

**Report To:** Cabinet

**Date of Meeting:** 4<sup>th</sup> September 2023

**Report Title:** Cornwallis Street Hotel project increase to capital programme budget

**Report By:** Jane Hartnell, Chief Executive

**Key Decision:** Y

**Classification:** Open

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### **Purpose of Report**

To seek approval to increase the capital programme budget for the development of a hotel and restaurant at Cornwallis Street following receipt of final tenders for the works.

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### **Recommendation(s) that:**

- 1. Cabinet recommends Full Council approves the increase in the capital programme budget to £13.601m for the development of the hotel at Cornwallis Street.**
- 2. Full Council approves the use of capital receipts from the land and property disposal programme as a financially prudent approach to help fund the capital programme as set out in the Council's Treasury Management Strategy.**

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### **Reasons for Recommendations**

1. The council entered into an agreement in 2021 to build and lease a hotel on the site at Cornwallis Street as a regeneration project and to address the significant under-provision of hotel bed-spaces in the town.
2. The council tendered for the build work and following two procurement exercises, a preferred contractor has been identified, however the tender price has exceeded the estimated capital programme budget.
3. Decisions regarding increases to the capital programme are required to be made by Full Council.
4. Cabinet is therefore recommending to Full Council that the budget is increased to the sum of £13.601m (including a significant contingency budget).
5. The use of capital receipts (from the sale of surplus assets) to reduce the level of borrowing required and MRP (minimum revenue provision) payable is recommended as part of a prudent and balanced Treasury Management strategy.

## Introduction

1. The establishment of a major hotel group in the town centre of Hastings has been a long-term ambition of the council to counter the well-documented under-provision of bedspaces.

## Project History

2. The council was approached in 2019 by a developer/hotel chain with a conditional offer development of a hotel at Cornwallis Street.
3. **Please note, all details about the terms of the offer remain commercially sensitive and are therefore included in an accompanying confidential 'Part II' report.**
4. On 7 Oct 2019, the Cabinet unanimously agreed to proceed to market the site in accordance with EU procurement rules on the basis that the Council develops the site for a hotel operator and lets the site on a long lease of 20 years or more.
5. The objectives of the scheme are to:
  - increase the town's tourism offer and in demand bed-spaces
  - regenerate the immediate local area, impacting on the sustainability of the town centre and night-time economy (an estimated 35,040 people could stay overnight per year)
  - increase employment opportunities (estimated at 17 staff, of which 14 would be full time.)
  - support car-free tourism due to the location of the hotel, near to the train station
  - retain and enhance the town's attractiveness to businesses and visitor/tourist experience
  - diversify the property portfolio
  - provide the Council with an additional long term income stream and retain freehold of a of a fixed asset – which is expected to increase in value
6. The early legal agreements were not concluded due to the on-set of the Covid-19 pandemic.
7. Revised terms were subsequently considered by the Cabinet in July 2020 and then again in January 2021. The terms were based on construction of an 80 bed hotel, a 25 year lease, and substantial rental income. The reports contained commercially confidential and exempt information and so were considered Part II reports i.e. information to be considered in private session.
8. The Cabinet reports set out a number of risks, including:
  - That once signed HBC would be committed to deliver a hotel and should building costs spiral, the margin would be squeezed, but the economic and regeneration benefits remain in terms of town centre and the night-time economy and sustainability.
  - A risk of increased construction costs – external advice at the time was that costs had not increased significantly (however as with all capital projects, until they are tendered there could be no definitive cost established)
  - Achieving planning consent – planning permission was subsequently achieved.

9. The Cabinet also noted that as a result of the pandemic, efforts would be required to ensure the rapid transformation of the town centre and enhancement of its sustainability, along with the visitor/tourist experience of Hastings. The post-pandemic environment has made this even more important to do at pace.
10. Cabinet on 4<sup>th</sup> January 2021 considered the revised terms for the development and agreed to progress. An Agreement for Lease (AFL) was completed on 20 January 2021 and committed the council to delivering the project.

### Progress to date

11. Planning consent for the hotel was achieved on 15 August 2022.
12. Two tender exercises were undertaken, the first resulted in tenders in excess of the budget and which were also not suitable.
13. The second exercise identified a preferred contractor, with experience of developing to the hotel operator’s specification, but at a cost that exceeds the budget in the capital programme.
14. The build will also be subject to updated building regulations which came into force earlier this year. The build will now be required to produce less carbon emissions and incorporate low energy measures. Whilst this is positive, it will however add additional costs.
15. In parallel however, on-going negotiations with the hotel operator have secured an improved offer – including higher rent, a reduced rent-free period, and an extension to the build end-date.
16. The assumption is that the overall value of the hotel (the capital asset) has also increased significantly to date and will therefore potentially continue to do so over the lifetime of the project.

### Financial implications

17. The full details of how it is proposed that the council funds the project is set out in Part II.
18. Full Council will therefore be recommended to increase the capital programme to reflect this approach.

### Urgency

19. The procurement exercise to identify a preferred tenderer has only recently been completed. A period of clarifications was required. The preferred tender cannot be secured by legal contract until there is Full Council approval to increase to the capital programme budget, hence the need for an urgent report to Cabinet and then Council on 20<sup>th</sup> September.

### Timetable of Next Steps

Action	Key milestone	Due date (provisional)	Responsible

Capital programme budget increased	Full council decision	20 <sup>th</sup> September 2023	Chief Executive
Build contracts agreed		21 <sup>st</sup> September	Chief Legal Officer
Project commencement date		TBC	Property and Commercial Assets Manager

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## Wards Affected

Castle;

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## Policy Implications

Have you used relevant project tools?: Y

### Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	N
Crime and Fear of Crime (Section 17)	N
Risk Management	Y
Environmental Issues & Climate Change	Y
Economic/Financial Implications	Y
Human Rights Act	N
Organisational Consequences	Y
Local People's Views	N
Anti-Poverty	N
Legal	Y

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## Additional Information

7<sup>th</sup> October 2019 –

<https://hastingsintranet.moderngov.co.uk/documents/s36172/Cabinet%20Report%20-%207%20October%202019%20-%20Potential%20Development%20-%20at%2018%20September%202019%20VC.SH%204.pdf>

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## Officer to Contact

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