

CABINET	AGENDA ITEM No. 10
16 JULY 2024	PUBLIC REPORT

Report of:	Cecilie Booth, Executive Director for Corporate Services and S151 Officer
Cabinet Member(s) responsible:	Cllr Anjad Iqbal, Deputy Leader and Cabinet Member for Finance and Corporate Governance
Contact Officer(s):	Jill Evans, Service Director- Corporate Finance Karen Frearson, Head of Strategic Assets

FLETTON QUAYS HILTON HOTEL UPDATE

RECOMMENDATIONS	
FROM: Cecilie Booth, Executive Director for Corporate Services and S151 Officer	Deadline date: <i>n/a</i>
<p>It is recommended that Cabinet:</p> <ol style="list-style-type: none"> 1. Notes that the council’s bid to purchase the Fletton Quays hotel, which Cabinet approved on 30 May 2023, has been accepted by the Administrators. 2. Delegate authority to the Executive Director of Corporate Services, in consultation with the Cabinet Member for Finance and Corporate Governance and the Director of Legal and Governance, to take all necessary steps and enter into all the necessary agreements to complete the purchase, including the establishment of a new company for this purpose. 3. Delegate authority to the Executive Director of Corporate Services, in consultation with the Cabinet Member for Finance and Corporate Governance and Director of Legal and Governance, to establish the new company, determine its Articles of Association and appoint its directors. 4. Request the Executive Director of Corporate Services to submit a further report to Cabinet setting out the options following the completion of the business case after the soft-market testing exercise has concluded. 	

1. ORIGIN OF REPORT

1.1 This report is submitted to Cabinet with an update on the work to complete the purchase of the Fletton Quays hotel following the previous Cabinet meeting on 30 May 2024, and the decision to submit a credit-bid for the hotel.

2. PURPOSE AND REASON FOR REPORT

2.1 Cabinet agreed to submit a credit bid for the Fletton Quays hotel on 30 May 2024, and provided delegated authority to the Executive Director of Corporate Services and Section 151 Officer to take all necessary steps to facilitate this decision, including any necessary legal agreements.

Officers are working closely with the Hilton, as well as a range of advisors - including 31Ten, and construction and hotel specialists. This report is an update on the purchase of the hotel and the development of the business case to update and inform the next course of action.

2.2 This report is for Cabinet to consider under the following Terms of Reference

To take collective responsibility for the delivery of all strategic Executive functions within the Council's Major Policy and Budget Framework and lead the Council's overall improvement programmes to deliver excellent services.

To take collective responsibility for any Executive decision that has significant implications across two or more portfolios.

To determine any key decision (as defined in Article 11 – Decision Making), with the exception of any time-critical, operational, or routine decision, which may be determined by the relevant portfolio holder.

To be responsible for budget planning, monitoring and expenditure/savings over £500,000, including Discretionary Rate Relief, except for any time critical, operational, or routine decision, which may be determined by the relevant portfolio holder.

2.3 There is an exempt Annex attached to this report that is NOT FOR PUBLICATION by reason of paragraph 3 of Schedule 12A of Part 1 of the Local Government Act 1972 because it contains confidential commercially sensitive information which has been made with the expectation of confidentiality. The public interest test has been applied to the information contained within this exempt annex and it is considered that the need to retain the information as exempt outweighs the public interest in disclosing it.

3.

TIMESCALES

Is this a Major Policy Item/Statutory Plan?	YES	If yes, date for Cabinet meeting	16/07/24
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4. **BACKGROUND AND KEY ISSUES**

4.1 In September 2017, the Council agreed to provide capital funding for the construction of the 160 room Fletton Quays Hilton Hotel by way of a loan of up to £15m - or 83% of construction costs - to the developer of the hotel. The hotel site is part of the Council's flagship regeneration project in Fletton Quays, which comprises the Council's headquarters Sand Martin House, 229 apartments, a multi-story car park and Government Hub/Passport Office. Further development planned for this site this site includes the new Cygnet Bridge, additional apartments and a food and beverage operator in the Goods Shed. This is a key regeneration location for the Council, and a high-end hotel is a key feature of the overall Fletton Quays development site.

The hotel development was significantly delayed due to a slowdown in the construction industry during and following Covid and Brexit. Work on site slowed in May 2023 and then stopped and the developer was put into administration on 17 October 2023. To protect the Council's financial position and to ensure construction of the hotel is completed as quickly as possible, the Council has submitted a credit bid for the hotel.

A credit bid was submitted on 7 June 2024 for the acquisition of the hotel. The other interested party was then asked to submit a best and final bid, which they did. The Executive Director of Corporate Services determined that the best and final offer was not acceptable and informed the administrators accordingly. Therefore, the Council is now going through the process to acquire the hotel, using the outstanding debt for this purpose. No new or additional funding is required for the purpose of acquiring the hotel.

In addition, Peterborough Investment Partnership (PIP), a joint venture vehicle to develop Fletton Quays, of which the Council is a partner, held an option to purchase the hotel at market value. This option expired on 6 June 2024 and whilst it needs to be removed from the legal documentation, it will not delay the acquisition.

The acceptance of the Council's credit bid, the rejection of the third party best and final offer and the removal of the PIP option leaves the path clear for the Council to acquire the hotel.

The full details are included in Exempt Appendix A.

- 4.2 For legal and tax reasons, it would be prudent to transfer the asset into a wholly owned company. In summary the reason for this is because a company will:
- Be more tax efficient for Corporation Tax purposes,
 - Reduce stamp duty as any future disposal will relate to the company rather than the building.
 - Reduces financial liability and risk when the property is being developed as it is a separate legal entity with limited liability.

Further advice is being sought about how to minimise any potential tax liabilities arising from the transfer of the asset, which will be reported in the next update to Cabinet.

- 4.3 The full costs to complete the hotel are being finalised and the business case is being prepared, based on the 5 step Treasury Model. This will enable a decision on whether to complete the hotel through a self-delivery model or to sell to a third party to complete.

In parallel to the acquisition, the Council is undertaking a soft marketing exercise to assess market interest relating to asset disposal, and a procurement exercise to secure a developer / operator relating to the self-delivery option.

The Council has appointed CBRE to undertake the soft marketing exercise. CBRE are industry leading experts in hotel real estate with substantial experience in the provision of disposal, valuation, advisory and investment advice. It is recommended that a period of at least 6 weeks is allowed to ensure that every opportunity has been explored to achieve best value.

At the same time, we are also planning to start the procurement exercise for the self-delivery option. We will have more detailed information on the costs to complete a self-delivery route and timing is to take the part finished development forward to completion. This information will be reported to Cabinet once the soft market testing and the business case is complete.

5. CORPORATE PRIORITIES

- 5.1 The recommendation links to achieving the following Council's Corporate Priorities:

1. The Economy & Inclusive Growth

Construction of a new hotel will produce emissions. Waste generated through construction will also be raised. Emissions generated through heating and electricity will rise once the hotel is in operation. Vehicle emissions will rise during construction. Project teams that work on the project will be made aware of the requirements and asked to ensure that carbon calculations are included in the design works. There will be similar carbon impacts whether PCC or someone else owns the hotel. The creation of a property company to move a hotel property asset into will have limited impact on carbon emissions.

2. Our Places & Communities

The regeneration of Fletton Quays has provided the most desirable and central Riverside destination in the city. Infusing the immediacy of city living with aspirational living the hotel is an important part of the development.

3. Sustainable Future City Council

The Council has provided a loan to fund the hotel, the overall outstanding balance including interest is £16.7m. The Council provided this loan from borrowing, and this loan will have to be repaid regardless of what decisions are made next. The Council's credit bid is made using the funds already advanced on the existing loan. No new or additional funds would be required to purchase the hotel.

6. CONSULTATION

- 6.1 The hotel loan and development has been to Cabinet for discussion and approval previously. Group Leaders were consulted ahead of the publication of the last Cabinet report, where it was recommended to credit-bid to acquire the hotel.

7. ANTICIPATED OUTCOMES OR IMPACT

- 7.1 To update Cabinet in respect of the business case and next steps to progress the future for the hotel. A further report will be submitted to Cabinet after the Business Case, soft marketing and procurement exercise has completed

8. REASON FOR THE RECOMMENDATION

Provide an update for Cabinet on the next steps in respect of the options for the hotel, and for the creation of a new company for this purpose.

9. ALTERNATIVE OPTIONS CONSIDERED

- 9.1 There are no alternative options available at this stage. The alternative options were set out in previous reports.

10. IMPLICATIONS

Financial Implications

- 10.1 The business case is based on the Green Book Treasury Model to ensure best value is achieved. The business case, when completed, will be reported to Cabinet in due course.

Legal Implications

- 10.2 Under the Local Authorities (Goods and Services) Act 1970, councils have the power to provide any administrative, professional or technical services, goods or materials, or certain maintenance works, including on a commercial basis, to any “public body” as defined under the Act (for example, local authorities, Government departments).

In addition, councils have the power to do anything which is incidental to the discharge of their functions, and this can include trading spare capacity.

The Local Government Act 2003 allowed local authorities to do for a commercial purpose anything they are authorised to do for the purpose of any of their ordinary functions. The Localism Act 2011 includes a new general power which allows local authorities to do anything that individuals generally do.

This is extended to include doing things for a commercial purpose through a company. Before exercising the powers in the 2003 Act, a business case must be prepared and approved and where the 2003 Act powers are used, the council must recover the costs of any accommodation, goods, services, staff or any other thing that it supplies to the company as part of any agreement or arrangement to facilitate the exercise of the trading power.

It is also important to demonstrate that all costs are recovered and that there is no actual or hidden subsidy to avoid any potential challenge by a competitor on the basis that the council is providing State Aid to the company.

Equalities Implications

- 10.3 There are no equalities implications at this stage in the process, however, this will be kept under review as matters progress.

11. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

- 11.1 Previous cabinet papers on

25 September 2017 (original decision)

[7. Lending Facility for Fletton Quays Hotel.pdf \(peterborough.gov.uk\)](#)

and 30 May 2024

[240529 Hilton Cabinet Report.pdf \(peterborough.gov.uk\)](#)

12. APPENDICES

- 12.1 Exempt Appendix A – Third party’s best and final bid and decision to reject

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