

Report to:	Overview and Scrutiny Committee- Regeneration and Skills	Date of Meeting:	17 January 2023
Subject:	2021/22 Outturn Review of Council Wholly Owned Companies - Sefton Hospitality Operations Limited (SHOL)		
Report of:	Executive Director (Place)	Wards Affected:	All Wards
Cabinet Portfolio:	Regeneration and Skills		
Is this a Key Decision:	No	Included in Forward Plan:	N/A
Exempt / Confidential Report:	No		

Summary:

The aim of this report is to allow members to carry out effective scrutiny of council companies which gives a level of assurance that both the Council's interests and the services or products provided by companies to our residents, are safe and well managed and offer good value for money.

Recommendation(s):

That Members of Overview and Scrutiny Committee:

- (1) consider the content of the report in respect of the SHOL;
- (2) provide feedback on key issues arising and advise on further information that would support the scrutiny review in future years;
- (3) provide feedback on current performance (operational and financial) and how this supports the council's strategic aims and ambitions and aligns with the objectives and reasons for setting up the companies; and
- (4) seek clarification or additional information from officers as appropriate within the meeting in order to carry out the scrutiny function

Reasons for the Recommendation(s):

The recommendations will support the effective and transparent governance of the councils 3 wholly owned council companies and best practice.

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

No alternative options have been considered.

What will it cost and how will it be financed?

(A) Revenue Costs

Key financial issues and implications are included within the body of the report.

(B) Capital Costs

Key financial issues and implications are included within the body of the report.

Implications of the Proposals:

Resource Implications (Financial, IT, Staffing and Assets): Any resource implications arising are included in the body of the report.	
Legal Implications: There are no legal implications arising.	
Equality Implications: There are no equality implications arising from this report specifically. Equality impacts and mitigations for the company are addressed via the strategy and business plan for years beyond the period to which this report relates.	
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
There are no environmental implications arising from this report specifically. Sustainability and environmental impacts and mitigations for the company are addressed via the strategy and business plan for years beyond the period to which this report relates, and are to be reported separately.	

Contribution to the Council's Core Purpose:

The council's 3 wholly owned companies were set up with specific objectives that would support the delivery of the council's core purpose. These objectives are set out in the body of the report and between the 3 companies contribute to the delivery of each element of the councils 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 for future years 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 of Corporate Resources and Customer Services (FD.6993/22) and the Chief Legal and Democratic Officer (LD.5193/22) have been consulted and any comments have been incorporated into the report.

(B) External Consultations

Engagement and information provision was sought from each of the 3 companies in the production of this report

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

Appendices:

There are no appendices to this report

Background Papers:

There are no background papers available for inspection.

1. Introduction/Background

- 1.1 The council aims to ensure that the governance of its wholly owned companies meets best practice within the sector. As information and guidance becomes available then the council's approach will similarly evolve.
- 1.2. The next step in the governance cycle is to provide members with a review of performance for the previous financial year. As such this report provides that for SHOL.
- 1.3. Members should be aware that as part of the continual drive to ensure that best practice is followed a self assessment for each of the council's company's is currently being undertaken against the Local Partnerships document 'Local Authority Company Guidance Document'- this review will be led by the council's Monitoring Officer. This document has helped inform the areas to be reported within this report.

2. Aims of the Annual Report

- 2.1. The aim of this report is to allow members to carry out effective scrutiny of council companies which gives a level of assurance that both the Council's interests and the services or products provided by companies to our residents, are safe and well managed and offer good value for money by;
 - a. Challenging the suitability of their business plans and objectives in meeting the needs of the council, service users and residents
 - b. Testing the financial benefits to the council and economic benefits to the community
 - c. Reviewing the outcomes and achievements of commercial operations against their original plans
 - d. Testing whether the value of the Council's investment into these vehicles is being protected and public funds are not exposed to excessive risk ; and
 - e. Checking that responsible business standards are met.

3. Expected Outcomes

- 3.1. In considering the following detail, the key outcome will be to provide effective scrutiny of SHOL to give a level of assurance that both the Council's interests in and the services provided by the company to Sefton residents are safe, well managed and offer good value for money. This report is provided for consideration following all 3 companies being the subject of review at the recent meeting of the Overview and Scrutiny Management Board.

4. SEFTON HOSPITALITY OPERATIONS LTD

What are the council's objectives for the Company?

Sefton Hospitality Operations Limited (SHOL) was established during the financial year 2021-22, following the approval of the Full Business Case for the revitalisation of the hospitality offer at Crosby Lakeside Adventure Centre (CLAC).

Aims for the company included, but were not limited to, the quality of the offer at CLAC for residents and visitors alike, along with the financial sustainability of the asset. Through delivery of the hospitality offer through SHOL, this was intended to remove the requirement for a financial subsidy from the Council to CLAC of circa £250,000 per annum. Furthermore, in the longer-term, the business would be expected to deliver a dividend to the council as shareholder.

Moreover, the council's objectives for the company included focus on assets and opportunities beyond CLAC, bringing sector-specific experience and expertise to enable maximisation of the offer to communities and to visitors across Sefton. Opportunities progressed in 2021-22 included at Southport Market and at Ainsdale beach.

The council's objectives for the company also particularly included focus on the creation of sustainable and high-quality employment and career opportunities in the sector. This ethos is shared by the company as a key component of the offer to current and prospective employees to ensure the attraction, development and retention of talent from the local area. The council's objective is for these opportunities to offer a real living wage or better, with no mandated zero-hour contracts. These objectives in respect of employment and career opportunities for local people particularly align with the council's core purpose.

Council Governance Arrangements

The Full Business Case for CLAC was approved and implemented, as part of the £3.6m refurbishment of the venue. These capital costs were funded by the Liverpool City Region Combined Authority. Oversight of this ongoing construction project has remained with the council, with SHOL undertaking an important role in design finalisation and fit-out of the venue that it will operate from Summer 2022 as a leaseholder.

The three-year Business Plan for SHOL, for 2021-22 to 2024-25, was also reviewed and approved by Cabinet during the financial year, with monthly updates on financial and other measures of performance against that business plan presented monthly to the Executive Leadership Team by the Executive Director (Place) who works closely with the Chair of SHOL to ensure an effective working relationship between the council and the company. However, the Chair was not appointed until the second quarter of 2022, so this engagement during 2021-22 was between the Executive Director and the company's Managing Director. The Executive Director (Place) provided ongoing updates on progress with the company and key projects to the Shareholder Representative throughout the year.

Governance arrangements in place for the company in 2021/22

During 2021-22, the governance arrangement of the company comprises reporting from the Managing Director to the Executive Director (Place), with ongoing support from the Finance Manager. However, given status of the projects and the challenges of attracting and recruiting a suitably experienced Chair, the final intended structure of the board was not in place during 2021-22. The board directors during the year comprised the Managing Director, and the Finance Manager, with support from the Executive Director and from the Shareholder Representative.

For the financial year 2022-23 onwards, the board of the company will comprise the Chair, one Non-Executive Director, and the Managing Director of SHOL. The Chair will continue to report to the Shareholder Representative and continue to receive support where beneficial from the Executive Director (Place).

Governance arrangements will be consistent with other council-owned companies, with their establishment and progression supported by the council's legal team.

The Chair will schedule board meetings throughout 2022-23, and will undertake a review of board structure and composition during the year to ensure effectiveness of both the board itself and its governance arrangements to support the growth and success of the company.

Key Objectives for the Company as per the Business Plan in 2021/22

During 2021-22, as per the Business Plan, the company projected a loss of £178,350. It was also the case that the annual subsidy from the council to CLAC of £250,000 per annum would be removed, and this was implemented across 2021-22 and 2022-23 in line with the Council's approved overall budget for those years.

Other key objectives related to the recruitment of a team to support delivery of the projects and operation of the assets, particularly The Lake House adjacent to CLAC.

The published Business Plan for 2021-22 to 2024-25 included work on vision, values, and long-term strategic objectives for the company. While no fundamental changes to the council's core objectives are expected, it may be that the company (with a Chair and new management team in place since that previous Business Plan) do revisit some of this strategic work for the next iteration of the Business Plan for the years 2023-24 to 2025-26.

Review of Performance 2021/22

It should be noted that there were no operations of note by the company during the

financial year 2021-22. Costs incurred related to company set-up, input into the projects at Southport Market, Ainsdale beach and The Lake House at Crosby Lakeside Adventure Centre, but operations commenced from the Spring of 2022. It is therefore early to measure company performance for that financial year, with 2022-23 offering greater opportunity for review of performance following the opening of the Lake House and the (Almost) full year of operations elsewhere.

There were delays to the opening of the Lake House adjacent to CLAC, which impacted the Business Plan for 2021-22. These delays to the council-led project were outside SHOL control, due to contractor failure and replacement on the project. Financial objectives were achieved via deferred spend and costs given these delays at CLAC. This included recruitment, most of which was delayed to the Summer of 2022.

Financial Performance 2021/22

The Company is in the process of producing accounts for 2021/2022 which will need to be filed at Companies House by 31 December 2022. Due to the limited trading undertaken by the company, the gross expenditure for the year was less than £150,000 (mainly relating to company set up costs and the Managing Director's pay) and income was less than £10,000 (relating to the concession at Southport Market). Net expenditure was therefore less than £140,000.

As the Company has undertaken limited trading during 2021/2022 the accounts of the Company will not be consolidated into the Group Accounts on the grounds of materiality.

Key risks for the business particularly relate to cost inflation, which is placing significant cost pressures on the hospitality sector and will do so to the company. This will be a focus area for the board at both a strategic and a financial reporting level.

The impact of the cost of living crisis on disposable income also has the potential to impact the business in terms of visitor numbers and revenues – the competitiveness of the SHOL offer in an increasingly challenging marketplace will be an area of ongoing focus for the board and for the management team.

Key areas of risk during the year

As above, cost inflation and the cost of living crisis have the potential to impact margins and revenues respectively. The role of management will be to manage cost and maximise revenues to ensure delivery against the company's business plan, reporting to the board (and in turn to the council) on an ongoing basis.

Project delivery in new hospitality venues is also a key area of risk, as exemplified by the delays at the CLAC project, which although outside the control of SHOL did delay the opening of the Lake House. The risk of delay given challenges in the

construction sector was exacerbated by the lack of direct control over the contract itself. This risk was mitigated by the close and collaborative working relationship between the company and the council. The capture and application of lessons learned for future projects will also be a key mitigation.

People also remains a risk, in an increasingly competitive and challenging environment for the hospitality sector. The business will be heavily focused on the attraction, development and retention of the quantity and quality of people needed to deliver the offer as well as the high standards that reflect the brand of the company. The quality of the employment offer to workforce, in terms of terms and conditions, is a key mitigant of this risk, as is the creation and retention of an organisational culture and set of values that people want to join and stay a part of.

Notwithstanding the mitigants above, these remain residual risks to the company at the year end, which will be monitored on an ongoing basis by the board and by the shareholder. Risk reporting to the board will be via an up-to-date Risk Register, a copy of which will be shared with the council as shareholder.

Following the appointment of the SHOL board chair during 2022-23, company policies will be put in place in terms of such areas as ethics and business integrity, procurement, bribery and anti-corruption. These will be board-approved and while applicable to the hospitality sector specifically, they will reflect the council's obligations and expectations and will be consistent where applicable with other council-owned companies.

Evaluation of performance in 2021/22 compared to Council objectives for setting up the company and approved Business Plan for the year

Performance in 2021-22 has been in line with the Council's objectives and approved Business Plan for the year. However, it should be noted that the company was only formed part way through that year, with significant operations only commencing during 2022-23. That year will provide greater measure of progress and performance.

What are the Delivery and Improvement Plans for 2022/23

During 2022-23, the company will delivery an updated Business Plan that includes that year but also the three subsequent financial years. That Business Plan will be underpinned by a revised strategy for the company, reflecting the learning from the year 2021-22 and the early parts of 2022-23, as well as the changing macro-environment in which the company is operating. This updated strategy and business plan will include:

- Financial Plan for the current and three subsequent financial years – including recognition of the changing marketplace in which the company is operating
- Governance structures and key policies – reflecting the new board of the company following appointment of the Chair and Non-Executive Director

- Key performance indicators – financial and other measures of success of the company
- Vision and values – to be updated to reflect the changing marketplace as well as the leadership of a new Chair and management team
- Risk Register – including but not limited to the risk items identified herein.

This updated strategy and business plan was published in December 2022.