

Report to:	Cabinet	Date of Meeting:	7 December 2023
Subject:	Sefton Hospitality Operations Limited – Strategy and Business Plan Update		
Report of:	Executive Director (Place)	Wards Affected:	All Wards
Portfolio:	Cabinet Member - Regeneration and Skills		
Is this a Key Decision:	Yes	Included in Forward Plan:	Yes
Exempt / Confidential Report:	No		

Summary:

The report provides Cabinet with an update on performance of Sefton Hospitality Operations Limited relative to the previous Business Plan for the company and to the original Business Case for the Crosby Lakeside Adventure Centre project (part of which is now operated by the company). In providing this information, the report will provide an update on operational activities, alongside recent and forecast financial performance in the context of current and future conditions and outlook for the economy and for the sector, highlighting key decisions required by the Council.

Recommendation(s):

Cabinet are requested to:

- (1) Note the outturn for the company for the financial year 2022-23 and the factors influencing that outturn;
- (2) Note the recent and current factors affecting the economy and the hospitality sector, and future outlook for both, and how they have affected and will affect the company;
- (3) Approve the updated strategy and business plan for the company;
- (4) Approve the changes to the loan agreement between the Council and the company as stated in section 5;
- (5) Note that any material variations to the Business Plan will be reported to the Cabinet as shareholder at the earliest opportunity; and
- (6) Approve the appointment of an interim Board Chair, as per section 6.

Reasons for the Recommendation(s):

The role of Sefton Hospitality Operations Limited (SHOL) remains focused on the delivery of an experience for customers that aligns with the vision and objectives of the borough and the council. In addition to revitalisation of, and the maximisation of

opportunity from, underused assets in Sefton, SHOL and its strategy continues to enable support for local people with access to higher-quality career opportunities in the hospitality sector. As previously, this model also delivers best value to the Council (via the removal of the subsidy formerly required to the previous hospitality offer at CLAC).

The Council as shareholder remains committed to the long-term future of the company and the venues it operates.

With regards to governance and board composition, the Cabinet has delegated powers set out in Chapter 5, Paragraph 40 of the Constitution to appoint the Council's representatives to serve on Outside Bodies.

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

No other options were considered by the Council. The company, as part of its strategy and business planning process, has considered options for the business and its current and potential future venues, although some aspects of that review process will be commercially sensitive and confidential.

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:

<p>Resource Implications (Financial, IT, Staffing and Assets):</p> <p>Any resource implications are contained within the report.</p>
<p>Legal Implications:</p> <p>Any legal implications are contained within the report.</p>
<p>Equality Implications:</p> <p>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 continue to 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.</p> <p>In respect of employment, SHOL remains focused on offering attractive job and</p>

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.

Impact on Children and Young People:

The quantity and quality of employment opportunity being offered by the company is providing pathways into careers in the hospitality sector for young people across Sefton. The company is a signatory and an active partner in the Council's Caring Business Charter, and is active through its events and ongoing operations as a partner in its communities.

Climate Emergency Implications:

The recommendations within this report will

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

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 in the long-term.

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 of Corporate Resources and Customer Services (FD7439/23) and the Chief Legal and Democratic Officer (LD5539/23) 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.

Contact Officer:	Stephen Watson
Telephone Number:	0151 934 3370
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

- 1.1 In February 2021 the Cabinet approved the full business case for Crosby Lakeside Adventure Centre (CLAC), comprising a new hospitality operating model and the related building enhancements. This business case recommended the formation of Sefton Hospitality Operations Limited (SHOL), intended to operate hospitality venues across Sefton including, but not limited to, the venue at CLAC now known as the Lake House.
- 1.2 The business was incorporated in 2021, with a strategy and three-year business plan approved by Cabinet in February 2022, in advance of the completion of the CLAC building enhancements and the opening of the Lake House later in the year.
- 1.3 This report provides an update on strategy for the company, and an updated three-year business plan, in the context of continued challenges for the economy and for the hospitality sector, albeit with sustained confidence in the future of the industry and of the business. It also includes updates relating to governance and the role and composition of the company board.

2. Economy and Market Sector

- 2.1 In relation to the performance of SHOL, the operation of Council-owned venues such as Southport Market, and the importance of the hospitality sector to Sefton's economy, the Council has worked proactively on an ongoing basis to understand current market conditions and outlook, given their impact on costs and on revenues.
- 2.2 According to the National Restaurants Association (2023), 60% of hospitality venues are reported to fail in year one, and 80% are reported to fail within the first five years – with failure rates increasing in 2022 and 2023 given current economic conditions. The challenges of opening a new hospitality venue at any time are exacerbated by increasing cost pressures affecting sector-wide profitability, with venues such as the Lake House seeing more than 100% increases in energy bills during the period, and wages increasing sector wide in a post-Brexit environment (notwithstanding SHOL's continued commitment to paying a Real Living Wage or better).
- 2.3 According to the Office for National Statistics (October 2023 - [Consumer price inflation, UK - Office for National Statistics](#)), the price of gas and of electricity remains 60% higher and 40% higher respectively than it was in October 2021. These inflationary pressures affect the sector, the business and the venue in two fundamental ways. Firstly, these lead to much higher energy costs than anticipated in the original business case or the previous business plan. Secondly, they impact consumer spend as all households feel the pressure of the cost of living crisis, affecting business and venue revenues as discretionary spend by customers is affected due to other priorities.
- 2.4 Similarly, food and non-alcoholic beverage prices increased by 0.1% between September and October 2023 (Source: ONS, October 2023). This leads to an annual rate of increase of 10.1% in the twelve months to October 2023, down

from 12.2% in the twelve months to September 2023, and from a recent high of 19.2% increase in the twelve months to March 2023, the highest annual rate for more than 45 years.

- 2.5 The most recent ONS data reaffirms the severity of cost inflation pressures on the sector – including but not limited to SHOL and its venues – and anecdotally there remains clear visibility of pressures on hospitality venues across the sector, across the Liverpool City Region and beyond. However, as above this data suggests easing in inflationary pressures for the sector. October 2023's easing in food and drink price increases was driven by downward price movements for 9 of the 11 classes considered in the most recently monthly data, including particularly dairy and vegetables.
- 2.6 Nevertheless, the price of food in October 2023 remains around 30% higher than October 2021.
- 2.7 These pressures have significantly affected the costs incurred by the business during the period of operations to date, and in turn have affected consumers and therefore revenue.
- 2.8 According to Deloitte (Q3 2023) there are marginal increases (0.4%) in discretionary spending, with the most notable quarter-on-quarter growth being in non-essential spend areas such as holidays, hotels, restaurants, and going out categories. There are many and varied views on outlook for the future of the hospitality sector (Deloitte [2023] use the term “prolonged recovery”), but these forecasts and the slow easing of cost inflationary pressures are expected to support recovery in the hospitality sector over the coming years, despite continued short-term challenges.
- 2.9 Given its shareholding with SHOL, its assets such as Southport Market, and the importance of the sector to Sefton's economy, the Council will continue to monitor and evaluate market conditions and outlook for the industry on an ongoing basis.

3. Company Strategy

- 3.1 The strategy for the company remains largely unchanged from the original objectives of the Council upon its formation, as articulated in the Cabinet Report approved in February 2022.
- 3.2 The focus for SHOL remains on being an employer of choice in the hospitality sector. As per previous commitments, this focuses principally on offering full-time, permanent employment opportunities, with all roles paying a real living wage or above (and the Business Plan remains based on this same 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, particularly from Sefton and from the areas local to the company's venues. This offer has included training and development opportunity, working towards long-term career growth in the hospitality sector, and is complemented by the ethos and core values of the company that should ensure an organisational culture of which employees wish to be a part.

- 3.3 The intention for the company is to offer 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. For example the company is a signatory to the Council’s Caring Business Charter, supporting care experienced young people with training, work experience and employment opportunity.
- 3.4 At the time of writing, the business employs 45 people at the Lake House and 10 people at the White House. 49% of these employees are Sefton residents, and 100% of employees are residents of the Liverpool City Region. None are on zero-hour contracts (which are still not necessarily uncommon in the sector), and all are paid a real living wage or better. 51% of the workforce is female, and 40% of the workforce across the two venues is under the age of 23. All staff members have received Full Flow Health and Safety training, and all are undertaking a training programme in their relevant area of work. There have been several cases of internal promotion and progression in the business, in accordance with the desire to support career progression for employees in the business and in the sector. There are also employees who have come to the UK from Ukraine, and there are team members who have come to the business through effective working partnership with Sefton at Work – this includes individuals who were not in employment, and individuals who had never been in employment (and are with the business at the time of writing).
- 3.5 Notwithstanding the challenges for any new venue in the hospitality sector (as per section 2.2, 60% of new businesses are reported to fail within the first 12 months), the company will continue to take a long-term view on the strategy, business plan, and operation of each of its current and future venues. A quality employment offer and a sustainable business model will not be deliverable without a stable long-term commitment to the growth of the business and the success of these venues.
- 3.6 The Lake House in Waterloo is clearly an attractive venue in a location that reflects the attractiveness of Sefton’s coastline. Through the business plan period the Lake House will form the largest contribution to company performance, and will deliver in accordance with the objectives of the original business case for that project. The opening of the venue in August 2022 was several months later than anticipated, due to delays caused by the COVID-19 pandemic to the project development process, and later due to challenges with previous build contractors, and this has affected outturn performance in the financial year ending March 2023. However, there is opportunity for revenue growth, and with easing cost inflationary pressures over the medium-term, the company and the Council are confident in the exciting future of a venue that has become an important part of the borough’s and the region’s offer in the hospitality sector.
- 3.7 The company opened the White House Café in Southport in Spring 2023, and while a smaller venue than the Lake House, the offer is intended to reflect the same focus on quality and customer experience, proving to be a destination offer for the town, the borough and beyond. As with the Lake House, the company’s leadership and operations have enabled the transformation of a previously under-used asset, as the café adjacent to Southport Golf Links (in which the venue is based) had previously been vacant for several years. Transformation of this asset

by the business is intended to benefit local residents and communities as well in enhancement of their environment and widening of their local offer.

- 3.8 These same principles will form the basis of a selective plan for future growth of the business, with focus on enhancement of Council-owned assets across the borough, delivering a quality customer experience and continuing to create and sustain quality employment and career opportunities for local people. Governance associated with the company's growth plans and future projects will be managed by the company via its board and governance structures, and where applicable by the Council in accordance with its financial procedure rules. All current operations and future growth plans will consider the continued external economic challenges facing the sector.
- 3.9 The company will also continue to focus on alignment with the wider strategic objectives of the Council as its shareholder, in such areas as climate emergency and outcomes for care experienced young people. The company is, and will remain, an active partner in the communities in which its venues operate.
- 3.10 Variance in the strategy summarised above is limited from the original strategy for the company, and business case for the Crosby Lakeside project, and it is intended that this will remain the case for the long-term.

4. Business Plan Update

- 4.1 In respect of the financial year 2022-23 (ending March 2023), there are numerous external factors that have contributed to the outturn performance of the business being lower than forecast in the business plan.
- The delayed opening of the Lake House due to firstly the impact of the COVID-19 pandemic on the project development process and the construction programme, and subsequently the issues with a previous main contractor on the building enhancements work. This meant that the venue opened in late August 2022, several months later than anticipated, meaning that the full-year effect of trade was not achieved, and particularly that the venue was unable to open during the peak summer season, when the proportion of revenue and profit is greatest (particularly for a venue such as the Lake House given its location and outdoor coastal offering).
 - The severe impacts on costs due to inflationary pressures, as experienced across the hospitality sector – this includes huge increases in energy costs beyond those forecasted within the original business case, and significant inflation in all cost of sales (as outlined in section 2, again consistent across the sector).
 - The impact of the cost of living crisis on revenues, affecting footfall and spend per head. These pressures have affected the whole economy, and all of the hospitality sector, and have made the industry increasingly challenging and competitive.
- 4.2 The impact of the delayed opening is limited to the financial year 2022-23, but the wider economic pressures and their impacts are still being experienced by the

sector to some degree in the short-term, and will be expected to impact the financial years 2023-24 and 2024-25 as well.

- 4.3 The table below provides the forecast net income for the business for the previous financial year, the current year, and the next two financial years.

£k	2022-23	2023-24	2024-25	2025-26
Forecast Business Plan (December 2023)	-688	-380	-192	60

- 4.4 Due to these external factors, the performance of the business in financial year 2022-23 is below the previous business plan. The company accounts for the financial year are being finalised at the time of writing, and will be reported to the board and to Companies House by the end of December 2023.
- 4.5 These external factors, although easing to some degree, will affect the business in the current and the subsequent financial year as well. The forecast for 2023-24 and for 2024-25 are also therefore below the levels previously anticipated in the original business plan. However, the company and the Council remain committed to the long-term future of SHOL, its venues, and its people. Therefore, the forecasts for 2023-24 and for 2024-25 include the impacts of investment in, and start-up of, new venues. In 2023-24 this includes the non-recurring costs associated with the transformation and the opening of the White House in Southport, and it is assumed in the business plan that there will be non-recurring start-up costs associated with the next growth project for the company.
- 4.6 The improvement in performance of the company over the coming years will derive from:
- Steady economic recovery and improved outlook for the hospitality sector (in accordance with the factors outlined in section 2).
 - Continued improvement in performance at the Lake House and at the White House, as reputation and as revenues continue to grow over time.
 - Selective growth of the business into new venues during the Business Plan period, as per section 4.5. Pursuit of new opportunities will be managed in accordance with the Board's governance procedures, and where applicable in accordance with the Council's financial procedure rules.
- 4.7 The previous business plan anticipated repayment of the shareholder loan, and any dividends, commencing from year 6 of the business (financial year 2026-27 onwards). Although this is outside the period of the Business Plan reported herein, this remains the target for the business and its Board. As previously stated, this will be reevaluated on an annual basis.

5. Shareholder Loan

- 5.1 As previously reported, the Council has approved a loan agreement between it and the company. Taking into account changes to the external economic environment, and the impact of those changes on the Business Plan, the Loan Agreement will be updated to comprise a revised amount of £1.4m (an increase from £0.5m in 2022).

- 5.2 This increased shareholder loan supports the business in its long-term sustainability given these external pressures, while also supporting the future growth of the business as per section 4.6.
- 5.3 The Loan Agreement will be updated to take account of this revised amount and given the value of the loan this will be signed under seal by the Chief Legal and Democratic Officer, or an appropriate officer with delegated authority to seal documents.

6. Governance

- 6.1 Each of the Council's wholly-owned companies is governed by a Board of Directors, who in turn report to a shareholder representative. The Chair of SHOL has stepped down from the company's board during financial year 2023-24 for personal reasons.
- 6.2 It is proposed that the Executive Director (Place) is appointed as an interim chair of the board, while an external process is undertaken to identify a suitably experienced independent chair of the board. This ensures continuity from a governance perspective while the required time is taken to secure the right candidate for the role and for the business.
- 6.3 From an operational management perspective, leadership structures and operational procedures are in place to support business performance and growth, with the senior management team now reporting into the board on a monthly basis.
- 6.4 In the long-term, the aim will be to replace the Council officers on the board with independent directors. Approval of any changes and appointments will be in accordance with the company's scheme of delegation and in accordance with the Council's procedure rules for appointment to external bodies where applicable.

7. Risks

- 7.1 Each of the Council's wholly-owned companies has a risk register in place. SHOL's key risk areas are summarised below.

Risks	Potential Impacts	Mitigating Actions
Prolonged economic challenges and hospitality market conditions	Continued impact on customer demand, footfall and revenues	<ul style="list-style-type: none"> * Commercial management of venue operations and costs. * Proactive marketing and delivery of offer differentiated by quality in a competitive sector. * Continued monitoring of market conditions and outlook in partnership with the Council – including part of company's quarterly board reporting.

Continued cost inflation pressures	Impact on venue and company profitability	<ul style="list-style-type: none"> * Commercial management of venue operations and costs. * Continued focus at venue and business level on procurement and efficiency opportunities while sustaining quality of offer. * Continued monitoring of market conditions and outlook in partnership with the Council – including part of company’s quarterly board reporting.
Retention of leadership and management team in a competitive environment	Loss of leadership from cultural, operational and commercial perspective would impact company performance.	<ul style="list-style-type: none"> * Formal and informal relationships with, agreements with, and support for leadership and management team to ensure retention (led at Board level).
Attraction and retention of staff in a competitive environment	Impacts operational and commercial performance of venues, impacting customer experience	<ul style="list-style-type: none"> * Continued quality of employment offer to all workforce (T&Cs, culture, training and progression opportunity) * Continued focus on market conditions and outlook
Performance of existing and new venues does not meet expectations	Failure to achieve Business Plan targets	<ul style="list-style-type: none"> * Retain strength of operational and commercial leadership team, processes and culture * Commercial management structures to enable daily and weekly forecasting and reporting at venue and at business level * Monthly financial reporting to Board and quarterly financial reporting to shareholder to ensure early visibility of performance
Failure to secure suitable independent Board Chair	Failure to secure long-term Board leadership, failure to secure quality support for leadership team	<ul style="list-style-type: none"> * Robust support from interim Chair and shareholder for leadership team * Time taken to secure the right candidate(s) with suitable experience, expertise and cultural fit for the role * Ensuring a quality offer for the target candidate once identified

7.2 Key risks will be monitored by the management team on an ongoing basis, and will form part of Board reporting on an ongoing basis.

8. Conclusion

- 8.1 External factors have severely affected all businesses in the sector. The cost of living crisis has affected customer demand and revenues across the industry, and severe cost inflationary pressures (especially in energy costs and food costs) have impacted profitability as not all costs can be passed through to customers in such a competitive environment.
- 8.2 Despite these economic pressures, the business is operating venues in assets that have been transformed in recent years, and that are now attracting strong footfall and good reputations.
- 8.3 The Council remains committed to the long-term future of the business. Despite current economic challenges, there is confidence in the long-term future for the sector, for the venues, and in the opportunity for growth.
- 8.4 This opportunity for continued growth particularly relates to SHOL's workforce, as the business has created more than 50 quality employment and career opportunities to date for local people. The business and the Council as shareholder remain wholly committed to the creation and maintenance of these prospects for local people, and to the role of the company and its venues as a key partner in the communities in which it operates.