

SLOUGH BOROUGH COUNCIL

REPORT TO: Cabinet **DATE:** 27 June 2016

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WARD(S): Central Ward

PORTFOLIO: Housing & Urban Renewal - Cllr Zaffar Ajaib
Leader of the Council - Cllr Sohail Munawar

PART I **KEY DECISION**

OLD LIBRARY SITE DEVELOPMENT OPTIONS

1 Purpose of Report

Having bought back the Old Library Site in 2015, Cabinet considered a report in March 2016 which set out how it could be used as a catalyst for the regeneration of the town centre.

The purpose of this report is to seek approval for the Council to provide funding for Slough Urban Renewal (“SUR”) to develop two high quality hotels and a restaurant as part of a mixed use development.

2 Recommendation(s)/Proposed Action

The Cabinet is requested to resolve:

- (a) That the Old Library Site is no longer required for the purposes for which it is presently held.
- (b) To appropriate the Old Library Site for other purposes for the benefit, improvement or development of the Council's area.
- (c) To recommend to Full Council that the Council develops two hotels and a restaurant on the Old Library site, at an estimated cost of £30.5m (borrowing cost £55m) for the hotels and £1.7m (borrowing cost £3m) for the restaurant.
- (d) To approve that the Council enters into an Agreement for Lease with Landlord's Works for a 25-year term with a hotel operator for part of the Old Library Site and note that this could be extended to 45 years to match the offer from the hotel operator.
- (e) To note that a follow-up report will be presented to Cabinet in September 2016 to present complementary development options and recommendations for the remainder of the site.

3. The Slough Joint Wellbeing Strategy, the JSNA and the Five Year Plan

The development of the site would make a significant contribution to the Regeneration and Environment of Slough's Joint Wellbeing Strategy:

- A hotel development in the town centre will improve the image of the town, providing good quality hotel accommodation, which is currently in short supply.
- Constructing the new developments will improve local temporary employment opportunities through SUR's commitment to promoting employment and skills as well as increasing apprenticeship opportunities enabling local people to improve their learning and skill base.
- Operation of the hotel and restaurant will improve permanent local employment opportunities in the hospitality and catering sector.
- The hotels and restaurant will contribute to business rates receipts.

3b Five Year Plan Outcomes

The developments will help deliver the following of the Five Year Plan outcomes:

Changing, retaining and growing

- **OUTCOME 1:** Introducing a new hotel offering in the town centre will contribute to Slough being the premier location in the south east for businesses of all sizes to locate, start, grow, and stay. By committing at this juncture the Council will secure exclusivity and prevent another operator within the same brand from coming forward with a proposal within the franchisors area of operation, which could be outside Slough.
- **OUTCOME 3:** Providing centrally based hotel accommodation and a restaurant, will increase demand, footfall and activity in the town centre, thus contributing to the centre of Slough being vibrant, providing business, living, and cultural opportunities

Using resources wisely

- **OUTCOME 7:** The Council's income and the value of its assets will be maximised through the receipt of long term income revenue stream.

4 Other Implications

(a) Financial

A detailed financial summary for the hotels is included in Appendix 1

[REDACTED]. The Council would be lending into the scheme at the prevailing Public Works Loan Board ("PWLB") rate of **3.3%** which compares to the prevailing private sector borrowing rate over 40 years of **4.3%**. The overall annual income the Council will receive in the first 10 years is up to [REDACTED] which, at [REDACTED], is substantially above the borrowing costs from the PWLB.

It is important to consider the risks identified below and the likelihood of these occurring. The largest area of risk on an ongoing basis is if trading conditions deteriorate. There is a Base Rent of [REDACTED] index linked with a further guarantee of [REDACTED] from the franchisor of the hotel operator to fund any shortfall in lease payments to the Council, though this is a one-off sum and not an ongoing amount, i.e. any draw-down will not be topped up. The proposed operator would provide a further [REDACTED] of Parent Company guarantee. The proposed scheme is however backed by one of the largest worldwide hotel operator and they will seamlessly step in to the operation of the hotel if the proposed operator ceases to trade. This provides assurance that there will continue to be a hotel offer on this site. If there was an event which was so catastrophic to cease the viability of the hotel the Council, as owner of this building, would then seek to terminate the lease agreement and then convert the site into another housing related use. However, this scenario is deemed highly unlikely.

The Council has recently been informed that the operator requires up to a [REDACTED] of technical fees and pre-opening fees. These are currently being negotiated and may reduce, however to ensure that the business case is robust; it is assumed this amount will be paid in Year 1.

(b) Risk Management

Risk	Mitigating action	Opportunities
Legal – State Aid	Lease income is increased by 70% of CPI from £1.4m whilst the borrowing costs are fixed. These borrowing costs have been tested against the market rates for 40 year borrowing to ensure that the over income that the Council receives passes the EU State Aid test i.e. that the Council is not receiving an income which is below a market rent on this scheme.	
Finance – SBC exposure to a cyclical business sector.	Constant and appropriate asset management and control where occupancy, average room rates and costs are monitored against agreed levels/industry norms. A guarantee is in place to protect the Councils interest should there be a sustained period of underperformance from the hotel operator. This is backed by the largest worldwide hotel operator with a very strong reputation and covenant.	Increase in business rates.

Finance – the hotel operator fails to perform and fails to pay the base/turnover rent.	A rent guarantee is in place from both the proposed hotel operator and an international branded hotel group.	The covenant risk is covered by a guarantee from a worldwide hotel operator with a desire to protect their brand integrity.
Finance (Hotel) – the hotel operator ceases to trade due to adverse trading conditions / administration.	The Franchisor will step into the operation of the hotel and ensure that it continues to operate There is a guarantee of £1.2m from the hotel franchisor to protect the Council against any shortfalls in lease contributions. However, this is a one off sum and will not be topped-up.	Ensure that the design and construction is 'flexible' and can be re-configured for sale as dwellings, or converted to office/retail/residential mix.
Demand risk – there is an oversupply of rooms.	A report from an independent hotel market expert has confirmed that the proposal matches current and future market opportunities within Slough. Anecdotal evidence confirms high occupancy rates in Slough.	Creates a new supply for Slough with modern, innovative and defined accommodation offering. Development of a landmark site with a highly visible and attractive project.
Property/ Development Control – the construction and design process will need to be precise to avoid over runs, over specification and/or additional costs.	Construction costs will be market tested via SUR and verified through a jointly appointed Quantity Surveyor to ensure costs are appropriate. The Council will seek a fixed-price construction cost to avoid unforeseen expenditure and secure protection from build cost inflation.	A faster procurement route and a VfM tested route.
Human Rights	No risks identified	
Health and Safety	No risks identified	
Employment Issues	No risks identified	The introduction of the proposed hotel and restaurant will create new short and long term employment opportunities for local people.
Equalities Issues	No risks identified	
Community Support	No risks identified	
Communications	No risks identified	

Community Safety	No risks identified	
Financial – Best Value	It is very difficult to assess best value for this site. As can be seen from the table in the main paper there are a range of options for members to consider. The proposal for a hotel does provide an ongoing revenue stream which in the current financial context is more beneficial than a one- off capital sum. However, this is at greater risk than the option of building housing on this site.	An opportunity to introduce a Council-owned income generating asset that enhances the town centre.
Timetable for delivery	No risks identified	
Project Capacity	Whilst project managed on behalf of the Council by SUR, this and other key strategic projects will place increased pressure on business as usual for Asset Management, Legal Services and Planning. A growth bid for additional resources will be made.	The developer will be sympathetic to the use of a Planning Performance Agreement whereby an additional Planning Officer post is funded directly.
Other	No risks identified	

(c) Human Rights Act and Other Legal Implications

Under Section 122 of the Local Government Act 1972 the Council may appropriate any land which they own and which is no longer required for the purposes for which it is presently held for any other purposes for which they are permitted by the Local Government Act 1972 or any other enactment to acquire land by agreement.

Under Section 120 of the Local Government Act 1972 the Council are permitted to acquire by agreement any land for the benefit, improvement, or development of their area.

Accordingly, if the Council resolve that that the Old Library Site is no longer required for the purposes for which it is presently held, they may appropriate that site to any other purpose provided that this is for the benefit, improvement or development of their area.

Under The Treaty of the Functioning of the European Union, the Council is subject to the European Union rules which regulate the granting of State Aid which might distort the operation of open markets. The Council would, therefore need to ensure that no advantage is given to any particular economic operator by the manner in which the Council use their funds or assets. In connection with any arrangements that the Council make, therefore, for the use of its funds or assets in connection with the development of the Old ,Library Site, they must ensure that no particular economic operator is given an advantage which that operator could not obtain on the open market generally.

(d) Equalities Impact Assessment

There are no identified needs for an EIA at this juncture.

(e) Property

See Section 5 below.

(f) Carbon Emissions and Energy Costs cost implications)

The proposal to remain and consolidate within SMP will allow the Council to implement initiatives that will reduce carbon emission and reduce energy costs.

5 Supporting Information

- 5.1 The Council bought back the Old Library Site (“OLS”) from the Homes and Communities Agency (“HCA”) in 2015. With the impending opening of the Curve and the transfer of library services into the new facility later this year, the OLS has already been identified as a surplus asset.
- 5.2 The site is owned by Slough Borough Council (“SBC”) and is subject to an option in favour of SUR which will need to be negotiated as part of a detailed development proposal. A site plan is attached in Appendix 2. The site is a landmark in the heart of the town and is highly visible at the Wellington Road/ William Street junction. The site was selected as a preferred location by the proposed hotel operator as a consequence of its proximity to the town centre, major road transport routes, car parking and the railway station.
- 5.3 It is anticipated that the existing building will be demolished by December 2016.
- 5.4 The site was identified for hotel use within the Heart of Slough Strategy and was granted outline consent for a 120 bed hotel along with 91 residential units and retail/leisure use in 2009.
- 5.5 In reviewing the most appropriate use of the OLS and working on the basis that doing nothing is not an option, five potential options have emerged. These are summarised in the table below. The table provides a comparison to how each option contributes to delivering outcomes agreed within the 5 Year Plan 2016/21 and contributes to the financial resilience of the Council. As follows:

Option	5 Year Plan Fit	Financial Considerations
<p>Option 1</p> <p>Build a hotel on the OLS</p>	<p>This option would assist Outcomes 1 and 3 by providing high quality hotel space in the centre of town. It supports Outcome 7 as the financial return to the Council would exceed costs and would provide an ongoing revenue stream to the Council.</p>	<p>No capital receipt</p> <p>Ongoing revenue stream above borrowing costs: [REDACTED]. I.e. the total lease income is [REDACTED] over [REDACTED] years and borrowing costs are [REDACTED].</p> <p>The Council will continue to own a mature income producing asset after repayment of the loan.</p> <p>Annual revenue surplus of up to [REDACTED] per annum by year [REDACTED] then increasing by [REDACTED] of CPI</p> <p>SBC funds capital cost A one off sum of [REDACTED] payable to the operator at the beginning of the lease.</p> <p>Net Revenue surplus over [REDACTED] years: [REDACTED]</p>
<p>Option 2</p> <p>Build a hotel, office and restaurant on the OLS Relocate SMP to new Office and convert SMP into residential accommodation.</p>	<p>This option would assist Outcome 1 and 3 by providing more good quality hotel space in the centre of town and consolidating the Council into a visible and accessible town centre location. It also addresses Outcome 2 by creating new homes. Finally, it supports Outcome 7 as the financial return to the Council would exceed costs and would provide an ongoing revenue stream to the Council</p>	<p>Capital receipt (SMP) [REDACTED]</p> <p>Income via SUR [REDACTED] (Profit Share SMP and interest)</p> <p>Ongoing revenue stream over [REDACTED] years: Hotel: [REDACTED] (see option 1) Restaurant [REDACTED]</p> <p>Additional business rates and council tax receipts from increased business rates and council tax base</p> <p>Net Revenue surplus over [REDACTED] years: [REDACTED]</p>
<p>Option 3</p> <p>Discard the hotel proposal and develop a 128 unit residential scheme on the entire site via SUR</p>	<p>This option would help contribute to Outcomes 2 and 3 as well as maximise the value of the asset, therefore a close fit with Outcome 7.</p>	<p>A one-off capital receipt of £2.2m plus an estimated profit share of £1.6m.</p> <p>Capital costs funded through Slough Urban Renewal (SUR) company.</p> <p>Additional council tax receipts from increased base</p> <p>Net Revenue surplus over [REDACTED] years: [REDACTED]</p>

<p>Option 4</p> <p>Discard the hotel proposal and dispose of the entire OLS on the open market with planning permission for a 128-unit residential development.</p>	<p>This option would meet the requirements of Outcome 2 but could compromise outcomes 1 and 3 since the Council would have less control over timing and quality of a key town centre site.</p> <p>Would not make best use of assets under outcome 7.</p>	<p>A one-off capital receipt of £2.2m.</p> <p>No capital outlay.</p>
<p>Option 5</p> <p>Retain corporate HQ in SMP and redevelop OLS in a mixed-use development that will include a hotel, restaurant and 60 residential properties.</p>	<p>This option reflects the current environment where moving SBC headquarters to the town centre is no longer required as a principle driver for regeneration. However, it would make a material contribution to Outcomes 1, 2 and 3. Additionally, it makes most financial sense and therefore is closely aligned to Outcome 7.</p>	<p>Income via SUR £1.5m (Profit Share SMP and interest)</p> <p>Ongoing revenue stream over [redacted]:</p> <p>Hotel: [redacted] (see option 1)</p> <p>Restaurant [redacted]</p> <p>Additional business rates and council tax receipts from increased business rates and council tax base.</p>

Preferred Option

- 5.6 As can be seen from the table above, there are a variety of ways in which the Council could proceed with the development of the OLS. Having considered the information above, Officers are recommending that the introduction of two hotels within a mixed-use development is the most appropriate use of the asset. The (confidential) financial appraisal in Appendix 3 of this report provides further details and sets out the assumptions. It should be stressed that this approach introduces a higher degree of financial risk than developing the site for housing (see 4b above) however the proposed lease structure is based on a fixed guaranteed payment of £1.4m plus a share of turnover, which could increase annual income to £1.8m by year 6 (based on financial modelling). This is underpinned by a rent guarantee from a world-wide hotel operator with an excellent covenant.
- 5.7 Asset Management is currently undertaking an options appraisal for the redevelopment of the remainder of the site. This workstream is incomplete and will form the basis of a follow-up report in September 2016.

Hotel Proposal

- 5.8 The proposal is to build a 144 room short stay and 92 room long-stay hotel, operated under a single lease arrangement.

The proposal is for a single building containing the two hotels with horizontal separation. The ground floor to 5th floor will be the short -stay hotel, with the long-stay hotel on floors 6-10. In both cases there will be fewer facilities than in a full service hotel and sharing of back of house functions will lead to greater economies of scale.

- 5.9 Based on independent advice to the Council, which made an assessment of the market conditions and product proposal:
- The preferred brands are appropriate to the market opportunity in Slough, which has established long-stay demand.
 - It is envisaged that a new, modern attractive hotel will attract demand from other market sectors, and
 - The base case projections (room rates and occupancy levels) are a realistic assessment of potential future trading.

Taking account of the above, the advice concluded that it is unlikely that the guarantee would be called upon.

- 5.10 The Council is advised that car parking requirements for the hotel range from a minimum of 80 spaces to an optimum level of 120 spaces. Based on this requirement and in accordance with the Cabinet decision in March 2016, the Council has completed the surrender and re-grant of a lease of part of Burlington car park to provide sufficient spaces.

Structure & procurement

- 5.11 Procurement and Legal Services have been involved in the proposals behind this scheme and the option of the Council having a directly managed arrangement has been discounted. This is on a variety of reasons, but primarily:
- The procurement option would mean a full OJEU procurement or the Council investigating creating a separate company to manage the hotel through. Either of these options would cause significant delay to the project and increase construction costs to the project.
 - The Council would be much more exposed to the risk of running a hotel and have greater liabilities. This is not an area of core Council expertise and so would incur additional cost and shift a focus in resources away from some of the other functions of the Council
 - The income stream, though potentially greater, was also subject to a lot more downside risk for the Council
- 5.12 The Council would fund the cost of the capital investment for the hotel through internal investment balances, whilst ensuring appropriate Minimum Revenue Provision was set aside in accordance with the capital financing framework, or through external borrowing. It would be more advantageous for the Council financially to use internal balances, but this depends upon the level of investment balances at that point in time and the overall cost of the capital programme funded through Council funding. If the Council was to use internal balances, the annual costs would be circa **£835k** and so would increase the financial benefit to the Council until that period it would need to borrow externally to finance capital expenditure.

Benefits

- 5.13 This project will lead to a variety of benefits for the centre of town, residents of the borough, local businesses and the Council.

- 5.14 From a financial perspective, the Council will have a solid long-term revenue stream that covers the cost of borrowing and additional overheads through the administration and creation of the scheme. The Council will also retain and enhance the capital value of a key asset in the centre of town.
- 5.15 The creation of new and high standard hotels in the centre of town will provide new services to residents and businesses in the area. The creation of a long-stay accommodation will enable a variety of different customers to use the hotels and serve a wide range of business and leisure need in the local area. The hotel will also have the facility for live music and other events and so help to stimulate the evening economy in the town.

6 **Comments of Other Committees**

- 6.1 There are no comments from other committees.

7 **Conclusion**

- 7.1 The proposal in this report is for the introduction of two hotels and a restaurant within a mixed-use development on the OLS. There are a range of financial and non-financial benefits to this option that will be advantageous to Slough over a long period of time as well as fit into the Council's short to medium-term regenerative objectives.
- 7.2 There are other options available to the Council on this site. Developing the site exclusively for housing would be a comparatively simple and lower risk option to the Council. However, this would not deliver as many of the Council's Five Year Plan objectives and would not result in an ongoing revenue stream that is required to offset anticipated reductions in central government funding and the shift towards self-financing.
- 7.3 By agreeing to the recommendations in this report, Cabinet will allow Officers to pursue this key component of the Heart of Slough Strategy and provide additional time for Asset Management to undertake a robust options appraisal for the remainder of the OLS.

8 **Appendices Attached**

- Appendix 1 - Financial summary - Hotels
Appendix 2 - Site Plan
Appendix 3 - Confidential - Financial Option Appraisal

9 **Background Papers**

1. March Cabinet paper on this site