

<b>Report to:</b>	Cabinet	<b>Date of Meeting:</b>	1 December 2022
<b>Subject:</b>	Sefton Hospitality Operations Limited – Three-Year Strategy and Business Plan		
<b>Report of:</b>	Executive Director (Place)	<b>Wards Affected:</b>	All Wards
<b>Cabinet Portfolio:</b>	Cabinet Member - Regeneration and Skills		
<b>Is this a Key Decision?</b>	Yes	<b>Included in Forward Plan:</b>	Yes
<b>Exempt / Confidential Report:</b>	No		

### Summary:

The report provides the Cabinet with the latest strategy and business plan for Sefton Hospitality Operations Limited. The focus of the business includes, but is not limited to, operating the hospitality offer at Crosby Lakeside Adventure Centre (CLAC), known as The Lake House. This report follows on from the previous business plan presented to Cabinet in February 2022.

### Recommendation(s):

Cabinet is recommended to:

- (1) Note the strategy and business Plan for the company, including its continued alignment with the business base for Crosby Lakeside Adventure Centre and the previous business plan, both previously presented to Cabinet;
- (2) Approve the Strategy and three-year Business Plan for Sefton Hospitality Operations Limited;
- (3) Approve that any material variations to this financial forecast be presented back to Cabinet for further decision; and
- (4) Approve that an updated Business Plan for the three years from the financial year 2024-25 be brought to Cabinet for approval in advance of the start of that financial year.

### Reasons for the Recommendation(s):

Sefton's Growth and Strategic Investment programme includes a number of projects that enhance and maximise the offer across the borough to residents and visitors alike. This offer goes beyond the physical assets themselves, and the role of Sefton Hospitality Operations Limited (SHOL) and its opportunity are to provide an experience for customers that aligns with the vision and objectives of the borough and the council. Moreover, SHOL and its strategy will enable support for local people with access to higher-quality career opportunities in the hospitality sector. As per the previously-

approved business case, this model also delivers best value to the Council (via the removal of the subsidy formerly required to the previous hospitality offer at CLAC).

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

There are no alternative options to be considered.

**What will it cost and how will it be financed?**

**(A) Revenue Costs**

All financial implications are discussed within the report.

**(B) Capital Costs**

All financial implications are discussed within the report.

**Implications of the Proposals:**

**Resource Implications (Financial, IT, Staffing and Assets):**

Any resource implications are contained within the report.

**Legal Implications:**

Any legal implications are contained within the report.

**Equality Implications:**

The vision and values, strategy and operating procedures of the company will align with the ethos of the Council, in respect of equalities, and will be reflected in all areas, including recruitment, procurement, etc. This is evident in the operating performance of the company to date, as reported to its board members, and underpins approach to future opportunity and growth for the company.

In respect of employment, SHOL remains focused on offering attractive job and career opportunities to local people from a diverse range of backgrounds, and this is evident in the workforce at The Lake House, for example.

The offer at The Lake House remains inclusive, with community access to facilities and the provision of a Changing Places unit, as per the Council's intentions for all capital projects of this scale and importance. The company and its leadership remain focused on the development and maintenance of community relationships to ensure inclusive growth in line with the vision and values of its shareholder, Sefton Council, and this ethos is being embedded as part of the culture of the organisation for all new employees as part of induction and other people-related processes.

**Climate Emergency Implications:**

The recommendations within this report will

Have a positive impact	Y
Have a neutral impact	N
Have a negative impact	N
The Author has undertaken the Climate Emergency training for report authors	Y

The vision and values, strategy and operating procedures of the company will align with the Council's response to climate emergency, with focus on environmental sustainability.

**Contribution to the Council's Core Purpose:**

Protect the most vulnerable: Inclusivity will remain at the heart of the company's vision and values, in respect of both the physical and experiential offer to residents and visitors.

Facilitate confident and resilient communities: As above, inclusivity will be at the heart of the company's vision and values, in respect of both the physical and experiential offer to residents and visitors. Moreover, the company will offer quality employment and career opportunities for local people in the hospitality sector.

Commission, broker and provide core services: Projected future returns to the Council, as sole shareholder of SHOL, will provide revenue to contribute towards service provision.

Place – leadership and influencer: The physical and experiential offer of the company will support enhancement of sense of place across the borough. The vision and strategy of the company closely aligns with the 2030 vision and the Place-based strategies of the Council.

Drivers of change and reform: The enhancement of physical assets, the offer to customers, and the approach to employment and career opportunity, will all support change across the borough and in this sector particularly.

Facilitate sustainable economic prosperity: The company will support economic prosperity and resilience through the offer of quality employment and career opportunities for local people in the hospitality sector.

Greater income for social investment: The strategy and business plan outline the significant intended contribution of the company in respect of social value.

Cleaner Greener: All projects and operations will align with the highest environmental standards, reflecting the council's focus on climate emergency.

## **What consultations have taken place on the proposals and when?**

### **(A) Internal Consultations**

The Executive Director Corporate Resources & Customer Services (FD 7015/22) and the Chief Legal & Democratic Officer (LD5215/22) have been consulted and any comments have been incorporated into the report.

### **(B) External Consultations**

There have been no external consultations.

### **Implementation Date for the Decision**

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

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### **Appendices:**

There are no appendices to this report.

### **Background Papers:**

Please see Cabinet Report re CLAC Full Business Case (4 February 2021), and previous report on SHOL Strategy and Business Plan (3 February 2022)

## **1.0 Introduction**

- 1.1 In February 2021 the Council agreed the Full Business Case for the Crosby Lakeside Adventure Centre project. This includes approval of the recommendation to incorporate a new operating company, with board members nominated and appointed in accordance with the Council's Constitution, and the recommendation that £500,000 working capital was loaned from Sefton Council to the new hospitality company to cover the launch and the first period of operation. After this time the loan would be paid back to the council over the 10 years of the business plan from profits generated.
- 1.2 The three-year Strategy and Business Plan for the operating company, named Sefton Hospitality Operations Limited (SHOL) and wholly owned by Sefton Council, was approved by Cabinet in February 2022. This report comprises an updated three-year Business Plan for SHOL.
- 1.3 In the period since the approval of the previous Business Plan in February 2022, the economic climate has changed significantly, with the impacts of the cost of living crisis affecting the hospitality sector. This report includes an overview of those challenges for the business and potential mitigations to those emerging risks.

## **2.0 Hospitality Sector – Market Conditions and Outlook**

- 2.1 The hospitality and tourism industries have been through an unprecedented period of disruption, impacted by exiting the European Union, by the COVID-19 pandemic, and by the current economic outlook and cost of living crisis. The hospitality industry was heavily impacted by the change in right-to-work rules following EU exit, leading to high numbers of foreign workers employed in hotels, restaurants and bars leaving the UK due to difficulties in remaining. Furthermore, 2020 saw the global hospitality and tourism industries affected by COVID-19 with lockdown and subsequent restrictions on travel. The pandemic saw the industry experience forced closure, partial reopening, full reclosure and then a staggered reopening.
- 2.2 Since 2021, there has been a perfect storm, combining rapid inflationary pressures with widespread skills shortages and the ongoing disruption to normal working practices caused by the pandemic, global supply chain crises, and the UK's exit from the EU. Unique circumstances presented significant challenges to organisations in every part of the UK. As the UK began to recover and return back to normality following the pandemic period, the hospitality industry has been slower to react and "reopen" due to the previously mentioned continued challenges of Brexit and the lack of foreign workers that have been the backbone of the industry, combined with the realisation that many furloughed workers haven't returned to their previous jobs has resulted in the industry being in a position where it has the demand to financially recover but is struggling with supply. According to the Open University, more than two-thirds of SMEs are currently facing skills shortages, rising to 86% of large organisations.
- 2.3 However, there are now the green shoots of recovery, with hotel occupancy – the hospitality and tourism barometer for indicating customer demand - reporting

almost pre-pandemic levels of business across all regions, including the North West.

<b>Room occupancy</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
North West England	80%	47%	76%	78%
<b>Source: Wynter Hospitality Limited, November 2022</b>				

- 2.4 Of the Liverpool City Region (LCR), Sefton is second only to Liverpool in terms of overall tourism value, industry related jobs and hotel bedrooms. Whilst Liverpool has established itself as a key player in the national tourism and hospitality list of destination cities, historically important destinations such as Sefton and more specifically Southport, have to try harder attracting domestic and overseas guests. The UK's once bustling seaside towns have been declining due to factors such as higher levels of deprivation, slower population and employment growth, an aging population, inadequate transport links, and skills. This is an important consideration as seasonal tourist destinations must have a robust business plan that is supported by considering not only how to attract local customers to its hospitality businesses into the "shoulder seasons" and moving into the low "off" season, but also how to compete for a local customer base.
- 2.5 The continued presence of major food, drink and leisure brands across Sefton, and continued investment by local organisations in the sector across the borough are key indicators that opportunity and optimism exists to increase Sefton's leisure and night-time economy. This is echoed by data from Barclays that indicates on average, UK hospitality businesses expect to boost turnover this year by 30% above levels in the last 'normal' trading year of 2019 resulting in a higher than pre-pandemic confidence in growth through 2022 and into 2023, with the Northwest confidence in the top 5 of all areas in the UK.
- 2.6 At the time of writing, despite the easing of all restrictions relating to COVID-19 that have been impacting the sector, rapid inflation, the risk of recession and acute difficulties sourcing key staff are creating instability for the hospitality sector. This is reinforced by feedback from experts in the sector, and by feedback from businesses in the sector presently operating in Sefton. Given the challenges many businesses have in attracting and retaining talent, they are innovating in a way not seen in the industry before. The use QR codes in hospitality an example that most people are now familiar with, and these are still in use now even though social distancing, as a rule, has now ended. The reason is because this reduces the labour headcount required to serve in bar and restaurant settings, and as a result reducing the impact of less people prepared to work in the industry and also reducing labour costs. Online and kiosk check-in is now becoming commonplace in the hotel industry. Once, only seen in certain value brands, the option for a guest to arrive at a hotel and check themselves at luxury hotel chains is now commonplace. What this indicates is that all this is happening whilst customers' desires continue to evolve. Operators are having to assess which pandemic-inspired trends are here for the long term – pivoting their offerings to match those preferences. Loyalty, and more specifically tailoring the offer to match a customer or guests' expectation is fast becoming the norm. An ePOS system, for example, should no longer be seen

as a digitised cash register but a tool to collect data, such as buying habits – products, spend and frequency – to enable the business to match supply to expectation both boosting revenue and reducing friction.

- 2.7 The hospitality sector is often described as the UK's most popular first job but has always attracted individuals who remain in the industry and become its future leaders. What is currently being experienced is a combination of these professionals leaving the industry and the heightened challenges in recruiting for jobs that are scarcely seen as careers. As a result, these businesses have been forced to modernise in terms of working conditions to ensure they are able to attract and retain new talent. Pay rises, flexible working patterns, bonuses and other perks are now being offered and this should be viewed as a positive step. This reinforces the validity of SHOL's strategy and continued focus on being an employer of choice.
- 2.8 With the pressure to maximise all revenue opportunities during the recovery in 2022, it is difficult to predict just how successful operators will be in passing on rising operational costs, how much will the tightening of household budgets impact on leisure spend, will the return of overseas visitors recover quick enough to counterbalance the rebound in outbound travel, and whether domestic tourists will continue to seek more localised holiday destinations and increase its weight of support to UK Staycation. Feedback from industry experts advises that, for those business owners and operators who through the course of the pandemic have learnt to drive the business forward by simplifying and streamlining operations to reduce costs, investing in technology and their people, and retaining belief and conviction in the management strategies employed, their businesses are likely to emerge more strongly and embrace the challenges ahead on a much securer footing.
- 2.9 The cost of living crisis will inevitably affect consumer spending, with 9 in 10 UK consumers intending to cut back on spending amid sharp rises in the cost of living. However, these impacts will be more significant in areas of deprivation, with the least affluent projected to cut back 9.6% of their annual household spending, compared to 8.1% for average household and 7.6% for affluent. The business will continue to monitor these risks and potential impacts on revenues, while ensuring a resilient offer to customers in an increasingly challenging environment.
- 2.10 In summary, given the outlook for the economy, there will inevitably be challenges ahead for the hospitality sector, and therefore the company, which will require not only prudent focus on cost control in an inflationary environment, but also a focus on differentiation of the offer (in terms of food, drink, the quality of the physical environment, and the quality of the customer experience) at venues to remain competitive in a challenging marketplace.

### **3.0 Strategy**

- 3.1 As previously reported, the focus for SHOL will be on being an employer of choice in the hospitality sector. This is intended to include focus on offering full-time, permanent employment opportunities, with all roles paying a real living wage or above (and the Business Plan herein remains based on this assumption). These terms and conditions are one part of an attractive and differentiated offer to

employees, ensuring that the company attracts, develops and retains staff. This offer will also include training and development opportunity, working towards long-term career growth in the hospitality sector, and will be complemented by the ethos and core values of the company that should ensure an organisational culture of which employees wish to be a part.

- 3.2 The ambition remains to deliver a quality experience for employees, who in turn will deliver a quality experience for customers – this strategic approach is not uncommon at the “higher end” of many sub-segments of the retail sector. This employment offer also aligns with the core values of the Council and of the borough, and SHOL offers employment opportunity for a number of cohorts, aligned to the Council’s priority areas.
- 3.3 The first months of operation at SHOL suggest that this strategy is working effectively, evidenced in both the quality of the offer at The Lake House, and levels of staff turnover that are comfortably below industry norms at this time (see section 5).
- 3.4 There is no change proposed from the previous Business Plan in respect of service delivery and the potential for growth, with the strategy for SHOL during this Business Plan period remaining to:
- Ensure that the start-up of the business continues to be successful, building on a positive first few months of trading at The Lake House particularly, and building the structures and teams necessary to deliver the vision;
  - Continue to build brand awareness and positive recognition for the company and all venues, focused on the quality of the offer and customer experience, and alignment to the natural attributes of the Sefton coastline;
  - Continue to strengthen and support the management and operations teams at SHOL, to enable delivery of the strategy and growth of the business; and
  - Beyond The Lake House, selectively pursue other opportunities for profitable growth, in line with the values and objectives herein, with low capital investment and no additional borrowing by the company.
- 3.5 The business will continue to monitor macroeconomic conditions and their impacts on the sector, the borough, and SHOL and its venues, adapting the strategy and business plan as required.

#### 4.0 Business Plan

4.1 The Business Plan for the company remains unchanged from the original Full Business Case from the CLAC project, and from the previous Business Plan approved by Cabinet in February 2022. Despite the economic and sectoral challenges outlined herein, and the delay to the opening of the Lake House in Summer 2022, financial performance is consistent with previous expectations.

£	2022-23	2023-24	2024-25
Net Profit (+) / Loss (-)	-138,200	2,100	164,100



- 4.2 No shareholder dividends or commencement of repayment of the working capital loan to the Council are proposed during the Business Plan period. However, based on performance of the business and the progression of future opportunities, this will be reevaluated on an annual basis as part of the Business Plan process.
- 4.3 As with other Council-owned companies, any material variations to this Business Plan will be reported separately to the Cabinet for review and approval.
- 4.4 Moreover, an annual update to the three-year Business Plan will be reported to Cabinet, with an updated Strategy and Business Plan for the three financial years from 2024/25 to 2026/27 presented to Cabinet before the start of the 2023/24 financial year.

## **5.0 The Lake House, Waterloo**

- 5.1 While the details of the company's performance at The Lake House are commercially sensitive and confidential, this section aims to provide an overview of the first few months at the venue given its importance to the SHOL business. Opened in August 2022, the venue incorporates a restaurant, events and function space and 14 bedrooms.
- 5.2 SHOL has created new employment for 46 staff, 83% of whom reside within Sefton. The majority of employees (64%) reside within a 5 mile radius of The Lakehouse with 17% of these living within 1 mile of work. 46% of roles are occupied by staff new to the hospitality sector. Staff turnover at 15% is low relative to industry rates in excess of 30%. SHOL and the Council are proud that the current team includes individuals who are refugees having fled the war in Ukraine.
- 5.3 Training has been provided to enhance skills and future employment prospects. The aim is to retain and promote individuals within the organisation as opportunities arise. In addition to on the job training, specific training courses have been completed in such areas as First Aid training, professional coffee training, Back to Basics F&B training, Leadership training courses, Fire Marshall training, Marketing training, and Fire Health & Safety training.
- 5.4 In line with the Council's core values, SHOL takes its commitment to the local community seriously. In addition to creating local employment, using local suppliers and hosting community events, SHOL is working with Sefton to understand how the organisation can maximise its contribution. In November The Lake House hosted a Festive Gathering, a free community event supporting our local food bank.
- 5.5 Trading is largely in line with expectations in all areas, building on a positive reputation and brand profile that the business has quickly established at the venue. Events and corporate trade is increasing, with meeting spaces regularly hired by local businesses, many of whom are already repeat customers. The function room is increasingly popular with local residents to host parties and events such as funerals and birthdays. The Lake House is also being established as a wedding venue and will host its first wedding on New Year's Day 2023, with further weddings confirmed in the diary for spring. The level of bookings to date is encouraging so early after opening and we expect this trade to grow as the business establishes.

5.6 It is useful to highlight the seasonality of trade in the hospitality sector. The SHOL management team (and the informal feedback from other Sefton businesses in the sector) suggests that, as a general rule, venues will be profitable for 5 months of the year, breakeven for 3 months and loss making for 4 months. Over the course of a year there is significant variation so looking at a part year in isolation, particularly the winter months, is not representative of overall performance. However, the initial performance of the venue and its alignment with the previous Business Plan suggests a positive start for the company, with opportunities ahead despite a challenging external environment in which the business will be operating through the period.