

Report to:	Overview and Scrutiny Committee- Regeneration and Skills	Date of Meeting:	16 January 2024
Subject:	2022 / 23 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 council's three 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	N
Have a neutral impact	Y
Have a negative impact	N
The Author has undertaken the Climate Emergency training for report authors	N
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 three 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 three 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.7487/24) and the Chief Legal and Democratic Officer (LD.5587/24) have been consulted and any comments have been incorporated into the report.

(B) External Consultations

Engagement and information provision was sought from the board and management of the company in the production of this report.

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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 Sefton Hospitality Operations Limited (SHOL).
- 1.3 The same process is undertaken in the other wholly owned companies as well, and on an ongoing basis good practice and lessons learned relating to governance are shared between the companies.

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.

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.

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 remained with the council, with SHOL undertaking an important role in design finalisation and fit-out of the venue, known as the Lake House. The venue opened during the financial year 2022-23, in August 2022.

The three-year Business Plan for SHOL, for 2021-22 to 2024-25, was reviewed and approved by Cabinet during the financial year 2021-22, with an update presented to Cabinet during the financial year 2022-23 given the impacts of the COVID-19 pandemic and issues with the main contractor on the construction project, which led to delays to opening of the Lake House venue.

The Chair of the company board was appointed in the second quarter of 2022, through whom council dialogue on the performance of the company was undertaken on an ongoing basis.

Governance arrangements in place for the company in 2022/23

A Chair for the company board was appointed in Spring 2022. For the majority of the financial year 2022-23, the board of the company comprised the independent Chair, and two Directors (one an elected member, one a council officer). The previous Managing Director of SHOL was also a company director until leaving the business in August 2022. The Chair reported to the Shareholder Representative, with ongoing engagement and support from the Executive Director (Place).

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

Board meetings were undertaken throughout 2022-23.

Key Objectives for the Company as per the Business Plan in 2022/23

In terms of financial objectives during 2022-23, as per the Business Plan, the company projected a loss of circa £200,000. 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 and the offer of quality employment and career opportunities, in line with the council's values and core purpose.

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.

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.

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.

Review of Performance 2022/23

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.

The unit operated by SHOL at Southport Market did not prove to be financially sustainable, and was closed during the year. The company's early decision and agreement with the council as landlord at the Market enabled minimisation of further losses, while also enabling the Market to ensure continuing of provision within its venue.

The concession operated at Ainsdale during the year was also unsuccessful for the business. Its opening in the Summer 2022 season was delayed due to external factors, but footfall and revenues have also been lower than anticipated. This venue was closed at the end of the 2023 season and will be tendered by the council for 2024.

The business has been successful in the provision of quality employment and career opportunities for local people. As of December 2023, 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).

Notwithstanding the challenges for any new venue in the hospitality sector (as per the Cabinet Report of December 2023, 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.

Financial Performance 2022/23

Due to the external factors outlined herein, and in the Cabinet Report of December 2023, the company's losses exceeded the business plan, with a loss of £728k incurred during the financial year 2022-23.

Key areas of risk during the year

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.

These particularly include 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).

Moreover, 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. These factors affect the whole sector, including SHOL, and including other council venues such as Southport Market, and reports relating to the Market and the updated Business Plan for SHOL published in December 2023 include further detail on these external factors.

Furthermore, 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. Again, these factors affect the whole sector, including SHOL, and including other council venues such as Southport Market, and again reports relating to the Market and the updated Business Plan for SHOL published in December 2023 include further detail on these factors.

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.

Due to these external factors, the performance of the business in financial year

2022-23 is below the previous business plan.

Evaluation of performance in 2022/23 compared to Council objectives for setting up the company and approved Business Plan for the year

As above, the financial performance of the company did not meet the objectives set in the original business case or previous business plan, given the unexpected external factors identified herein.

However, the annual subsidy of £250,000 per annum from the council to the Crosby Lakeside Adventure Centre has been removed. Moreover, the new venue provides an attractive offer at a spectacular coastal gateway, offering positive customer experiences and quality employment and career opportunities.

Delivery and Improvement Plans for 2023/24

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.

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 the Cabinet Report of December 2023. 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.

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 in December 2023, this remains the target for the business and its Board. As previously stated, this will be reevaluated on an annual basis.

The company opened the White House Café in Southport in Spring 2023 (after the end of the financial year 2022-23), 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.

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.

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.