

NOT FOR PUBLICATION

Appendices A and B to this report contains exempt information as defined
in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act
1972

Report to: **Executive**

Date: **18 July 2019**

Title: **Investing in Kingsbridge**

Portfolio Area: **Strategic Assets – Cllr Hilary Bastone**

Wards Affected: **All**

Urgent Decision: **N** Approval and clearance obtained: **Y**

Date next steps can be taken: **After Call In
29 July 2019**

Author: **Chris Brook** Role: **Head Of Assets Practice**

Contact: **Email: Chris.Brook@swdevon.gov.uk**

That the Executive:

1. Approves the revised business case for the project as set out in the Report and Appendix A.

1. Executive summary

- 1.1. The Kingsbridge Hotel development project and business case was approved by the Executive in December 2018 (minute reference E.62.18). Since then the business case for the Kingsbridge Hotel proposal has changed and it requires a further approval so as to proceed. The cost of the project has increased from £9.1m to C. £10.13m.
- 1.2. The scale of the development has also changed from 76 rooms to 85 but the height reduced from 5 storeys to 4.

2. Background

- 2.1. In December 2018 the Executive approved the project and business case for the development of a hotel in Kingsbridge at £9.1m. Since then the Heads of Terms have been finalised with the proposed hotel operator and the details of the project and business have changed.

- 2.2. As such, the new business case for this proposal is being brought back for consideration by the Executive.
- 2.3. The scheme design has been developed and the proposal is now for a 4 storey, 85 bedroom hotel. Some new parking will be provided, but the majority of the hotel users will use the parking provided in the adjacent Council owned car park, as is typical in these situations.
- 2.4. Heads of Terms have been agreed for the terms of the Agreement for Lease. This will be for a 25-year term on a full repairing and insuring basis.
- 2.5. The Council would procure a design and build contract via an OJEU compliant framework.
- 2.6. Based on an 80% occupancy rate (the UK average for the last 3 financial years) and 1.5 person/room, this would potentially bring of 37,200¹ additional visitors to Kingsbridge per year with a commensurate additional food and beverage spend of around £525,000 in the local area per annum.
- 2.7. The hotel will not have an associated pub, but will have a restaurant offer.
- 2.8. This project will deliver an initial net yield of ~1% which is within the range set out in the adopted Commercial Investment Strategy. It also performs very strongly when measured against the two other objectives of; supporting regeneration and the economic activity of the District and enhancing economic benefit & business rates growth.
- 2.9. Proposed plans and a Visual Impact Assessment have been prepared which suggests that the proposal has minimal impact on the key strategic views within the town. However this is only an initial reaction and it will require full consideration as part of the planning process. Discussions with Kingsbridge Town Council are ongoing and they have raised a number of relevant concerns including but not limited to the car parking capacity in the adjacent car park.
- 2.10. Through an informal consultation with local high-street businesses the Council has learned that there is strong support for this investment as a result of the increased footfall and trade envisaged from it.
- 2.11. The project programme envisages approximately two years between approval and completion, should this project move forward.
- 2.12. The financial structuring of the project has been reassessed with a two-stage funding arrangement being envisaged. The Council would borrow short term on an interest only basis in the

¹ This includes an assumption that all visitors are "new" rather than just switching their accommodation choice. Whilst there are no hotels in Kingsbridge, it is possible that other accommodation sectors may be affected by a change in market share.

first year, then funding longer term would be with the PWLB with costs being re-financed and 50% of the borrowing being repaid.

- 2.13. A business case template is provided in Appendix A, which due to commercial sensitivity is exempt.

3. Outcome / Outputs

- 3.1 Whilst the height of the proposed building has reduced by one storey, the room count has increased from 76 to 85 and the associated cost of development has increased to C. £10m. This is still within the borrowing limits set by the Council in September 2018 (minute reference 30/18).
- 3.2 The hotel operator's own assessment of the room occupancy rate is unchanged at 80%, so a pro-rata increase in the number of stays in the hotel is therefore expected.
- 3.3 There is no equivalent hotel offer in the South Hams and no hotels in Kingsbridge, so market share cannot be taken from the hotel sector in Kingsbridge. It is possible that other accommodation sectors such as AirBnB may be affected.
- 3.4 During the construction phase, the project is likely to employ around 90 people and once operational will employ 24 staff in non-seasonal jobs.
- 3.5 Whilst the economic developments should rightfully be stress tested, the various metrics used to assess this are all very positive. Further analysis to ensure that these benefits are not over exaggerated is recommended as part of this project should it get Executive support.

4. Specific Options available and consideration of risk

- 4.1 A full project Risk Register is included in Exempt Appendix B. This will be reviewed on a monthly basis by the project team. The risk profile of the project has reduced since the last report was considered in December 2018 in two areas. Firstly the reduction in building height has helped reduce (but not eliminate) the risk of getting planning approval. Secondly, having board approval for the Heads of Terms from the hotel operator, combined with the decision to use a framework to procure the construction contractor has reduced the time frame for delivery.
- 4.2 Further work has been and continues to be done on assessing the car parking utilisation of the local car parks. It is clear that usage patterns in the adjacent car park is different than it had been in previous years, linked to a change in car parking permits, moving cars onto the adjacent car park from the Quay car park.
- 4.3 The project will continue to assess car parking demand and make changes as required to ensure it managed in the best way possible, balancing the needs of day trippers, hotel guests and residents.

- 4.4 Development and investment projects carry inherent risk. The following should be considered by the Executive as part of their deliberations:
- a. Financial exposure during the construction phase prior to occupation by the tenant. This risk has been eliminated via the use of an agreement to lease. No construction contracts would be placed until this agreement was in place between the Hotel operator and the Council.
 - b. Construction cost over run. This risk needs to be managed. A reputable contractor shall be selected from a regional construction framework and employed using a standard design and build form of contract. Project management would be outsourced and client side contingency is built into the business case.
 - c. Planning. There is no certainty that the proposals will get planning approval, although the proposals are in line with the Local Plan. Appendix A sets out the predicted cashflow expended prior to a decision on the planning application and spend prior to that decision is therefore "at risk".
 - d. Tenant covenant (strength / risk of going bust). The hotel operator is a national covenant with a very strong balance sheet. The Council would not consider entering into a 25 year lease were that not the case. It is possible however that any business can falter over that time frame and the Council would need to seek other operators of a similar nature to take over the operation of the facility were that to happen.
 - e. Maintenance and Insurance. The lease would include an obligation on the tenant to maintain and insure the building.
 - f. Commercial return. The borrowing structure proposed for the project is based on fixed interest and repayment of the loan over the term. The lease is would contain an inflation linked upwards only 5 year rent review. As such the commercial return of the project improved over the life of the investment.
 - g. Public land. The project does not sell off any land owned by the Council. At the end of the investment period, the Council will own the land and the asset upon it, with 50% of the borrowing repaid. The Council would need to refinance the other 50% at the end of the 50 years.

5. Proposed Way Forward

- 5.1 That the Executive approve the recommendation and amended business case set out in this report included in this report.

6. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance		<p>The appendices to this report are exempt from publication because they contain information about the Council’s financial and proposed commercial affairs as defined in Paragraph 3 of Schedule 12A to the Local Government Act 1972. The public interest test has been applied and it is considered that the public interest lies in not disclosing this report at this time because it contains financial and commercially sensitive information which could prejudice the Council if such information was disclosed at this time.</p> <p>These proposals are consistent with the Council’s powers to borrow and invest under the Local Government Act 2003 and section 1 Localism Act 2011 (the general power of competence).</p> <p>Section 1 of the Local Government Act 2003 provides a power to the Council to borrow for the purposes of any enactment.</p> <p>There is an overriding duty toward prudent management of risk, and officers, including the Council's section 151 officer, owe a fiduciary duty in relation to given transactions.</p> <p>Legal due diligence will be carried out as part of the development process.</p> <p>Any future development will be subject to the normal Council planning process and any decision by Executive does not infer that planning permission for the proposed developments would be granted.</p>
Financial implications to include reference to value for money		The financial considerations are contained within Appendix A.
Risk		All development projects carry risk. Reference section 4 above for further details and Appendix B – Project Risk Register.
Supporting Corporate Strategy		Enterprise
Comprehensive Impact Assessment Implications		

Equality and Diversity		N/A.
Safeguarding		N/A
Community Safety, Crime and Disorder		N/A
Health, Safety and Wellbeing		N/A
Other implications		N/A

Supporting Information

Appendices:

Exempt Appendix A – Business case

Exempt Appendix B – Project Risk Register

Background Papers:

None

Approval and clearance of report

Process checklist	Completed
Portfolio Holder briefed/sign off	Yes
SLT Rep briefed/sign off	Yes
Relevant Head of Practice sign off (draft)	Yes
Data protection issues considered	Yes
Accessibility checked	Yes