Report to:	**EXECUTIVE**
Relevant Officer:	Steve Thompson, Director for Resources
Relevant Cabinet Member	Councillor S. Blackburn, Leader of the Council
Date of Meeting	6th October 2014

CENTRAL BUSINESS DISTRICT - FOUR STAR HOTEL DEVELOPMENT

1.0 Purpose of the report:

1.1 The development of a site within Central Business District as a four star hotel.

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.

2.2 To agree in principle the Forward Funding of the hotel development, on the basis of the Hotel earnings covering the Prudential Borrowing costs.

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 management agreement with a Brand and a third party operator and to take any further action as he considers necessary to give effect to the above recommendations.

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:

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

4.0 Council Priority:

4.1 The relevant Council Priority is:
'Expand and promote our tourism, arts, heritage and cultural offer'

5.0 Background Information

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

5.2 The Development Agreement was not varied to reflect the new Masterplan as it was considered that as development went on supplement deeds would record the variations which were needed at that time. In this respect the First Supplemental Deed was signed on the 23rd December 2010 for the delivery of a supermarket, Council office, Banks Street Car Park and refurbished Talbot Road 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, including a 130 room hotel as part of the supermarket complex. The variation provided for the relocated of this hotel to the site which was originally identified as a multi-storey car park, following the decision to refurbish the existing Talbot Road Multi-Storey Car Park. Muse is now looking at progressing this site for the development of a four star 130 room hotel and therefore need to enter into another (Second) Supplemental Deed in order to allow this development to proceed.

5.4 Site Appraisal
Muse has commissioned ES Group to carry out a market appraisal for the viability of a four star hotel on the site. 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 The Intercontinental Hotels Group brand includes Crowne Plaza and Holiday Inn, and the recommendation from ES Group, having held initial discussions with Intercontinental Hotels Group, is that the preferred brand would be Holiday Inn.

5.9 The Holiday Inn brand handles over 100 m guest nights each year. Globally there are 1227 Holiday Inn hotels with 227,112 rooms with a further 245 hotel in the pipeline.

5.10 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 based on a 130 room Holiday Inn.

5.11 Intercontinental Hotels Group has provided a brief specification for a Holiday Inn "Branded" hotel together with estimated costs and Muse Development has worked up a development appraisal which indicates that costs are in the region of £14m.

5.12 Interstate, Redefine BDL and Branded Hotel Management have been shortlisted as third party managers. Each has confirmed they would charge a basic management fee of 2% of the turnover, however they would also seek to agree an incentive fee applied upon performance. Based on the initial proposal, it would appear that each operator anticipates that it will take 3 to 4 years to establish a stable turnover with the anticipated earnings before interest, tax and depreciation and amorization being sufficient to meet the Council's financial debit costs plus the necessary capital cost of periodic internal refurbishment and replenishment of equipment.

5.13 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 £2.745m. 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 obtain in February 2012 to disposal at less than best value with this particular site being referred to as 'parcel 5'.

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 Holiday Inn Express (the 3 star Holiday Inn 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 amorization over the life of the Project.

5.14 Proposal

Subject to final appraisal, it is proposed that the Council forward fund the construction of a 130 room four star hotel to Holiday Inn standard, 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 3 stars 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.

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.

It is proposed to investigate the possibility of creating a Special Purchase Vehicle company to manage the investment and to maximize the potential for the Council capital allowances.

5.15 Does the information submitted include any exempt information? No

5.16 **List of Appendices:**
None

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 scheme is estimated at £14m, and it is intended that the Council's contribution shall be financed by prudential borrowing. Key Assumptions:-- Earnings before interest, tax and depreciation and amorization 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.

10.0 Risk management considerations:

10.1 The appraisals assume a 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. If the projected rise in occupancy is not as forecast, it will take longer for the project to generate a positive return.

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 AgreementEX44/2009 re Variation to MasterplanEX73/2010 re First Supplemental Deed

14.0 Key decision information:

14.1	Is this a key decision?	NO
14.2	If so, Forward Plan reference number:	
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: N/A 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