfort, with a flexible room layout model.
- g) *Bunk Barn*: The rate of £25pp per night has been forecast flat all year for all years on a weighted average basis against funded school trips etc. Therefore, forecast occupancy starts at only 39.25% in year 1. This will be reviewed as part of the new company Business Case.
- h) *Spend per head and gross profits (GP)*: This has been forecast as a weighted average based on the proposed offering being high-quality freshly prepared quality food using local ingredients at realistic prices. Some provision has been included for increased food costs because of BREXIT.
- i) *Target demographic*: CLAC will provide an offer significantly better aligned to the demographic within a 10-minute drive than the existing offers the research indicates are currently available.
- j) *The immediate local economy*: On the basis that most existing restaurant / bar facilities in the area were all trading successfully prior to COVID, being sustained by the local community and are within a short distance of the CLAC (5-minute walk), it is believed that the local economy can support the required customer growth for the new venture.

6.16 There is confidence in these assumptions and the forecasts that are based on them for the following reasons:

- a) There was extensive support throughout the development of the forecasts from an industry specialist with a proven track record in setting up and successfully operating similar operations. For the revised analysis, the initial returns from the hospitality specialist have been subject to a high-level review and an application of 20% COVID Impact year 1, a 5% prudence factor and 2.5% performance factor (all based on gross profits). These are high-level assumptions and further sensitivity analysis has been carried out and included later in this Business Case.
- b) The key assumptions underpinning the forecasts are based on objective evidence of data collected about the market and benchmarks from the expert advisor's own experience.
- c) The Council's project team had audited the previous P&L, cash flow forecasts and Income Generator model produced by the hospitality specialist, including extensive sensitivity analysis, to underpin confidence including confirmation of the use of benchmarks or other evidence and data underpinning all key assumptions. These have been subject to high level review to estimate the potential impact of COVID and structural changes in the market as a result on initial and ongoing performance.

- 6.1.7 A step-change growth in income that has been forecast (from c.£900k in the original in house offer to c. £1.6m per annum in the 100% Council owned offer). The previous Business Case was supported by a strong evidence base including the items listed below. A further high-level review has been carried out by the Council Project Team to understand the high-level impact of COVID and the ongoing structural changes on the market.
- 6.1.8 Detailed analysis of the performance of the original in-house operation suggests impacts of:
- An absence of business processes and systems (including stock taking and detailed profit and loss accounting; forward workload planning with appropriate resourcing).
 - A lack of data and analysis about the market (including potential customers and actual competition) in terms of developing and evolving an attractive, competitive offer.
 - Uncompetitive pricing structures (given lack of industry and supplier relationships).
 - Constraints on the optimum use of the hospitality space as a result of the current layout of the building and the tired and some cases end of life fixtures, fittings and equipment.
- 6.1.9 The previous Business Case was supported by:
- A robust process over many months of developing a new target operating model tailored for the strengths of the venue.
 - Very detailed profit and loss and cash-flow modelling, which has been subject to extensive sensitivity analysis to identify and mitigate risks of underperformance on forecasts.

6.2 Financial forecast overview and assumptions

- 6.2.1 A summary of the 10-year financial forecast for the recommended option is shown in the table below:

		10 Year Term £000s
COUNCIL INVESTMENT	CAPEX TOTAL	3,100
P&L	INCOME TOTAL	(16,094)
	Cost of sale	3,895
	GROSS (PROFIT)	(12,199)
	COSTS	
	- cost staff incl expenses	6,549
	- property / repairs	3,400
	- all other	1,160
	- launch costs	250
	COST TOTAL (INCL. Cost of Sale)	15,254
	EBITDA TOTAL ((RETURN)/COST)	(840)
COUNCIL WIDER BUSINESS CASE	TOTAL COSTS/(BENEFITS)	

	REMOVAL OF MAINTENANCE LIABILITY*	(504)
	(REMOVAL)/ADDITIONAL SUBSIDY REQUIRED	(2,170)
	DIVIDEND (AFTER TAX)/RETURNS	(410)
	INTEREST REPAYMENT BENEFITS	(311)
	TOTAL COSTS/(BENEFITS)	(3,394)

TOTAL NET COSTS/(BENEFITS) FOR THE COUNCIL	(3,394)
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*Note that the maintenance liability benefit is not budgeted for and would be a cash saving and not a budget saving to the Council

6.2.2 The key features of this model are:

- £3.1m capital investment in major refurbishment:
- c.£2.2m on reconfiguring the layout of the building and addressing unfunded maintenance.
- c.£0.6m on refurbishing and replacing FF&E and finishes (including addressing unfunded maintenance).
- The project is fully funded through SIF funding from the LCR CA.
- Refurbishment addresses c.£1m of unfunded backlog maintenance.
- Hospitality operator involved in final designs of refurbishment.
- Operating costs include provision for on-going maintenance (before profit).
- A transformed operating model with best practice business processes and enhanced hospitality offer delivering increased revenues and profitability.
- Revenue increased from c.£0.9m (original in-house offer) to c. £1.6m pa when fully implemented. (Over 10 years = c.£9m original in-house offer increased to c.£16m).
- Earnings Before Tax over 10 years increased: c.£0.8m profit from
- £2.7m subsidy:
- Council benefits from full c. £2.7m* subsidy removal. (* Future subsidy will be higher than c.£250k pa as will need to include additional provision for on-going maintenance not currently built into the Medium-Term Financial Plan).
- Council gets c. £1m on-going maintenance requirements fully funded before profits. (c.£1m of backlog maintenance also provided for through refurb).

6.3 Net Present Value (NPV)

- 6.3.1 The Net Present Value (NPV) appraisal technique has been used to assess the financial viability of the proposal. NPV represents the return / gain on initial investment in present day terms in line with the Treasury Green Book appraisal methodology using a standard discount factor of 3.5%. A positive NPV indicates that a project is worth undertaking from a financial point of view.
- 6.3.2 For financial appraisal purposes, the initial investment excludes the £1m backlog maintenance liability as this will be required irrespective of which option is approved and therefore has been excluded from the NPV analysis.
- 6.3.3 The recommended Option 2 results in a positive NPV of £0.64m indicating that the project is worth undertaking from a financial point of view. This represents a gain of 30% on the initial investment of £2.1m. This aligns closely with the NPV of the FBC reviewed in November 2019, with the identified impacts mitigated by the retention of 100% of income under the revised recommendation.
- 6.3.4 It should be noted that the total construction cost of £3.1m (including £1m backlog maintenance) has been derived from a RIBA Stage 2+ cost plan. As design development with the contractor continues, and the fit-out is delivered, costs will be refined and the NPV reassessed.

6.4 Sensitivity analysis

- 6.4.1 With a project of this nature, whilst a base case can be developed to enable informed decision making, there will inevitably be several variations to this over time.
- 6.4.2 As a result, in developing this business case extensive sensitivity analysis has been undertaken that aims to outline the impact in financial performance that could be experienced should there be changes to:
- Gross Income
 - Cost of Sales
- 6.4.3 It is important to note that these changes will not take place in isolation e.g. over 10 years a number changes could take place concurrently over the life cycle of the project. A number of combinations could impact on financial performance. A summary of this analysis is provided at the end of this section.
- 6.4.4 In considering a range of outcomes, it is evident that the 2 major financial risks are in respect of: -
- The cost of construction; and
 - Achieving the income growth from £0.900m (from the original in house offer) to £1.6m that is in the base case.

6.5 Cost of construction

- 6.5.1 From the base case the positive NPV and annual return to the council is based upon the cost of construction of the new facility being £3.1m. This is a fixed cost for the project as

no additional funding is available from the LCR CA.

6.5.2 In addition to the risk that costs change as a result of the design process, construction costs are susceptible to market conditions, which could be influenced by a change in government, BREXIT and a potential UK recession. The COVID-19 pandemic has also led to changes in the construction market.

6.5.3 As the project is now being delivered as a design & build contract the stage 4 design will not be finalised until after the construction contractor is appointed. Due to the fixed project cost value engineering will be required if the costs rise above £3.1m. The JCT contract will also be developed on a fixed price basis to mitigate against the risk of project costs being higher than project budget.

6.6 Income

6.6.1 If the construction of the asset progresses as set out, the other key feature of this business case is the increase in income from £0.900m (from the original in house offer) to £1.6m per annum by year 3 of the new business. This increase depends on increased visitor numbers, including additional new visitors with increased spend per head. This is reflected in the base case assuming changes from the original in-house offer to the JVCo:-

- Spend per head for lunch increases from below £10 to £12.50 and spend per head for dinner increasing from below £16 to £24.25
- Total number of customers per year, for both dinner & lunch combined, increasing from 39,055 to 44,252
- The number of weddings/events assumed to be 24 with an average spend of £5,206 per wedding
- The cost per night stay increasing from between £85 and £95 to £100 for the hotel accommodation. The overall number of nights stayed per year increases from 6,205 to 11,349 inclusive of the bunk barn.
- The value of bar sales increasing to £602k

Note that for the 100% Council owned company these figures, when used in the modelling, have been subject to the high-level 20% COVID impact, 5% prudence factor and 2.5% performance factor.

6.6.2 The management of the cost base for these activities and the growth in income are critical to the success of this project and this is discussed within this business case. This sensitivity analysis models the impact that variations in these factors could have on annual performance and the council's financial position.

6.6.3 A summary of a number of scenarios is provided below:

	Net Present Value for the project £'m (A positive NPV indicates a project is worth undertaking from a financial point of view)	Average Annual Dividend Available for Distribution £'m
Recommended Option 2 – income of £1.61m per annum	0.643	(0.081)*
Income levels reduce to £1.56m (Prudence factor increased to 9%) – Nil Dividend	0.088	0
Income levels reduce to £1.54m (Prudence factor increase to 10%)	(0.046)	0
Income levels reduce to £1.47m (prudence factor increased to 15%)	(0.593)	0
Income levels reduce to £1.41m (prudence factor increased to 20%)	(1.141)	0

*Dividend payable after year 5 of operation.

- 6.6.4 As has been stated in the base case, following a high-level review, if income reaches £1.6m then the council will achieve a dividend of £0.081m per annum after year 5 whilst removing the current subsidy of c.£0.250m immediately. If approved this financial gain will be built into the councils Medium Term Financial Plan. Whilst this is favourable it is important to recognise the negative impact that would result if the £1.6m income target is not achieved, either due to demand not being at the forecast level or spend per head being less than anticipated.
- 6.6.5 For example, if income drops below £1.55m (a 3% decrease compared to the recommended option), this would mean that a negative NPV is produced and a small financial loss would be delivered for the year.
- 6.6.6 The point from which the Net Present Value for the project is zero is when the annual income drops to £1.5m. This would equate to a reduction of £0.2m per annum compared to the base case and does not leave a significant margin for variation from this key forecast when the level of the annual dividend forecast is also considered. Such an income level is 77% higher than that currently received.

6.6.7 A summary of the outputs from the full sensitivity analysis are in the table below

Sensitivity Group	Sensitivity Description	Projected Net Present Value (NPV)	% Discounted Return / (- Loss) on Initial Investment
		£s	%
Recommended Option 2		643,613	30.65%
Prudence Factor Sensitivity	Increased to 10%	(46,055)	-2.19%
	Increased to 15%	(593,475)	-28.26%
	Increased to 20%	(1,140,895)	-54.33%
Cost of Sales Sensitivity	Cost of Sales increased by 10%	279,407	13.31%
	Cost of Sales increased by 15%	24,983	1.19%
	Cost of Sales increased by 20%	(133,811)	-6.37%

(1)*Please note there is an additional requirement of £1m to cover backlog maintenance of the building included within the capital ask which is over and above the build costs and fees included in this analysis. This will be required regardless of the chosen option and has been excluded from this analysis.

6.6.8 The key points from this sensitivity analysis are:

- **Increase in construction costs (including associated fees)** – any increase to construction costs would have to be Value Engineered down to £3.1m as this is being delivered to fixed price contract.
- **Decrease in gross income** – this would need to decrease by a further 3% on average per year over a 10-year period to produce a negative NPV (after factoring in the 20% COVID impact, 2.5% performance impact and 5% prudence factor). This equates to an average reduction in gross income of c£100k per annum from £1.6m to £1.55m.
- **Increase in direct costs of sale** - costs of sale would need to increase by more than 15% to produce a negative NPV.

7. Management Case (Recommended Option)

This section addresses the ‘achievability’ of the Recommended Option including the actions required to ensure the successful delivery of the scheme in accordance with best practice.

7.1 Project management and plans

7.1.1 Project structure and governance arrangements

There 3 key stages to this project:

- b) Stage 1: Project Development – Full Business Case
- c) Stage 2: Transition to Delivery – Formation of the new hospitality company/launch of new venture
- d) Stage 3: On-going Company Operations

7.1.2 The project’s Transition to Delivery (if approved by Cabinet) will be governed through the Council’s established Framework for Change, Growth and Strategic Investment (GSI) pillar.

7.1.3 The governance arrangements for ongoing operations will be managed through the new Sefton wholly owned hospitality company.

7.1.4 The indicative timetable for the project is shown in the table below:

Key Activity	Dates		Comments
	Start	End	
Cabinet approval of Full Business Case (SCIG/IPC to Formal Cabinet Approval).	Dec 20	Feb 21	Stage 1
Construction works	Feb 21	Oct 21	Stage 2
Formation of Sefton wholly owned hospitality company	Feb 21	Jun 21	Stage 2
Fit out works	Jul 21	Oct 21	Stage 2
Mobilisation launch of the new business.	Jun 21	Oct 21	Stage 3

7.2. Stage 2 transition to delivery

7.2.1 Project Management - Construction

- a) Governance - Framework for Change:

The construction project will continue to be managed as part of Framework for Change (F4C) programme through the Growth and Strategic Investment (GSI) Board.

Regular reports will be brought to the GSI Board from the Project Manager and the Construction Project Sponsor. These will include commentary on progress and programme, quality and design outputs and cost together with relevant risks and issues arising.

Any changes to the project in scope, cost, quality or time will be reported through a variance report and agreed at next available GSI Board. Should the variance be significant then it will be escalated to F4C Programme Board.

b) Project manager and plan:

A Project Manager (PM) is in place. Lessons learnt workshops will be organised by the PM at key gateways for continuous improvement purposes at project and programme level. There is a project Team in place.

The project will be managed through a Project Plan for timescale management and risk register, identifying risks specific to the project. This data will be aggregated at a Programme level to produce at Programme level risks to be recorded and potentially escalated.

c) Build project – Contract Administrator:

Sefton is acting as the contract administrator for this project. This will ensure the council is able to effectively monitor progress through the technical design, procurement, construction and 12 months defects period (which will overlap with the procurement, implementation and first 12 months of operation of the new hospitality company).

d) Build project - change and contract management:

The building works will be managed using the processes, contractual arrangements and conditions described in the JCT Standard Form of Building Contract.

The Contract Administrator engaged by Sefton Council would monitor the performance of the Contractor and administer the contract on behalf of the Council (the Employer).

Any potential changes arising during the works would be communicated to the Project Sponsor and agreement sought should there be any financial implications.

Contract variations would be agreed, rejected or negotiated with the Contractor but only if prior approval has been given by Sefton Council authorised representatives.

Change control procedures and financial limits for officers will need to be agreed in due course and ahead of any contract agreement.

7.2.2 Project Management – Hospitality Operations

a) Governance

The hospitality company will be managed through a Board. The exact make-up of this is still to be agreed but it is likely to have several members including elected members, council officers and non-executive director(s), plus a shareholder representative. Structure and composition will be developed and approved in line with the Council's constitution.

Company operations and the MD recruitment will be overseen by the GSI programme and Cabinet Members until the board is in place.

The formal setting up of the new hospitality company will provide the detail on company governance arrangements, operating procedures, etc.

b) Project manager and plan:

A Project Manager (PM) is in place. Lessons learnt workshops will be organised by the PM at key gateways for continuous improvement purposes at project and programme level. There is a project Team in place.

The project will be managed through a Project Plan for timescale management and risk register, identifying risks specific to the project. This data will be aggregated at a Programme level to produce at Programme level risks to be recorded and potentially escalated.

7.2.3 Stage 2: risk management

The key risks for Stage 2 of the project and the mitigating actions are detailed in the table below.

Key assumptions/risks	Mitigating actions
<ul style="list-style-type: none"> • Unexpected significant construction costs arise after commencement of works. 	<ul style="list-style-type: none"> • JCT contract to include provision to pause construction at minimal cost to allow time for revaluation of the financial case for continuing the project on the current scope or identifying required changes to scope. • JCT contract to include provisions to allow for reduction in scope to reduce the overall construction spend if required.
<ul style="list-style-type: none"> • No interest in role of new hospitality company MD. 	<ul style="list-style-type: none"> • Hospitality industry standard job description, pay and terms & conditions • Potential to use hospitality specialist recruitment company • Allow enough time for recruitment process
<ul style="list-style-type: none"> • Cost overruns on build programme. 	<ul style="list-style-type: none"> • Fixed project cost so value engineering will be used to remain in budget. • Adopt JCT Design and Build contract model to obtain fixed price.
<ul style="list-style-type: none"> • Further downturn in the hospitality market due to COVID-19, Brexit or other external factors causing reduction in visitor footfall and spend in the Centre 	<ul style="list-style-type: none"> • Additional 3rd party advice commissioned to review original modelling. Re-modelled more cautious financial information to reflect market data.

7.2.4 Stage 2: contingency arrangements.

The following contingency plans have been developed for Stage 2.

a) Building works failure

If the building works cannot be progressed, the following arrangements have been considered for continued delivery of the required services and outputs.

- Scenario A – inability to secure an affordable tender
 - Redesign the proposals and undertake value engineering.
 - Withdraw the business plan and alternative approaches would be considered to seek a way forward.
- Scenario B – failure of the building contractor during construction
 - Secure the property by Sefton Council property services team
 - Procure new contractors and / or consultants to manage the completion of the works
 - Negotiate financial redress with administrators.

7.3 Stage 3 operational delivery

7.3.1 Stage 3: On-going operations

Following completion of Stage 2, the construction phase, and the formation of the new hospitality company, on-going operations would commence.

7.3.2 Mobilisation of the new venture

Stage 3 would commence with the mobilisation of the new venture including:

- Recruitment and training of staff
- Set-up of new business processes and systems
- Marketing and promotion for the opening of the venue
- Commencement of hospitality services

7.4 Lease Management

The Council will continue to hold the freehold interest for the whole Centre, letting a lease for the hospitality areas to the hospitality company. This lease would:

- be a 10-year full repairing lease at a peppercorn rent; and
- specify the terms for any further works to the interior or exterior of the venue.

7.4.1 At the end of the lease, the Council would be able to introduce a commercial rent for the venue in any new lease (if it was felt that the hospitality company profits were sufficient to support this).

7.4.2 There would be no assumption that any other Council venue would be managed through the hospitality company. If further venues were managed through the hospitality company each would be subject to a separate Business Case requiring member approval in line with the Council's obligations to achieve Best Consideration in the use of its assets, which could require charging a commercial rent for those assets.

7.5 Council oversight of the hospitality company and on-going operations

7.5.1 The hospitality company will be managed through a Board. The exact make-up of this is

still to be agreed but it is likely to have 7 members including elected members, council officers and non-executive directors, plus a shareholder representative.

7.5.2 Company operations and the MD recruitment will be overseen by the GSI programme and Cabinet Members until the board is in place.

7.5.3 The Board would meet at least monthly and receive reports from the Executive Management team including as a minimum:

- A profit and loss account showing actuals and forward forecast against business plan
- A cash flow statement
- A balance sheet statement
- A risk register
- A forward delivery programme for the coming 12 months

7.5.4 Change management would be managed as part of the function of the board of directors in line with the Memorandum and Articles of the Company.

7.5.5 Day to day delivery management would be the responsibility of the new company's Managing Director.

7.5.6 The formal setting up of the new hospitality company will provide the detail on company governance arrangements, including Board make-up.

7.6 Stage 3: risk management

The key risks for Stage 3 of the project and the mitigating actions are detailed in the table below.

Key assumptions/risks	Mitigating actions
Business case returns fall short of forecast to reverse council subsidy.	<ul style="list-style-type: none"> • Maintain political mandate for minimum acceptable return: <ul style="list-style-type: none"> - 100% funding of backlog maintenance; - 100% funding of on-going maintenance; - 0% increase in current council subsidy; - 100% of wider strategic objectives.
Project delays - set up of new hospitality company takes longer than planned; construction work takes longer than planned, delaying site opening	<ul style="list-style-type: none"> • Allow enough time for company set-up • Use 3rd party resource • Actively manage and monitor construction project
Governance arrangements for new company	<ul style="list-style-type: none"> • Use specialist 3rd party resource to advise • Look at existing best practice

Failure to recruit a suitable Managing Director for the new hospitality company	<ul style="list-style-type: none"> • Attractive package offered • Ensure job description includes information around culture of company and company position within Council • Use 3rd party resource and existing sector contacts and relationships • Ensure enough time allowed to complete recruitment
COVID-19 and other external factors continue to impact on hospitality sector	<ul style="list-style-type: none"> • Prudence in assumptions made in Full Business Case • Continual monitoring of market • Adaption of hospitality company business plan to reflect market conditions, e.g. provision of take-away service

7.7 Stage 3: contingency arrangements

7.7.1 The following contingency plans have been developed for Stage 3 in the event of failure of the hospitality company to ensure continuity of operation of hospitality services:

- a) Scenario A – inability to recruit a suitably qualified MD for the new hospitality company.
 - Use of specialist 3rd party services, e.g. hospitality recruitment company
 - Short-term consultancy appointment to get hospitality operation established
- b) Scenario B – failure of the new hospitality company to reverse the existing subsidy
 - Prudence in assumptions made in Full Business Case
 - Strong Governance arrangements through company board
 - Early identification through monthly monitoring of performance

8. Hospitality Company Ethos

8.1 The ethos of the hospitality company should reflect the vision and values of the borough and the Council. It will strive to be a successful commercial business that does much more than make a financial return. It will be socially, environmentally and economically sustainable.

- The hospitality company will be an employer of choice in the sector, offering quality employment opportunities and routes to long-term careers in the sector.
- The company will deliver a first-class experience for employees, who in turn will deliver a first-class experience for our customers.
- The company will work collaboratively and fairly with suppliers and other stakeholders.
- Environmental focus will inform policies relating to operations, procurement, etc.
- The company will be a partner to the communities in which it operates.

- This ethos will underpin the market positioning and commercial success of the organisation, rather than undermine it.

- 8.2 The hospitality company will focus on looking after its people, who will in turn look after its customers. The company will aim to be the employer of choice locally in the sector. This will mean treating employees as customers and focusing on their experience with the company. The company will in turn attract, develop and retain the best talent available in the sector. These employees will then deliver the same positive experience to customers. The quality of customer service and experience will be the foundation of the company's offer and market positioning. This people-oriented strategy of "look after your employees, and they'll look after your customers" is well-established in such organisations as John Lewis.
- 8.3 The company will explore engagement with Adult Community Learning, and other potential partner organisations offering paths into employment into the sector for the most vulnerable. The company will be a key partner to the communities in which it operates in every respect. This will include existing partner organisations and community groups.
- 8.4 Supplier relationships will be managed in a way that makes the new company the preferred partner to key suppliers.
- 8.5 Environmental policies and practices will be established and embedded, capturing best practice from the sector and from other industries and areas of the council, taking account of the climate change emergency declared by the council.

9. HR matters

- 9.1 The hospitality company will be an employer of choice in the sector, offering quality employment opportunities and routes to long-term careers in the sector. The company will deliver a first-class experience for employees, who in turn will deliver a first-class experience for customers.
- 9.2 This offer needs to include industry-leading terms and conditions, plus training, development and career progression opportunity. It will provide permanent employment contracts starting at real living wage, with annual leave entitlement, pension, etc.
- 9.3 The hospitality company will have the culture, structures and processes in place for personal and professional development. There will be opportunities to work across a range of roles and (as the company grows) across a range of assets. Partnerships with colleges, other private sector operators, etc, will be established as part of this.

10. Covid-19

- 10.1 This business case was initially completed before the outbreak of Covid-19. Due to the impact of the pandemic on the hospitality sector the November 2019 business case has been reviewed and the findings are reflected within the report and final forecasts.
- 10.2 The current trading environment has seen significant changes and once fully reopen, venues will be operating to a very different set of Covid Secure guidelines which will

significantly affect capacities across many venues. The impact of this will be felt more on busier trading periods such as the evenings when capacity is likely to be met.

- 10.3 It is hard to predict exactly what will happen to the hospitality industry once venues are permitted to reopen fully however it is anticipated that normal trading is not likely to resume until the end of 2021 or early 2022.
- 10.4 Covid Secure social distancing measures will need to be in place for a significant period of time once hospitality venues reopen, which is likely to have a lasting effect on the industry. This will also impact on customer preferences and venues with increased outdoor provisions are likely to perform better. Given the flexibility of both external and internal space at Crosby Lakeside the venue could be well placed to take advantage of new customer behaviour and preferences.



Sefton Council

