

## **Comments on the North Shore Hotel Proposal**

### **Summary**

At its meeting on 13 June, the Committee considered a consultation item on the proposal to develop a hotel on the North Shore Gateway site. All Members on Council were informed of the meeting. The Cabinet Member for Regeneration and Transport and six other Members attended, along with members of the public, and all were given the opportunity to ask questions.

This report summarises the discussion at Committee in order to inform Council's decision making.

### **Detail**

1. In addition to the Cabinet report, the Committee considered a presentation that highlighted the key issues including:
  - a) the North Shore regeneration project had been in development and delivery for over 10 years, and a hotel has been part of the site masterplan for some time.
  - b) the chosen site is a Gateway Location to the Town Centre/North Shore areas. Leisure is seen as the most appropriate use of the land compared to retail, housing, industrial and commercial development.
  - c) the opportunity for a mid-range hotel in Stockton-on-Tees/Tees Valley. Independent hotel industry consultants had identified a 'clear opportunity for Stockton-on-Tees to offer a high quality, value for money, internationally branded hotel'.
  - d) a key customer base for the hotel would be locally based companies; many of these were internationally owned (for example, in the petro-chemical industry) and it is standard practice for them to have existing corporate loyalty relationships with hotel companies in order to use these for their business travel needs wherever possible.
  - e) the management agreement and brand franchise model versus other models - it was noted that it was relatively rare for hotel companies to own their hotels unless in key locations such as London. Interstate Hotels were the chosen hotel operating company and this was a well-established international company running significant number of hotels across Europe.
  - f) for the North Shore Hotel to be unviable it would need to be performing significantly worse than all other hotels of its type in the Tees Valley
  - g) the Committee was informed of the close involvement of the Council's Finance Service throughout the development of the project and their request for an independent review of the financial implications

h) due diligence including financial projections had been completed and the results of separate independent assessments had been closely in line with each other.

i) comparisons with the now closed Swallow Hotel in Stockton Town Centre. The Swallow had been a larger, 'full service' hotel with a range of facilities including restaurant, swimming pool and function room, that would not be provided in the proposed North Shore operation. It was considered that the hotel market had moved on since the closure. The Swallow building was recognised as a key asset for the town centre area and there are current plans to develop it into student accommodation.

2. The Committee was generally supportive of the principle and proposal to develop a hotel of this type in the Borough, although there were some reservations regarding risks associated with the 100% investment/ownership by the Council.

3. Therefore discussion was held on a number of issues and further clarifications were provided as needed. This is summarised as follows.

4. The Committee discussed in detail the level of risk that would be taken on by the Council, whether the Council should be investing in this type of development, and whether the level of investment could be used differently for a greater return:

a) Members were informed that there was no other likely investment from other sources. Although the business case was described as very robust from the Council's viewpoint, direct 'owner occupier' investment by hotel companies was now rare, and other types of delivery is focused on areas where they would make greater levels of return.

b) The Committee discussed the impact should the operating company/brand franchise withdraw from the scheme once it was completed. It was noted that this was one of the risks associated with such a scheme and that there would be a process to go through with the existing operator/franchise, followed by a process to seek an alternative. Members were informed that the chosen franchise were very positive about the opportunity to invest in Stockton and Tees Valley, based on the opportunities in the local hotel market.

c) Members raised the history of other local hotels in the Borough including the Swallow, and the prospects for this development. It was accepted that the hotel market changes over time but that the proposal was based on a recognised model in the current market. The investment was considered appropriate at this point in time, and the independent due diligence work had advised that it would be viable for the longer term.

d) The Committee was keen to understand the long term plans, and whether an exit strategy was in place if needed. The hotel proposal was being viewed as an opportunity to support economic development but would also increase revenue streams to the Council. In addition to any revenue generated once all costs and loan repayments had been met, the hotel would also generate business rates that would be retained by the Council. The Council had a record over recent years of making capital investments to both generate revenue and make savings.

e) It was noted that as with other capital assets the Council would have the opportunity to review its investment and could sell at a future point in time if that was thought to be the prudent option.

f) Examples of other Council investments/part-investments in hotel developments were described including Stockport and Aberdeen. The Stockport model was similar to Stockton's proposals, but with a different brand franchise and operator company. Middlesbrough and Newcastle Councils have part-invested in hotel proposals.

g) Members highlighted that some other Council investments were directly linked to other regeneration proposals (in Stockport and Aberdeen) but this one was not. In response it was noted that although the North Shore proposal was not directly linked to other investment, it should be seen as a key part of the wider regeneration of that part of the Borough and the wider North Shore scheme. Significant private investment has already taken place on the North Shore location (including Thirteen Group, Muse Vivo housing, and the Fusion Hive Business accommodation) and the hotel would assist with sustaining this development and attracting further investment.

h) Members were informed that each local area had different economic conditions and needs which should be considered on an individual basis therefore a comparison between occupancy and room rate achieved in a certain area is not an indication of what occupancy or room rate can be achieved in another locality.

5. The impact of the proposed re-purposing of Durham University's Queen's Campus into an International Foundation College on hotel and student accommodation was raised - it was noted that student and related usage of the hotel had not been factored in to the financial projections but would also be a probable source of business. It was foreseen that there would be ongoing demand for student accommodation in the Borough following any redevelopment on the Queen's Campus site.
6. Members noted that it was positive to develop brownfield land and the proposed site was classed as undeveloped although it was currently used as a car park. Members thought a key point was that the impact on staff users of this parking needed to be considered, along with other possible parking impacts associated with the hotel. It was noted that the hotel itself would have parking provision included within its boundary, and that a review of parking needs and locations in the Town Centre area would be taking place. This would take account of recent and planned developments.
7. The Committee was keen to emphasise its support for the hotel to employ local people wherever possible and that good employment practices would be followed. The Committee was informed that a key part of discussion with potential operators had been the conditions for employees. The chosen operator had in place a talent development scheme, and the Council's position as owner of the hotel would allow SBC to influence the provision of apprenticeships delivered on site. This would also allow the Council to ensure the highest standards of employment practices were maintained, as well as ensuring the hotel met all obligations and expectations on accessibility.
8. The Cabinet Member for Regeneration and Transport attended Committee and informed Members that any public expenditure of this nature needed to be considered very closely, but the due diligence work and risk mitigation measures meant the Council could be confident this investment was appropriate. The limited service nature

of the hotel was a key point, and would see the hotel well positioned in the local market, and enable the Council to further contribute to the development of the town centre and wider area.

9. Members were reminded that a future report would be forthcoming to Cabinet and Council to confirm the finalised capital cost of the development.

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