

Taunton Deane Borough Council

Executive – 5 April 2018

Development of an Hotel at Firepool, Taunton

This matter is the responsibility of Executive Councillor Mark Edwards

Report Author: Tom Gillham, Assistant Director - Asset Development Projects (Interim)

1 Executive Summary and Purpose of the Report

- 1.1 This paper introduces a proposal for Council investment in the development of a new high quality mid-market hotel at Firepool. The proposals are consistent with the outline planning consent (14 March 2018) for Firepool and were supported in principle by members of Scrutiny (22 March 2018).
 - 1.2 The proposal aligns well with the vision for Taunton as a Garden Town, contributes to a thriving and sustainable Town Centre and generates a healthy commercial return to the Council.
 - 1.3 The proposal is the result of an initial feasibility, marketing and procurement exercise that has yielded strong interest from potential occupiers and operators of the hotel. A business case for Council investment in the development and ongoing ownership of the hotel has subsequently been developed, taking account of key risks (financial and non-financial). Confidential appendices provide further details for members' scrutiny.
 - 1.4 The above steps – including selection of hotel brand, operator and construction project management team, has been subject to the necessary Council approvals and consents and formal exchange of contract. Council approval of the proposal is now needed to enable the project to move forward to delivery of the hotel development programme.
 - 1.5 Confidential appendices attached to this report provide further information on indicative project timeline for development (illustrated by Appendix A), the financial evaluation and business case (Appendix B), the procurement process (summarised in Appendix C) that identifies our preferred brand and operator, risks and mitigation that include proposals to form a special purpose vehicle to lease the asset. The favoured location based on feasibility studies provides an illustration only of site and is not considered to be commercial sensitive, as the final building and layout are subject to detailed design.
 - 1.6 The views of Corporate Scrutiny Committee have been considered, in the final version being presented to Executive (5 April 2018) and members are reminded that the development is subject to Full Council approval (10 April 2018) and contract, therefore many appendices are commercially sensitive in order to protect the Council interests.
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- 1.7 The proposal supports the Corporate Strategy of the Council, in particular themes of people, business and enterprise and an efficient and modern council.

2. Recommendations

- 2.1 The Executive is requested to support the following recommendations to Full Council:
- (i) Council investment in the development and ownership of a hotel at Firepool, based on the detailed information contained in confidential appendices;
 - (ii) for a supplementary estimate to the Council's Capital Programme (stated in commercially confidential financial Appendix B) for the planning, design and engineering, construction and fit out of the hotel, to be funded as per confidential appendix within this report;
 - (iii) to enable the hotel project to progress within programme timescales indicated and approved budget, that the relevant delegated authorities are provided to the Director of Growth and s151 Officer, in consultation with Portfolio Holder and Leader of Council to:
 - a) appoint specialist and professional services to support Officers and hotel project team complete the planning, design and engineering of a new mid-market hotel on a suitable site identified at Firepool (on the south-side of the Tone river);
 - b) finalise legal agreements with preferred brand and operator,
 - c) to create a Council owned Special Purpose Vehicle, to lease the asset and manage commercial arrangements of the new hotel (on behalf of the Council);
 - d) Procurement and appointment of a main building and fit-out contractor to complete the hotel building to specification and standards within the budget approved.

Risk Assessment

- 3.1 A working copy of risk matrix is contained within confidential appendix D. The assessment shows that identified risks can be mitigated to acceptable levels.
- 3.2 It is considered that the business case, together with wider economic and regeneration benefits of the proposal, significantly outweigh the identified risks.

3. Background and Full details of the Report

- 3.1 Taunton's prime regeneration site of Firepool includes an area to the south of the River Tone, opposite Somerset County Cricket Ground, that already comprises of the Viridor Head Office and Acorn's development of luxury riverside apartments and townhouses. The new hotel development is proposed be located in an identified commercial zone with frontage on Priory Bridge Road, providing adequate room for remaining office space development and surface level car parking (appendix E illustrates the favoured location).
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- 3.2 The majority of the identified site is relatively flat, clear and ready for development.
- 3.3 Subject to specific requirements such as reserved matters, Council approval of the business case and exchange of contracts with the hotel brand and management operator, appointment of professional services advisors and a construction company, preparatory work on the site is anticipated to start next year (2019). An indicative timeline for development is shown in the confidential appendix A.
- 4.4 Market testing and specialist advice also confirms high trading confidence in the Taunton area as a visitor and business destination. A well-recognised brand of hotel will improve the range and quality of mid-market accommodation in the town centre, encourage more businesses and visitors into the heart of the town and boost the wider daytime and evening economy.

4. Links to Corporate Aims, Priorities and Key issues

- 4.1 The proposal aligns well with the following key themes in the Council's Corporate Strategy:

- **Key Theme 1: People:** facilitating employment and training opportunities in the construction and ongoing operation of the new hotel, jobs for around 100 people.
The Council's preferred hotel management operator indicated that with the type of mid-market hotel being proposed with up to 120 rooms, a restaurant and small conference facilities it would be expected to employ around 40-50 (full-time equivalents). In reality this may mean a team of around 70-75 people altogether, as the service operation will likely involve shift-working and part-time staff. The building of the hotel could provide an additional 30-50 jobs including the creation of local training opportunities over the duration of the design and construction period.
- **Key Theme 2: Business and Enterprise:** enhancing the quantity and variety of accommodation in the Town Centre; attracting visitors and business, encouraging growth and potential investment. The hotel will also act as an important catalyst, attracting visitors, business and investment in the wider Town Centre.
- **Key Theme 4: An Efficient and Modern Council:** generating a healthy return on investment, supporting financial sustainability of the Council and improving the appearance and prosperity of the area.

5. Finance / Resource Implications

- 5.1 The Project Cost estimates have been provided by cost management professionals and advisors who have experience of successfully delivering similar hotel schemes.
- 5.2 The Business Case (see confidential appendix B) shows a satisfactory level of return on investment. It is based on an established trading model of the Council developing and retaining the asset (the Hotel) and leasing the Hotel building to a newly created Special Purpose Vehicle (a trading company), which the Council will own. The Council will nominate directors to the company to manage the SPV's operations, contracts, and bank accounts.
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- 5.3 The new Hotel business, through the SPV, will be managed by a professional operating company, to ensure Hotel brand compliance, maximising efficiencies and returns for the Council and limiting potential liabilities. Hotel employees will also be engaged through the operating company.
- 5.4 Construction cost management will be a major element of the scheme. Processes will be put into place to assess cost on an on-going basis throughout the design process and to address any cost overrun risks through both design and the form of contract management.
- 6.5 The business case to support recommendations of a multi-million investment has been developed by the Council's finance team, informed and verified by hotel specialists and professionals, including our Treasury Management advisors, Arlingclose. The estimated capital cost of the project is proposed to be financed by external borrowing through the Public Works Loan Board. The confidential financial appendix shows the impact on the Council's prudential indicators.
- 6.6 The revenue implications of this scheme indicate an expected positive contribution to the Council's revenue budget.

6. Legal Implications

- 7.1 Key decisions and approvals of the Executive and Full Council will enable the commencement of necessary legal work to deliver the hotel project. This will involve delegation to the Directors of Growth and Finance (s151) to take all necessary steps to implement the decision of the Council and as appropriate as part of that to sign all necessary contracts; and to engage with solicitors working alongside external legal advisors where appropriate, to ensure delivery of the project and compliance with all relevant legislation.

8. Environmental Impact Implications

- 8.1 Environmental implications will be addressed through the planning process approved by statutory bodies such as the Environment Agency.

9. Safeguarding and/or Community Safety Implications

- 9.1 None related directly to this report. Any potential issues arising will be dealt with through the statutory planning and building control, including a health and safety site management plan.

10. Equality and Diversity Implications

- 10.1 This report focuses on proposals to maximise the benefit of a developing a new asset and formation of a new company. Employment opportunities will arise in the construction and management of the new Council owned asset.
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10.2 Any equality and diversity implications of the development are being addressed through future consultation of detailed design process, compliant with planning and building regulations.

11 **Social Value Implications**

11.1 Social value is taken fully into account as part of wider discussions. We expect that further opportunities to add social value will be identified within future procurement of the building elements of this project, also future operations, management and supplies.

11.2 Initial indications are that around 100 new jobs and training opportunities could be created through our investment and the development of a new mid-market hotel in Firepool, Taunton.

12 **Partnership Implications**

12.1 Officer and specialist advisors of the Hotel Project team are working with our development partner St Modwen on best value mechanisms for Council delivery of this project, compliant within the terms of our Development Agreement.

12.2 We are consulting with our preferred hotel operator and brand on the appointment of specialist technical team. We will work together on a detailed design and specification for a high quality build within budget parameters, resulting in an efficient construction and management operation, attaining best value from the Council investment.

13 **Health and Wellbeing Implications**

13.1 No specific implications identified in this report, however this proposal will create new local employment opportunities and as such is considered likely to have a positive influence on the general health and wellbeing of the local community.

14 **Asset Management Implications**

14.1 The proposed investment is assessed as attaining best value for the Council, supported by the findings of independent Feasibility Studies undertaken by Horwath LPP specialist in hotel sector, commercial valuations by Thomas Lister Ltd (MRICS) and construction cost estimates from AECOM. A detailed review of the existing supply of hotels within Taunton provide positive income projections thereby supporting proposals to develop a new type of hotel in this preferred location.

14.2 The hotel as a commercial venture adds value to the capital Land and Building investments of the Council and provides a positive contribution to the TDBC General Fund. The Council as landowner has opportunity to develop and retain income from our new asset. The preferred model is for the Council to create a new **Special Purpose Vehicle** (SPV) to trade enabling surpluses generated to be returned to the Council (see confidential appendix F).

14.3 Legal advice on the creation of a wholly owned Special Purpose Vehicle and trading

company will lease from the Council a new build asset and contract with brand and

operator to ensure franchise standards met and employ a General Manager and hotel team to manage day-to-day operations.

- 14.4 A new hotel with suitable franchise and management agreements can provide an attractive investment for Council, who could secure economic, regeneration and create an attractive income generating investment which could finance and repay any funding or borrowing for the scheme.

15 Consultation Implications

- 15.1 St Modwen comprehensive outline parameters application refreshes previous historic planning proposals that included a potential new hotel on the site identified on the south side of river opposite the County Cricket Ground.
- 15.2 Informal consultation with local planning officers confirms that the development of a hotel is acceptable in principle on this site. Further detailed design work will be carried out following Council approval. The positive planning committee decision should enable a detailed proposal for new hotel be assessed as a reserved matter.
- 15.3 Any decision to support the proposals is one for the Council as landowner and as a promoter of economic development.

16 Scrutiny Comments

- 16.1 The Corporate Scrutiny Committee considered this report at their meeting on 22 March 2018 and resolved to support the proposals.
- 16.2 Members requested further clarification about governance arrangements of the hotel operation and wanted to know how members would be updated on the financial performance. In addition Members asked for reassurance about the market testing and feasibility that had been carried to assess and inform the viability of the proposed hotel.
- 16.3 Officers have taken on board these comments and will ensure matters are taken account of as the project progresses and confirmed independent feasibility supported proposals.

Democratic Path:

- **Scrutiny** – 22 March 2018
- **Executive** – 5 April 2018
- **Full Council** – 10 April 2018

Reporting Frequency: Once only Ad-hoc Quarterly

- Twice-yearly Annually

List of non-confidential appendix:

Reference	Description of content
Appendix E	Location Plan – for illustrative purposes (detailed design to be undertaken)

List of Confidential Appendices:

Reference	Strictly Confidential Information - due to commercial sensitivity
Appendix A	Indicative Timeline of Activities and Draft Hotel Development Programme
Appendix B	Financial Business Case for Investment
Appendix C	Summary of Procurement Journey
Appendix D	Firepool Hotel - Risk Matrix
Appendix F	Creation of new Special Purpose Vehicle

Contact Officers

Name	Tom Gillham – Assistant Director Asset Development Projects (Interim)
Direct Dial	07585 306981 (Mobile)
Email	t.gillham@tauntondeane.gov.uk
Name	Paul McClean (Growth Accountant) & Paul Fitzgerald (s151 Officer)
Direct Dial	01823 356537
Email	p.mcclean@tauntondeane.gov.uk & p.fitzgerald@tauntondeane.gov.uk