

<b>Report to:</b>	Cabinet	<b>Date of Meeting:</b>	7 November 2019
<b>Subject:</b>	Crosby Lakeside Redevelopment Project – Full Business Case		
<b>Report of:</b>	Head of Commercial Development	<b>Wards Affected:</b>	Church
<b>Portfolio:</b>	Regeneration and Skills; Regulatory, Compliance and Corporate Services; Health and Wellbeing.		
<b>Is this a Key Decision?</b>	Yes	<b>Included in Forward Plan:</b>	Yes
<b>Exempt / Confidential Report:</b>	NO, but some detailed appendices of the full business case, are NOT FOR PUBLICATION by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972. The Public Interest Test has been applied and favours the information being treated as exempt.		

### Summary:

The purpose of this project is to provide a sustainable future for and to optimise the benefits from the Crosby Lakeside Adventure Centre (CLAC). This report and its appendices provides the full business case (FBC) for this project.

### Recommendation(s):

1. The Full Business Case is agreed and option 5 within the Full Business Case is approved.
2. The Head of Commercial Development is authorised to implement the delivery plan outlined within the Full Business Case in consultation with: the Cabinet Member – Regeneration and Skills; the Cabinet Member – Regulatory, Compliance and Corporate Services; and the Cabinet Member – Health and Wellbeing.
3. The Head of Commercial Development is authorised to conduct a procurement exercise for the appointment of a contractor to undertake the capital works outlined in the Full Business Case in consultation with the Portfolio Cabinet Members and is granted delegated authority to award the contract resulting from the procurement.
4. The Head of Commercial Development is authorised to conduct a procurement exercise to procure a partner in line with the requirements outlined within the Full Business Case in consultation with the Cabinet Members and is granted delegated authority to award the contract resulting from the procurement.
5. Officers are authorised to engage in appropriate consultation with employees and trade unions in terms of employment matters and, where necessary, issue statutory notifications. Where necessary Heads of Service are also authorised

(subject to the avoidance measures detailed in this report) to terminate contracts of employment as appropriate.

- Note that the capital cost of this project and refurbishment will be £3.1m and will be funded from a direct grant by the Combined Authority. A subsequent supplementary capital estimate for this sum will be provided for Cabinet to recommend to Council for approval’.

**Reasons for the Recommendation(s):**

The reasons for these recommendations are to enable the project to progress from the Development Stage (Stage 1) onto Transition to Delivery Stage (Stage 2) then to on-going Operations (Stage 3).

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

Five options for delivery of the objectives of this project were considered, which are detailed in the table below.

The assessment of these options identified the Preferred Option to be Option 5: a JVCo to deliver operational transformation within a fully refurbished hospitality facility.

The summary of the outcome of the assessment is shown in the table below:

OPTION	VALUE AND RISK ASSESSMENT
<p><b>Option 1.</b>  <b>No ops changes.</b>  <b>No refurbishment.</b></p>	<p>Retain the existing operating model and team; no investment in the hospitality facilities. No change – continue ‘as-is’.</p> <p>Financial outcome: no reduction in current c.£250k pa subsidy (likely to rise over next 10 years, average of c. £290k pa).</p> <p>(Backlog maintenance requirements not addressed).</p> <p>Overall assessment: not a sustainable option.</p>
<p><b>Option 2</b>  <b>New management.</b>  <b>No refurbishment.</b></p>	<p>Retain the existing operating model and team and hire new management with hospitality experience; no investment in the facilities.</p> <p>Financial outcome: only marginal reduction in current c.£250k pa subsidy to an average of c.£220k pa subsidy over 10 years).</p> <p>(Backlog maintenance requirements not addressed).</p> <p>Overall assessment: not a sustainable option.</p>

OPTION	VALUE AND RISK ASSESSMENT
<p><b>Option 3.</b>  <b>No ops changes.</b>  <b>Full refurbishment.</b></p>	<p>Retain the existing operating model and team; and invest in refurbishment and reconfiguration of the facility.</p> <p>Financial outcome: increase in current c.£250k pa subsidy after funding on-going maintenance to c. £420k pa average over 10 years.</p> <p>(Backlog maintenance requirements covered in full refurbishment).</p> <p>Overall assessment: not a sustainable option.</p>
<p><b>Option 4.</b>  <b>New management.</b>  <b>Full refurbishment.</b></p>	<p>Retain the existing operating model and team and hire new management with hospitality experience. Also invest in the refurbishment and reconfiguration of the facility.</p> <p>Financial outcome: current c.£250k subsidy not removed with insufficient new income to fully fund on-going maintenance requirements: average £265k pa over 10 years.</p> <p>(Backlog maintenance requirements will be covered in full refurbishment).</p> <p>Overall assessment: not a sustainable option.</p>
<p><b>Option 5.</b>  <b>New JV and operating model</b>  <b>Full refurbishment.</b></p>	<p>Financial outcome: current c.£250k pa subsidy fully removed and a surplus generated for the Council of c. £70k pa average over 10 years (total c. £320k pa average) after fully funding on-going maintenance and paying profit share to operator partner (c. £100k pa average over 10 years).</p> <p>Backlog maintenance requirements covered in full refurbishment.</p> <p>£3.53m benefit to the Council (improvement on current position) over 10 years.</p> <p>Overall assessment: sustainable and Preferred Option.</p>

More details of this assessment are provided in **Appendix B** to this report, “**CLAC Improvements Full Business Case – (Public)**”.

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

### **(A) Revenue Costs**

The Business Case is forecast to deliver the following revenue cost improvements over 10 years:

c.£3,535k total improvement over 10 years comprising: -

c.£2,360k removal of current council subsidy

c.£1,030k dividend from company profits

c.£ 504k funding for on-going maintenance included in operating costs

c.(£ 361k) cost of project development and transition

c.£3,535 net financial benefit

Full details of these financial returns and costs are provided in Appendix A (Exempt), Annexes 1-3 to the attached Full Business Case.

The business case provides a detailed sensitivity analysis for information and to support decision making but importantly it outlines the increase in income and assumptions that have been made by officers in conjunction with an industry expert that result in the income figures for the new operation. This is the most important element of the business case that will drive financial performance.

The base case outlines that annual income will rise from £0.9m to £1.7m following investment. This is a substantial increase in income (94%) that is required in order to deliver this financial performance. Within the sensitivity analysis a number of income scenarios are presented that outline the impact that both over and under achievement will have on the council's annual budget. In the event that annual income (in any given year) is below the £1.7m level then the net financial benefit and annual return to the council will be lower than that set out.

The point from which the Net Present Value for the project is zero is £1.4m whereby the annual existing subsidy will be removed and only a nominal additional return would be generated. This would equate to a reduction of £0.103m per annum compared to the base case. Such an income level is 61% higher than that currently received. This scenario would also lead to the council's Joint Venture Partner also receiving a nominal annual sum and may influence their future engagement.

Under this proposal the Council will not be required to provide any working capital to the new venture.

### **(B) Capital Costs**

The Business Case includes £3.1m capital investment in major refurbishment, reconfiguration and improvement of the hospitality facilities at the CLAC.

This includes both the professional fees for project management and design to RIBA Stage 3 and all construction costs.

c. £1m of the £3.1m will address currently unfunded back-log maintenance requirements.

The capital funding of the business case is subject to confirmation of a grant allocation from the Combined Authority for the same amount, c.£3.1m. Approval of this decision to fund the business case will be subject to satisfactory appraisal, approval and State Aid clearance.

**Implications of the Proposals:**

<p><b>Resource Implications (Financial, IT, Staffing and Assets):</b>          Details of the resource implications are contained within the Full Business Case.</p>
<p><b>Legal Implications:</b>          Pursuant to the General Power of Competence under sections 1 to 4 of the Localism Act 2011 the Council has the power to set up and participate in a company.</p> <p>Section 95 Local Government Act 2003 and the Local Government (Best Value Authorities) (Power to Trade) (England) Order 2009 provide that the Council must establish a company through which to trade.</p>
<p><b>Equality Implications:</b>          The equality Implications have been identified and mitigated.</p>

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

<p><b>Protect the most vulnerable:</b> Not Applicable</p>
<p><b>Facilitate confident and resilient communities:</b> Development of Crosby Lakeside to maximise its potential for visitors to the region and the local community, to enjoy all the current uses within this facility now and for years to come, including water sports, fitness, hospitality and accommodation.</p>
<p><b>Commission, broker and provide core services:</b> Not Applicable.</p>
<p><b>Place – leadership and influencer:</b> For the Council to be seen to directly contribute to an improved and sustainable visitor offer for the Crosby Coastal area in accordance with the Sefton Coast Plan 2017.</p>
<p><b>Drivers of change and reform:</b> To provide a sustainable future for an important asset in a key coastal gateway that supports long term benefits for the health and wellbeing of the local community, users and visitors to this coastal location.</p>
<p><b>Facilitate sustainable economic prosperity:</b> To provide a financially viable operating model for Crosby Lakeside which will provide a revenue neutral or revenue generating position for the Council and sustainability for the centre.</p>
<p><b>Greater income for social investment:</b> To provide a financially viable operating model for Crosby Lakeside which will provides a revenue neutral or revenue generating position for the Council</p>

**Cleaner Greener:** For the Council to be seen to directly contribute to an improved and sustainable visitor offer for Crosby Coastal area in accordance with the Sefton Coast Plan 2017.

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

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

The Head of Corporate Resources (FD 5837/19) and the Chief Legal and Democratic Officer (LD 4071/19) have been consulted and any comments have been incorporated into the report.

Other Directors/Heads of Service that have been consulted on this report are:

- The Executive Director SRO for the Growth and Strategic Investment Programme
- The Head of Service for Communities.
- The Head of Service for Localities.
- The Chief Personnel Officer.

Comments have been incorporated into the report.

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

Not applicable.

## **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 and annexes to this report:**

Appendix A: Full Business Case (Exempt)

Annex 1: Detailed Financial Model for the Preferred Option

Annex 2: Financial Model Sensitivity and Net Present Value Analysis

Annex 3: Hospitality Expert Key Volumetric Data and Assumptions

Annex 4: HR Considerations

Annex 5: Independent Legal Advice Summary

Appendix B: Full Business Case (Public)

Annex 6: RIBA Stage 2+ Designs

Annex 7: Stage 2 Risk Register

## **Background Papers:**

### **1.0 Introduction/Background**

- 1.1 The Crosby Lakeside Adventure Centre is an important council asset in a key coastal gateway that is now 10 years old. There is a significant backlog of maintenance work required and a need to provide for planned maintenance year on year, none of which is currently funded. The hospitality functions provided from the Centre currently require a substantial council subsidy each year.
- 1.2 The purpose of this project is to provide a sustainable future for the Centre.
- 1.3 Crosby Lakeside Adventure Centre is a fully inclusive Water Sports and Visitor Centre located in the heart of Crosby Coastal Park, Waterloo in an ideal location. Part of the gateway to the Mersey Estuary, sitting alongside the internationally renowned Antony Gormley's Another Place Iron Men statues, CLAC is in an area of outstanding natural beauty. Just 10 minutes out of Liverpool, CLAC is easily accessed with Waterloo train station on the bustling South Road just five minutes' walk away.
- 1.4 Currently, the Centre provides the following to visitors:
  - A bistro, serving food and alcoholic and non-alcoholic drinks.
  - 14 hotel rooms.
  - A selection of event suites available to hire.
  - A fitness suite and group fitness studio.
  - Wet side changing rooms and offices for access to the lake.
  - Lake activities.
- 1.5 The building is now c. 10 years old and has had little investment in maintenance. As a result, there is a back-log of maintenance required in the hospitality facilities estimated at c. £1m, with some parts of the hospitality facility now at end of life.
- 1.6 The existing design of the interior of the hospitality side of the Centre does not well support efficient, flexible use of the space or the provision of a compelling, quality offer to customers.
- 1.7 As part of the Council's Framework for Change programme, a strategic review has been undertaken of the Council's assets. As part of that review the strategic importance of the CLAC as part of a key coastal gateway was confirmed as well as the potential for the asset to deliver a revenue saving and possibly a net surplus for the Council.
- 1.8 The potential investment in the CLAC has been confirmed as one of the priority projects in the Growth and Strategic Investment Programme.
- 1.9 The Council intends that the CLAC continues to contribute in the long-term to the strategic priorities it currently supports. To provide a sustainable future requires investment to in:

- Enhancing the declining physical infrastructure to keep the building in good repair and reconfigure it to support an enhanced hospitality offer.
- Transforming the hospitality offer and operations within this new fit for purpose facility to:
  - Provide a high-quality visitor experience.
  - Attract more visitors and manage all visitors more effectively (including mitigating the impact on the ecological environment).
  - Provide a financially viable business to underpin the sustainability of the centre in the medium to long-term.

1.10 The Full Business Case (FBC) attached at Appendices A and B to this report (with annexes), provides the detailed justification and plans for the transformation of the Hospitality Operating Model and related building enhancements at the Centre.

1.11 This FBC provides an options appraisal and seeks approval from Cabinet to progress to the next stage, Transition to Delivery (T2D) for the Preferred Option. The T2D would include the following key activities:

(a) The refurbishment and enhancement of the hospitality facilities within the Crosby Lakeside Centre.

(b) The formation of a Joint Venture Company (JVCo) with an expert operator partner to launch a new shared venture in hospitality services delivered from the enhanced CLAC facility.

1.12 The FBC document is divided in to 2 parts attached as 2 appendices to this report:

- Appendix B (Public) with annexes 6-7 – the public documents detailing the 5-case justification for the project and the plans.
- Appendix B (Exempt) with annexes 1-5 – the confidential documents dealing with detailed financial modelling, HR matters and legal advice, which are commercially sensitive or confidential and therefore not for publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972. The Public Interest Test has been applied and favours the information being treated as exempt.

1.13 The FBC includes two procurements: one for a building contractor and another for a hospitality partner. The procurement process for the building contractor(s) will be conducted in compliance with the Council's Contract Procedure Rules and selection based on evaluation of a combination of the following criteria:



- Pass/Fail: Meeting a minimum threshold for financial and organisational bona fides
  - 40%: Price (within the affordability envelope of £3.1m)
  - 30% The suitability of the contractor in terms of their skills and experience for a project of this nature (supported by evidence of track record)
  - 20% The availability of the required resources to deliver the project according to the proposed schedule.
  - 10% the value of social contributions made to the local community, primarily in terms of local employment and spend with local suppliers.
- 1.14 If the procurement process for the building contractor(s) does not produce a suitable candidate able to deliver the project requirements in full and within the affordability envelope of £3.1m then the Business Case will be reviewed, and another report brought to Members.
- 1.15 The procurement process for the operator partner will be conducted in-line with the Council's Contract Procedure Rules (but legally does not need to be conducted under the Public Contract Regulations) and selection based on evaluation of a combination of the following criteria:
- Pass/Fail: Meeting a minimum threshold for financial and organisational bona fides
  - Pass/Fail: Agreement to form a Joint Venture Company with the Council on the terms described within the Full Business Case.
  - 60%: Credibility of the plans for delivering a new hospitality offer at Crosby Lakeside that will deliver or exceed the baseline business case target returns.
  - 30% Suitability of the partner in terms of their skills, experience and track record in delivering the proposed plans for a new hospitality offer at Crosby Lakeside.
  - 10% the value of social contributions made to the local community, primarily in terms of alignment with the Council's vision and values and local employment and spend with local suppliers.
- 1.16 Both procurement processes would be run in parallel such that an operator partner can be secured before a contract is made for the construction works.
- 1.17 If this Business Case is approved, the officers will work with staff and unions to ensure full consultation about any changes to employment that may arise. In developing the options, the Council has sought to avoid solutions based on outsourcing (e.g. granting a concession to a 3rd party). The Council has also endeavoured to avoid compulsory redundancy and all the options could potentially be delivered without compulsory redundancy. Unions have been consulted through the Joint Trades Union forum.