

AGENDA ITEM 4

REPORT TO COUNCIL

22 FEBRUARY 2017

REPORT OF SENIOR MANAGEMENT TEAM

NORTH SHORE HOTEL

SUMMARY

This report seeks to update on progress on the development of the North Shore Hotel since reports to both Cabinet and Council in May and June 2016, provides detail on the delivery programme and seeks approval for prudential borrowing to meet development costs, fees and capital expenditure.

The Council has a strong track record of successful delivery and the current challenging financial climate the Council is facing the importance of making the best use of both its own assets and exploiting new opportunities is more important than ever. As previously reported the proposed hotel development is built on a rock solid business case that has 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 is no exception to this and in fact since the technical work to establish the business case there has been an overwhelming positive response particularly from the business community who see the real need for an improved hotel accommodation offer in the middle market.

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

RECOMMENDATIONS

1. Council note progress on the development of the hotel scheme.
2. Council approve for the use of prudential borrowing up to £17million to meet all development costs, fees and capital expenditure.

DETAIL

Background

1. At meetings in May and June 2016, Cabinet and Council approved a number of recommendations to enable the delivery of a limited service hotel on the North Shore Gateway Site (NSGS).
2. Since then, work has been undertaken to move the project forward in line with the approved recommendations. Detail of all work undertaken to date is set out in the following sections of the report.
3. The Council remains absolutely clear that investment in the hotel will 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 needs to be achieved sets clear priorities to grow job opportunities through investment. Of course its town centre location adds significant value to the amenities and growing leisure economy within the town centre area. The river of course remains a key asset that the Council will continue to build on and not only is the hotel proposed in an excellent location it will actively support this growing leisure economy. The response from the business community has been overwhelmingly positive as the need for a mid-range hotel is long overdue. In recent dialogue the extent of the problem with both business and leisure groups finding suitable accommodation in a single location has become apparent. Events such as the cycling festival, Duathlon, SIRF, recent National jet ski championships and of course the many rowing winter training camps that visit the river as well as the international white water course have provided live examples of this very issue.

4. The business community's enthusiasm for the Council's ambition to provide the very facilities they need to support their business has been overwhelming. An example of some of the feedback the Council has received is included below:
 - *The prospect of bringing a Hampton by Hilton Hotel to Stockton on Tees is, in my opinion both as a business leader and as President of the North East England Chamber of Commerce, a positive and exciting development. There certainly is requirement and demand for a hotel of this standard in our area, not only would it be used by the many businesses who bring visitors to Stockton, but it would also support the tourism associated with the extensive entertainment calendar of the borough, which is only set to increase with the regeneration of the Globe Theatre. Stockton Borough Council has invested a lot of time, effort and money into improving the town centre and surrounding area, and this is something that has been done very well – the fact that a huge hospitality name such as Hilton wants to come here speaks volumes. I fully support the council's proposal for this new hotel.” Mike Matthews MBE, Nifco UK Limited*
 - *“Its fantastic to see a name like Hilton in Stockton. This development will help raise the profile of Stockton and help local businesses to accommodate visitors to the area making dealing with clients from further afield much easier” Dean Benson, Visualsoft*
 - *“At our Cubic Stockton site, we receive both internal and external visitors on a weekly basis, including overseas visitors. Stockton is a key location for our business and is where we have recently invested in the implementation of our Global Operations Centre to service our worldwide customer base. The development of a hotel in close proximity to our offices would be an ideal accommodation option for our guests.” Cubic*

Recent Progress

5. Since June 2016, detailed work on the design and function of the hotel has 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.
6. 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.
7. Design of the hotel has now 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 has now been validated and is scheduled to be considered at Planning Committee in April 2017.

8. 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 has been underway on agreeing the contractual details of the management agreement and brand franchise agreement.
9. 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.
10. 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 occupies a key location within the proposed development.
11. 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 and Inquiry and therefore enabling the land to come under the ownership of the Council circa April 2017.
12. 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 is now established under the name Stockton Hotels Company Limited.

Socio- Economic Benefits

13. 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.
14. Clearly, if these figures are achieved there will 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 has been reinforced by comments received from prominent local businesses who have spoken out in support of the hotel and how it will support them to do business and accommodate a relatively high number of visitors close to their offices or facilities as set out at paragraph 4.
15. Furthermore, the recent announcement of the partnership between Durham University and the Study Group to transition Queens Campus into an International Foundation College (IFC) has provided a greater level of confidence as to the future use of the Queens Campus and will 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.

16. It is anticipated that this announcement will act as the catalyst for work to begin on the refurbishment of the Swallow Hotel for student accommodation. As previously reported, there has 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 are 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.

Funding Requirements

17. As reported to both Cabinet and Council in May and June 2016, the anticipated total cost for delivery hotel on the NSGS is estimated at circa £17million. A final figure for construction will not be known until the contract is tendered in Spring 2017. However, detailed cost estimates across all elements of the scheme have been undertaken as the design has evolved with current estimates showing that the total cost of the scheme including all design costs, construction costs, associated works and fees will not exceed the original £17million cost estimate.
18. In order to meet the required capital investment, approval for the use of prudential borrowing of up to £17million is required which is reflected in recommendation number 2 within this report and is covered within the Medium Term Financial Plan report to Cabinet and Council in February 2016.

Next Steps

19. Work will continue on the detailed design of the hotel over the coming months and subject to gaining planning consent at Planning Committee in April 2017, procurement of the construction contractor will begin the same month, beginning work on site by the end of June 2017 with an estimated completion date in early autumn 2018.
20. Cabinet considered this matter at its meeting on 16 February 2017 and a copy the relevant minute extract will be made available to Members.

COMMUNITY IMPACT IMPLICATIONS

21. The proposed project does not seek approval for a new policy, strategy or change to service delivery. The socio economic benefits and impacts of the proposed project are set out in paragraphs 22-26.

FINANCIAL IMPLICATIONS

22. The business case figures were outlined at the report received by Cabinet and Council in May and June 2016. The foundations of that business case which shows a net surplus operating profit stabilised after five years of operation remains the case. The prudential borrowing of up to £17M has been included in the Council's medium term financial plan report which is due to be considered by Cabinet and then full Council in February 2017.

LEGAL IMPLICATIONS

23. As Council is aware, due to the effects of the economic climate, and the inability of the private sector to secure funding for investments such as the proposed hotel scheme, the recommendation is for the Council to fund and develop the hotel through prudential borrowing (Section 1 of the Local Government Act 2003). In doing so, the Council relies on its powers to undertake building works on land for the benefit and improvement of the area under section 2 of the Local Authorities (Land) Act 1963 and the power to trade provided by the "General Power of Competence" in Part 1 of the Localism Act 2011 and Section 111(1)

Local Government Act 1972 along with its powers to acquire and dispose of land in sections 120 and 123 of the Local Government Act 1972.

24. Council will note that there are limits placed on the general power when doing things for a commercial purpose. Specifically Section 4 of the Localism Act 2011 requires the power to be exercised through a company within the meaning of section 1(1) of the Companies Act 2006, which therefore require the Council to establish a trading company in this instance.

RISK ASSESSMENT

25. The North Shore Hotel is categorised medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

COUNCIL PLAN POLICY PRINCIPLES AND PRIORITIES

Policy Principles:

- **Protecting the vulnerable through targeted intervention** – this project has no direct impact on this policy principle
- **Promoting equality of opportunity through targeted intervention** – direct employment opportunities for residents will be generated through delivery of the project and through ongoing visits to the hotel.
- **Developing strong and healthy communities** – both the hotel management company and brand franchise have expressed a desire to, and demonstrated a track record of supporting community groups and charities and have acted as hub for community events. This was taken into account as part of the procurement process
- **Creating economic prosperity** – as detailed in paragraphs 22-26, the project will deliver significant employment and socio economic benefits as well as increase visitor numbers and improve perceptions of the Borough

CORPORATE PARENTING IMPLICATIONS

There are no corporate parenting implications.

CONSULTATION INCLUDING WARD/COUNCILLORS

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Background Papers

Ward(s) and Ward Councillors:

Cllr Paul Kirton & Cllr Di Hewitt

Property

Implications for SBC assets and capital programme covered in body of the report