

Report to:	EXECUTIVE
Relevant Officer:	Steve Thompson, Director of Resources
Relevant Cabinet Member	Councillor Ivan Taylor, Cabinet Member for Partnerships and Projects
Date of Meeting	15 December 2016

CENTRAL BUSINESS DISTRICT - DEVELOPMENT OF A FOUR STAR HOTEL AND INTERCONNECTION OF TRANSPORTATION INFRASTRUCTURE

1.0 Purpose of the report:

1.1 The development of a site within Central Business District as a four star hotel and the provision of interconnecting Infrastructure between Blackpool North Station, the new Tram Stop, the new Hotel and Banks Street Car Park. This Item supersedes EX50/2014 (Hotel Development old St Johns Market Site)

2.0 Recommendation(s):

- 2.1 To approve the terms of the Supplemental Deed Agreement with Muse for delivery of the hotel development as part of the Talbot Gateway Project (Central Business District).
- 2.2 To agree the Forward Funding for the development of the hotel and infrastructure, on the basis of the Hotel earnings covering the Prudential borrowing costs including the acquisition and demolition cost detailed in EX24/2016.
- 2.3 To agree to the principle of nominating a Brand to promote a four star hotel with third Party managing the same on behalf of the Council.
- 2.4 To delegate authority to the Chief Executive to agree the terms of the supplemental deed.
- 2.5 To delegate authority to the Chief Executive to negotiate the terms of the management agreement with a third party operator and to take any further action as he considers necessary to give effect to the above recommendations.
- 2.6 To agree that this decision supersedes EX50/2014 and that decision will no longer be implemented.

3.0 Reasons for recommendation(s):

3.1 The development appraisals confirm that without additional funding, the development of either a 3-star or 4-star hotel is not viable. As such an investor would expect to pay only a peppercorn rent, with the Council receiving a nil consideration for the land. If the Council were to develop the site, it would utilise Prudential Borrowing to fund the development with the operational profits generated used towards the meeting the costs of the development.

3.2a Is the recommendation contrary to a plan or strategy adopted or approved by the Council? NO

3.2b Is the recommendation in accordance with the Council's approved budget? YES

3.3 Other alternative options to be considered:

The site could be developed as a three star hotel instead of a four star hotel, but this does not meet the objective of raising the standard of accommodation within both the Central Business District and across Blackpool.

In total 45% of the site would be occupied by the proposed hotel and tramway extension, the remainder of the site would be available for the development of future phases.

4.0 Council Priority:

4.1 The relevant Council Priority is: "The Economy: Maximising growth and opportunity across Blackpool"

5.0 Background Information

5.1 The Council and Muse Developments Ltd have been working in partnership with the Council to develop the Central Business District since entering into a Development Agreement that was signed on 12 March 2009. The Masterplan contained in the Development Agreement was varied following Executive approval on 18 September 2009.

5.2 The Development Agreement has not been varied to reflect the new Masterplan as it was considered that as development progressed supplement deeds would record the variations which were needed at that time. In this respect the First Supplemental Deed was signed on the 23 December 2010 for the delivery of a supermarket, Council office, Banks Street Car Park and refurbished Talbot Multi-Storey Car Park (EX73/2010 refers).

5.3 Now that the initial phase has been completed, Muse is looking at the next phase for development. In this respect, the original Masterplan made provision for three hotels to be developed. Initially Muse proposed the development of a 130 room four star hotel and this was presented to and approved by the Council in October 2014 (EX50/2014 refers). Shortly after the approval of this item the Council became aware that the Wilkinson's Building on Talbot Road was for sale and the Council purchased this site in April 2016 (EX24/2016 refers). The purpose of this acquisition was to secure the site for future redevelopment and incorporate a tramway terminus adjacent to Blackpool North Train Station. Muse is now looking to develop the eastern side of this area as a four star 140-room hotel with retail units on the ground floor and the provision of a wide interconnecting underpass between the Hotel, the new tramway terminus and Blackpool North Station. To enable this there is a need to enter into another (Second) Supplemental Deed to allow this development to proceed.

The completion of phase 1 of the development led to the crystallisation of the Development Trust Account (DTA). The Development Trust Account is jointly operated by Muse and Blackpool Council and can be utilised for the development of schemes within the Talbot Gateway (Central Business District) red line.

5.4 Site Appraisal

Muse has commissioned ES Group (now Lambert Smith Hampton) to carry out a market appraisal for the viability of a four star hotel within the Talbot Gateway area. The appraisal confirms that four star "Branded" hotels rarely own hotels outright, preferring instead to lend their name and reputation to approved hotel operators. The view, therefore, is that in marketing a four star hotel it should be on the basis of finding an approved operator to provide a "fully serviced" hotel under a recognised brand.

5.5 Market testing by ES Group has involved Hilton Worldwide, Accor Group and Intercontinental Hotels Group, all three of which would support their Brand being represented in Blackpool by a third party manager. The recommendation from the ES Group market appraisal is for the selection of Intercontinental Hotels Group.

5.6 Intercontinental Hotels Group has 4,602 hotels in the group. They own outright 10 hotels, directly manage another 658 where they have a lease and have granted 3,934 agreements for third party operators to use their brand.

5.7 It is considered that using Intercontinental Hotels Group as the Brand would have added benefits such as:

- being part of an international brand with established global sales
- being part of the 'Priority Club' guest reward programme with 71million members worldwide

- connection to the Intercontinental Hotels Group reservation system offering 24/7 booking solution which handles approximately 70% of room revenue throughout the 4,500 Intercontinental Hotels Group family
- having UK headquarter support in specialist overhead departments such as financial control and personnel.

5.8 Marketing

ES Group, on behalf of Muse and the Council, has also carried out a soft marketing exercise with hotel operating companies to seek their views on managing a serviced hotel, and following on from the initial feedback they were asked to submit an original proposal.

5.9 Options

1. Muse could seek a third party investor for the hotel development who would still need to appoint a management company as above. An appraisal has been carried out on this basis and, for an investor; this scheme would not be viable without additional funding in the order of £5.5m (minimum) from the Development Trust Account. Since the scheme could only proceed with additional funding, it would be expected that the Council would include the land in the transaction for a nil consideration. In this respect Secretary of State consent was obtained in February 2012 to disposal at less than best value.

2. Aspirations could be reduced from offering a four star brand to a three star brand. For comparison purposes the same appraisal has been carried out on the basis of a 120 bed three star brand. The building cost, turnover and profits are all reduced, but for an investor, additional funding would still be required and therefore it would still be expected that the land would be transferred at nil consideration.

3. The Council could fund the development and retain full ownership of the property and appoint an operating company to manage the hotel on its behalf. The construction would be financed through Prudential borrowing and repaid out of the earnings before interest, tax and depreciation and amortisation over the life of the Project.

5.10 Proposal

Subject to final appraisal, it is proposed that the Council forward fund the construction of a 140-room four star hotel to Brand standards, with Muse Development procuring the same as part of the services provided under the terms of the Development Agreement.

Under the Disposal and Letting Strategy within the Development Agreement, Muse are not obliged to seek Council approval in obtaining a hotel operator who is either "Branded" or at least three star standard, however, as the proposal is now for the Council to retain ownership, the Council will be involved in the final selection of the

hotel operator.

5.11 It is proposed that the arrangement with the "brand" is kept separate from the operator. This provides the opportunity to retain the brand whilst changing the operator if circumstances require this action in the future.

5.12 The interconnecting infrastructure will provide an improved, wider underpass under High Street between the new Tram Stop and the Train Station ensuring that people arriving at Blackpool North Station have direct access to the tramway link and other modes of public transport.

5.13 Does the information submitted include any exempt information? No

5.14 **List of Appendices:**

Appendix 9a - Talbot Gateway Masterplan

Appendix 9b - Phase 2 Site Masterplan

Appendix 9c - Phase 2 : Hotel and Temporary Surface Parking

Appendix 9d - Typical Bedroom Level

Appendix 9e - Lower Ground Floor with 8m Wide Underpass

Appendix 9f - Section 8m Wide Underpass

Appendix 9g - Bickerstaffe Square computer generated imagery

Appendix 9h- Computer generated imagery From Blackpool North Station

Appendix 9i - Computer generated imagery From New Tram Terminus

6.0 Legal considerations:

6.1 The Development Agreement has not been varied to reflect the approved changes to the Masterplan and Supplemental Deeds are required when dealing with development parcels which are at variance to the Development Agreement.

6.2 Before entering any agreement it is necessary to ensure the selection processes are legally compliant.

7.0 Human Resources considerations:

7.1 None

8.0 Equalities considerations:

8.1 None

9.0 Financial considerations:

9.1 The cost of the proposed work is estimated at £23m and it is intended that the Council's contribution of £17.5m and shall be financed by prudential borrowing with the remaining £5.5m being funded from the Development Trust Account.

Key Assumptions:-

- Earnings before interest, tax and depreciation and amortisation increase from year 1 to year 4 in equal annual increments and is then stable
- A sinking fund is established in order to meet the cost of the refurbishment and replenishment of fixtures, furniture and equipment.
- In accordance with EX24/2016 it is recognised that any future development on the Wilkinson's site is able to meet the prudential borrowing of 7.8m for the acquisition and site clearance.
- The total cost of phase 2 including the Wilkinson's acquisition and site clearance is £30.8m (£7.8m + £17.5m + £5.5m).

10.0 Risk management considerations:

10.1 The Hotel appraisals undertaken assume 60% occupancy in the first year rising to 72% in the third year. During this time, when the Prudential Borrowing costs are at the highest, the projected return may not be sufficient to meet the full cost.

10.2 Should the anticipated income fail to meet the required levels any shortfall will be met from the wider investment portfolio

10.3 A number of other hotels may also enter the market. This may lead to reduced occupancy or suppress the market in terms of room rates due to supply exceeding demand

11.0 Ethical considerations:

11.1 None

12.0 Internal/ External Consultation undertaken:

12.1 Market appraisal carried out by ES Group

13.0 Background papers:

13.1 EX23/2008 re Development Agreement
EX44/2009 re Variation to Masterplan
EX73/2010 re First Supplemental Deed
EX50/2014 re Central Business District – Four Star Hotel Development

EX24/2016 re Acquisition of Wilkinson's Building, Talbot Road

14.0 Key decision information:

14.1 Is this a key decision? YES

14.2 If so, Forward Plan reference number: 32/2016

14.3 If a key decision, is the decision required in less than five days? N/A

14.4 If **yes**, please describe the reason for urgency:

15.0 Call-in information:

15.1 Are there any grounds for urgency, which would cause this decision to be exempt from the call-in process? NO

15.2 If **yes**, please give reason:

TO BE COMPLETED BY THE HEAD OF DEMOCRATIC GOVERNANCE

16.0 Scrutiny Committee Chairman (where appropriate):

Date informed: 7 December 2016 Date approved: N/A

17.0 Declarations of interest (if applicable):

17.1

18.0 Executive decision:

18.1

18.2 Date of Decision:

19.0 Reason(s) for decision:

19.1 Date Decision published:

20.0 Executive Members in attendance:

20.1

21.0 Call-in:

21.1

22.0 Notes:

22.1