

Report Title: Sefton Hospitality Operations Limited – Business Plan Update

Date of meeting:	9 January 2025		
Report to:	Cabinet		
Report of:	Executive Director - Regeneration, Economy and Assets		
Portfolio:	Cabinet Member – Regeneration, Economy and Skills		
Wards affected:	All Wards		
Is this a key decision:	Yes	Included in Forward Plan:	Yes
Exempt/confidential report:	No		

Summary:

The report provides Cabinet with an update on the performance of Sefton Hospitality Operations Limited, with an updated strategy and business plan. The update includes an overview on economic and market conditions, as these continued sectoral challenges provide the context for the status and future of the business and its venues. Also included are updates on operational activities, alongside recent and forecast financial performance.

Recommendation(s):

- (1) Note the outturn for the company for the financial year 2023-24, the forecast for financial year 2024-25, and the factors influencing those outturns;
- (2) Note the continued challenges affecting the economy and the hospitality sector, and future outlook for both, and how they have affected and will continue to affect the company;
- (3) Approve the updated strategy and business plan for the company.

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 its operations. 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.

1. The Rationale and Evidence for the Recommendations

- 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. The business was incorporated in 2021, with a strategy and 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 that year. These enhancements and changes to the operating model enabled removal of the subsidy from the Council previously provided to the venue, and the maximisation of the offer at the venue.
- 1.2 This report provides an update on strategy for the company, and an updated business plan, in the context of continued challenges for the economy and for the hospitality sector, albeit with sustained confidence in the long-term future of the industry and of the business.

2. Economy and Hospitality Sector

- 2.1 The trading environment for the hospitality sector continues to see significant changes and challenges due to cost-of-living crisis, inflation and other factors impacting on our local area. It has been well documented that the hospitality sector has and is facing challenges, in areas such as cost of utilities and consumables, with both having a direct impact on the market, and both affecting SHOL's venues and the Council's other assets in the sector.
- 2.2 According to the National Restaurants Association, 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. There also continues to be a difficult trading environment in UK coastal destinations as the UK outbound market recovers coupled with the pressure on people's disposable income. 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, and Southport Market, seeing more than 100% increases in energy bills during the business plan period.
- 2.3 In recent years, the UK restaurant industry has been heavily impacted by factors beyond operators' control, and the financial year of 2023/24 was no different. It was another challenging year across the sector, with stubbornly high inflation, rising interest rates, the cost-of-living crisis and geopolitical tensions increasing pressure on both businesses and customers. The cost-of-living crisis was a prevailing theme in the UK throughout last year. Both businesses and consumers alike navigated a challenging year of record inflation driving high levels of cost.

- 2.4 According to BDO in their latest bars and restaurants report, the high inflationary environment has created behaviours akin to an hourglass economy where the premium and value end of the market receives the most traction, squeezing out the middle-income spending patterns. This was one of the main customer groups targeted by SHOL, and also by Southport Market.
- 2.5 In their report BDO also state that Consumer confidence remained volatile through 2023 and household disposable income remains below levels observed pre-2023, which will continue to be the hospitality sector's main challenge for the upcoming year as consumers look to stretch the value of each pound spent.
- 2.6 It is forecasted that the hospitality industry will continue to face uncertainty in the short and medium term as household disposable income continues to be squeezed and while inflation has fallen, food inflation continues, and those costs continue to be passed onto the consumer.
- 2.7 These factors significantly impact Sefton as a borough, and as an organisation, as well as SHOL. Hospitality, leisure and tourism are major parts of Sefton's economy, and beyond SHOL the Council has numerous assets and other operations within the sector. Therefore, monitoring and reporting of economic and market conditions is undertaken collaboratively between the Council and the company, and the Council will continue to engage with external businesses, partners and stakeholders on challenges and opportunities for the sector.

3. Company Strategy

- 3.1 Notwithstanding the continued challenges facing the sector, and facing SHOL and all other businesses, the strategy for the company in many respects remains unchanged.
- 3.2 As per the original business case, 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, despite continued cost pressures). 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.
- 3.3 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.
- 3.4 The intention remains for the company 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.

- 3.5 Of the organisation's workforce, 49% of whom are Sefton residents, and 100% of whom are residents of the Liverpool City Region. 51% of the workforce is female, and 40% of the workforce is under the age of 23.
- 3.6 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 continue to be 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 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.
- 3.7 Given continued widespread challenges in the hospitality sector, the company strategy proposes a selective focus during 2025. Principally, this comprises focus on maximisation of the opportunity at the Lake House in Waterloo, which has seen significant increases in footfall and revenue since its opening. Revenues are generally 33% higher at the Lake House in 2024 than they were in the corresponding months of 2023. Focus is therefore on building on this strong start, despite market conditions, to further strengthen the quality of the customer offer, to further enhance the internal and the external space itself, and to continue to drive financial performance in terms of both revenue and profitability.
- 3.8 The company ceased operations at the White House in Southport in 2024, and the Council has secured a new tenant for the space in question. The company has worked with the Council and that tenant, given the circumstances, to support a quick relocation to these premises, and in providing for example surplus furniture to the new operator of the space to enable their quick reopening and resumption of their work with communities.
- 3.9 The strategy proposes to focus on the Lake House, as above, while market conditions remain uncertain in 2025, and the Council and the company will continue to monitor this on an ongoing basis. The next annual update on strategy and business plan in late 2025 will revert on this matter, and any material variations to strategy or business plan will be reported to the shareholder and to the Cabinet in the interim.
- 3.10 While operating only one venue, the company will manage overhead and other costs effectively to support financial performance of the company. The company and the Council will continue to work together to explore longer-term opportunities in related sectors where there may be opportunity for SHOL, and where the experience and expertise of the management team may be beneficial.

4. Business Plan Update

- 4.1 The previous iteration of the business plan assumed an improvement in financial performance of the company in the coming years due to steady economic recovery and improved outlook for the hospitality sector, continued improvement in the performance at

the Lake House and at the White House, and due to selective growth at new venues during the period.

- 4.2 As outlined in section 2, conditions remain challenging for the hospitality sector and for all businesses therein, so the recovery to economy and the outlook for the sector has not taken place yet to the extent required.
- 4.3 In respect of the venues, the Lake House has continued to improve significantly in performance by every measure, but it has proven more challenging at the White House in Southport, where footfall and demand have not met aspirations. Southport's hospitality sector is competitive, with new venues emerging in the last 12 months where significant (seven-figure) expenditure has been undertaken to deliver venues that offer the quality of customer and dining experience that makes their out-of-town centre location a "destination". The White House refurbishment was funded at no cost to the Council, by the company via the shareholder loan, and that investment was not of the same scale to compete with such spend elsewhere. As per the strategy outlined in section 3, the Council and the company do not propose to make multi-million pound investments in the White House at this time given uncertainty in many parts of the hospitality sector. Nevertheless, the Council has received, at no cost to itself, a restored asset that is now occupied by a rent-paying tenant.
- 4.4 This selectivity also means that there is no new investment in other venues during the period, and therefore no financial impact of those increased revenues during the plan period.
- 4.5 The table below provides the forecast net income for the business for the previous financial year, the current year, and the next financial year.

EBIT £k	FY 2023-24	FY 2024-25	FY 2025-26
Forecast Business Plan (Dec'24)	-625	-346	60

- 4.6 The variance derives from:
- Continued challenging market conditions, as per section 2;
 - Utility bills beyond originally anticipated levels, accounting for a circa £120k per annum variance in each financial year;
 - Due to the company being Council-owned, in terms of business rates it is not eligible for Retail, Hospitality and Leisure relief (as much as 75% during the period);
 - White House performance not meeting aspirations; and
 - Improvements in financial performance at the Lake House.
- 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 update reported herein, this remains the target for the business and its Board. As previously stated, this will be reevaluated on an annual basis, and an updated three-year business plan will be delivered in late 2025, but it can be seen that there has been substantial improvement in financial performance in 24/25 which is forecast to continue into 25/26 when the lake house will deliver a modest profit.

4.8 At the end of 2024/25 (the current financial year) the company will have drawn down the full £1.4m of the approved loan agreed by Cabinet. It can be seen from the table at 4.5 that with the company trading positively from 2025/26 based on current assumptions this should mean no further drawdowns to support the annual position but there could potentially be some further requirement to fund cashflow especially during quieter months e.g. November and January.

4.9 As stated earlier upon inception of the company, the £0.208m of subsidy to the asset ended therefore this has resulted in a cumulative saving of £0.762m being made by the Council which has been used to support front line services. At the end of this three-year period, i.e., 25/26, this will have increased to £0.980m compared to the current loan value of £1.4m.

5. Governance and Risk

5.1 Each of the Council's wholly-owned companies is governed by a Board of Directors, who in turn report to a shareholder representative. From an operational management perspective, leadership structures and operational procedures are in place to support business performance and growth, with the senior management team reporting into the board on a monthly basis. In the long-term, the aim remains 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.

5.2 During 2024 the Council's internal audit team has undertaken a review of risk management in the company, with a series of recommendations implemented for consistency of approach with both the Council and the other wholly-owned companies.

5.3 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, costs 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. * Selectivity in venue offering and growth while uncertainty remains. * Continued monitoring of market conditions and outlook in partnership with the Council – including part of company's 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.

		<ul style="list-style-type: none"> * Selectivity in venue offering and growth while uncertainty remains. * 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 * Selectivity in approach to growth, and in continuity at venues where expectations not met.

6. Conclusion

6.1 External factors continue to severely affect all businesses in the hospitality 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.

6.2 Despite these economic pressures, the business is operating a venue in the Lake House asset that has been transformed in recent years, and that are now attracting strong footfall and good reputation. The operation has also enabled removal of the previous subsidy to the venue from the Council, which totals circa £1m across the period since inception of the company. Moreover, the Council has also had restored, at no cost, the White House in Southport, which is now occupied by a new rent-paying tenant.

6.3 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. Particularly, the Lake House is proving to be a well-established and highly-regarded venue in a beautiful Sefton location, and there is confidence in the long-term opportunity for this asset.

6.4 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.

2. Financial Implications - 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.

3. Legal Implications

All legal implications are considered within the report.

4. Corporate Risk Implications

All risk implications are considered within the report

5 Staffing HR Implications

All resource implications are considered within the report.

6 Conclusion

The updated strategy and business plan are commended.

Alternative Options Considered and Rejected

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.

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 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. 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.

Impact on Children and Young People:

Both as an employer and as a venue operator, the business has outcomes for children and young people at the centre of strategy and business plan. 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 Neutral impact.

Given the increases and scale of utility costs at the building that includes (but is not limited to) the Lake House at Waterloo, the Council's energy team is reviewing options to improve energy management performance from both a cost and an environmental perspective.

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Executive Director of Corporate Resources and Customer Services (FD.7855/24) and the Chief Legal and Democratic Officer (LD.7855/24) 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:

There are no background papers available for inspection.