

STOCKTON-ON-TEES BOROUGH COUNCIL

CABINET RECOMMENDATIONS

PROFORMA

Cabinet Meeting16th February 2017

1. Title of Item/Report

North Shore Hotel

2. Record of the Decision

Consideration was given to a report on the progress that had been made on the development of the North Shore Hotel since reports to both Cabinet and Council in May and June 2016, provided detail on the delivery programme and sought approval for prudential borrowing to meet development costs, fees and capital expenditure.

The Council had a strong track record of successful delivery and the challenging financial climate the Council was facing the importance of making the best use of both its own assets and exploiting new opportunities was more important than ever. As previously reported the proposed hotel development was built on a rock solid business case that had been independently verified by two industry experts. At a recent Cabinet meeting the Council's external auditors, Mazars, emphasised that the Council should continue to look for new opportunities to make the most of its investments and seek new opportunities where appropriate. The hotel was no exception to this and in fact since the technical work to establish the business case there had been an overwhelming positive response particularly from the business community who saw the real need for an improved hotel accommodation offer in the middle market.

The recent announcement of Durham University's International Foundation College was welcome news and it was anticipated that this would be a catalyst for the privately owned former Swallow Hotel to be brought back into use as high end student accommodation, which had been a long standing ambition of its owners with a view to completion for student intake in September 2018.

The Council remained absolutely clear that investment in the hotel would provide an essential strong catalyst to support the Council's ambition for regeneration and growth across the Borough. The Council's recently adopted economic strategy and growth plan set out the clear growth ambition that needed to be achieved set clear priorities to grow job opportunities through investment. Its town centre location added

significant value to the amenities and growing leisure economy within the town centre area. The river remained a key asset that the Council would continue to build on and not only was the hotel proposed in an excellent location it would actively support the growing leisure economy.

The response from the business community had been overwhelmingly positive as the need for a mid-range hotel was long overdue. In recent dialogue the extent of the problem with both business and leisure groups finding suitable accommodation in a single location had become apparent. Events such as the cycling festival, Duathlon, SIRF, recent National jet ski championships and the many rowing winter training camps that visit the river as well as the international white water course had provided live examples of this very issue.

The business community's enthusiasm for the Council's ambition to provide the very facilities they needed to support their business had been overwhelming. An example of some of the feedback the Council had received was detailed within the report.

Since June 2016, detailed work on the design and function of the hotel had been undertaken. This process explored a range of options for the location of the hotel on the NSGS, taking into consideration the topography of the site, views of the hotel to and from the riverside, access to the town centre and North Shore as well as parking and servicing.

A preferred location for the hotel quickly emerged and detailed design on the built form and interior layout followed. A key part of the design process was ensuring that the hotel conformed with the brand standard requirements of Hampton by Hilton, enabled efficient operation and servicing as required by Interstate whilst delivering a high quality building on a prominent gateway to the town centre.

Design of the hotel had progressed to the point where a reserved matters planning application for a 128 bed hotel, hotel car parking and improvements to the existing dairy car park to ensure a high quality setting for the building was submitted in January 2017. The application had been validated and was scheduled to be considered at Planning Committee in April 2017.

Following approval of the selection of Interstate United Kingdom Management Ltd as the preferred management company, along with selection of the brand franchise Hampton by Hilton as the preferred brand for the hotel, work had been underway on agreeing the contractual details of the management agreement and brand franchise agreement.

This was a detailed process with rigorous scrutiny of operating terms, fees and performance measures undertaken to ensure a secure and robust contractual position for the Council. Final versions of both the management agreement and franchise agreement were completed in December 2016 with the franchise agreement signed in late December 2016 and management agreement signed in early January 2017.

Alongside contractual negotiations, detailed discussions were concluded in respect of securing a long lease from the landowner of the site, the Homes and Communities Agency as well as progressing through the process of the compulsory purchase of the former Kwik Fit garage on Church Road which occupied a key location within the proposed development.

Having initially objected to the Compulsory Purchase Order (CPO) on the former Kwik Fit garage, the owner subsequently withdrew their objection, removing the requirement for an Inquiry and therefore enabling the land to come under the ownership of the Council circa April 2017.

As set out in the report to Cabinet in May 2016, in order for the Council to have the power to trade, in the form of a hotel, there was a requirement to establish a Local Authority Trading Company (LATCo) wholly owned by the Council in line with requirements of the Local Government Act 2003 and the Localism Act 2011. The trading company was established under the name Stockton Hotels Company Limited.

A key element of the underpinning rationale for investment in a hotel development of this type was the forecast benefit to the local economy, supply chain and creation of employment opportunities. An Economic Impact Assessment (EIA) estimated that the hotel development would provide £6.7million Gross Value Added per annum to the local economy through direct and indirect employment, spend from visitors and use of local supply chain. As previously reported to Cabinet and full Council the number of jobs created by the hotel will be around 100 with 30 of those being directly employed within the hotel itself.

If these figures were achieved there would be significant impact on the local economy, helping to stimulate and support local businesses as well as attract new business to the Borough. The anticipated positive impact of the hotel development had been reinforced by comments received from prominent local businesses who had spoken out in support of the hotel and how it would support them to do business and accommodate a relatively high number of visitors close to their offices or facilities.

Furthermore, the recent announcement of the partnership between Durham University and the Study Group to transition Queens Campus

into an International Foundation College (IFC) had provided a greater level of confidence as to the future use of the Queens Campus and would also provide additional benefit to the town centre and surrounding areas as students within an IFC attend courses on a year round basis as opposed to the current three, ten-week semester model, therefore providing a 'year round' presence of circa 800 students in the town centre area.

It was anticipated that this announcement would act as the catalyst for work to begin on the refurbishment of the Swallow Hotel for student accommodation. As previously reported, there had been no appetite from hotel operators or investors to refurbish the Swallow Hotel for hotel use due to the large size of the building and the costs associated with all of the additional facilities in a hotel of the Swallows size and age. Modern, mid-range hotels such as the proposed Hampton by Hilton were smaller and more efficient to run, therefore maximising income and minimising operating costs which ultimately enables the operation to be competitive in the current hotel market.

As reported to both Cabinet and Council in May and June 2016, the anticipated total cost for delivery hotel on the NSGS was estimated at circa £17million. A final figure for construction would not be known until the contract is tendered in Spring 2017. However, detailed cost estimates across all elements of the scheme had been undertaken as the design had evolved with estimates showing that the total cost of the scheme including all design costs, construction costs, associated works and fees would not exceed the original £17million cost estimate.

In order to meet the required capital investment, approval for the use of prudential borrowing of up to £17million was required which was reflected in recommendation number 2 within the report and was covered within the Medium Term Financial Plan report to Cabinet and Council in February 2016.

Work would continue on the detailed design of the hotel and subject to gaining planning consent at Planning Committee in April 2017, procurement of the construction contractor would begin the same month, beginning work on site by the end of June 2017 with an estimated completion date in early autumn 2018.

RECOMMENDED to Council that:-

1. The progress on the development of the hotel scheme be noted.
2. The use of prudential borrowing up to £17million to meet all development costs, fees and capital expenditure be approved.

3. Reasons for the Decision

Improving the economic performance of Stockton Town Centre is a key priority for the Council. Delivery of the project identified within this report will play a key role in achieving improved economic performance and changed perceptions of Stockton town centre.

4. Alternative Options Considered and Rejected

None

5. Declared (Cabinet Member) Conflicts of Interest

None

6. Details of any Dispensations

N/A

7. Date and Time by which Call In must be executed

N/A

Proper Officer
20 February 2017