

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

**EXECUTIVE MANAGEMENT TEAM'S
REPORT TO**

Cabinet
06 June 2023

Report Title: Ryecroft Hotel – Design and Build Contract and Brand Procurement

Submitted by: Deputy Chief Executive

Portfolios: Finance, Town Centres and Growth

Ward(s) affected: Town

Purpose of the Report

To commence the procurement of initial design and costing works through a design and build contractor for the development of a new hotel on the Ryecroft site and commence the selection of a hotel brand to be associated with the development.

Recommendation

That Cabinet

- 1. Notes the progress with the site and feasibility work undertaken for a hotel on the Ryecroft site, which has confirmed that there is demand for a mid-range hotel in Newcastle Town Centre.**
- 2. Authorises the Deputy Chief Executive, in consultation with the Portfolio Holder for Finance, Town Centres and Growth, to procure a brand for the hotel.**
- 3. Authorises the Deputy Chief Executive, in consultation with the Portfolio Holder for Finance, Town Centres and Growth to commence procurement of initial design costing works through a design and build approach to the selected hotel's brand specification for a new hotel on the Ryecroft site using a compliant procurement route.**
- 4. To receive further cabinet reports on each of these issues to enable final decisions on the hotel development.**

Reasons

The redevelopment of the Ryecroft site is a key Council priority and a new hotel on the site has been identified as a suitable and viable use. The procurement of a brand and feasibility work will enable the Council to work up designs for a new hotel. The selection of a brand will identify the most appropriate and viable brand to operate on the site.

1. Background

- 1.1** In December 2020 MHCLG (now DLUHC) confirmed to the Council that its Future High Street Fund business case submission had been successful and that £11,048,260.00 was approved for Newcastle town centre. The Ryecroft site formed a key element of the bid submitted with a the development of a new multi-storey car park at the western side of the site, demolition of the

former Civic Offices and subsequent redevelopment for housing and offices at the eastern side of the site.

- 1.2 The original Future High Street Fund bid envisaged the site being developed as a residential-led mixed use scheme. However following approaches from interested hotel groups and an early understanding of the potential revenue returns to the Council from a hotel development, a new hotel for the site was considered as the preferred use and one that fits in with the aspiration to diversify the visitor demographic to the town.
- 1.3 At its meeting of March 2022 Cabinet endorsed the blueprint for the Ryecroft site which included hotel use for the site.

2. Update

- 2.1 In order to further understand the likely demand for a hotel on the site development, consultants were appointed to carry out a feasibility study and was completed in March 2023.
- 2.2 The feasibility study (appended to this report) contained the following key findings:
 - Using existing market information, location studies and their experience with various brands, Avison Young conclude that the market investors and demand drivers are positive and would support the development of a new hotel in this location.
 - It is recommended that an internationally recognised upper tier limited service brand hotel be most suitable. These hotels properties typically offer select or focused facilities and amenities without a full-service restaurant.
 - Although a hotel of 120-135 beds was initially recommended this was subsequently revised to 110 beds with an Average Daily rate of between £70-80
 - It was recommended that third party management of the hotel (alongside the brand franchise) be the most appropriate operational structure.

Next Steps in Hotel Development

- 2.3 The attached feasibility study indicates that there will be demand for a hotel in Newcastle under Lyme, on the Ryecroft site. In developing a hotel it is usual practice for one organisation to build and own the hotel, having agreed a size and specification with a particular brand under which the hotel will operated by a management company, via a contract with the hotel owner.
- 2.4 In this instance, the model that is being investigated for the hotel development is that the Council would fund and build out, therefore owning the development. A management company and brand would both be secured through a competitive process, who would operate and quality assure the hotel in its operations, each charging a fee. This would leave the commercial benefits / dividends in Council revenue streams. This is in line with the aspirations of the Council's Commercial Strategy – to develop investments that secure future revenue streams.
- 2.5 The feasibility study clearly demonstrates that the market is ready for a mid-range recognisable hotel brand for around 110 beds, with no conference facilities, which would secure an 80% average occupancy rate, generating sufficient income / revenue to support the investment.
- 2.6 In order to progress the development to the next stage, the Council needs to have certainty regarding the hotel brand under which the hotel will operate, and the build cost associated with delivering a building to this brand's specification. It is therefore now necessary for the Council to undertake two separate, but related procurements:

- Procurement of a Hotel Brand – this is the process through which the Council can determine which hotel brand the hotel will operate under, and what financial arrangement with the Council would govern this operation;
- Procurement of a Design and Build supplier who would prepare the design of the hotel in line with the brand, and provide cost targets and planning strategy around the build.

2.7 These two procurements will then feed into a further Cabinet report to enable the Council to make its final decisions based on a detailed/full business case.

3. **Proposal**

3.1 It is proposed that Cabinet authorise the Deputy Chief Executive, in consultation with the Portfolio Holder for Finance, Town Centres and Growth to commence procurement of initial design and costing works through a design and build approach for the new hotel on the Ryecroft site using a compliant procurement route and to commence the selection of a suitable hotel brand.

4. **Reasons for Proposed Solution**

- 4.1 The decision will enable the hotel project to move to the next stage following positive feedback and intelligence from the hotel feasibility study and discussions with hotel brand operators.
- 4.2 The development of the middle site at Ryecroft forms a key component of the regeneration of the wider Ryecroft site and the town centre.
- 4.3 To uplift the status of Newcastle town centre as the heart of economic, social and community life in the Borough.

5. **Options Considered**

5.1 The original development proposal for this site envisaged a largely residential development which would only provide the Council with a one-off receipt for the sale for the development land. Investing in and managing a hotel via a third party will provide long term income for the Council. Initial financial forecasts appear to be positive however more a more fully worked up financial appraisal will be presented at a future cabinet meeting.

6. **Legal and Statutory Implications**

6.1 Section 2(1) of the Local Government Act 2000 permits local authorities to do anything they consider likely to promote or improve the economic, social and environmental well-being of their area. That would include actions to deliver the regeneration of the Ryecroft site.

7. **Equality Impact Assessment**

7.1 The nature of the project is intended to seek benefits for all people who use the town centre and to support the economic and social health of Newcastle town centre as a destination.

8. **Financial and Resource Implications**

8.1 The procurement of the feasibility work will be funded through the Project Feasibility Budget within the Council's Capital Programme.

8.2 Should the hotel be a feasible project; future development of the hotel would require the Council to borrow funds. A fully costed development appraisal including cashflow forecast will be presented to a future Cabinet meeting.

9. **Major Risks**

9.1 By not pursuing the option of developing a new hotel on the site the risk would be that the site either remains vacant or is developed for an alternative use that does not provide the potential for a longer-term income stream for the Council.

9.2 The risk assessment for the Future High Street Fund is on GRACE, this identifies risks of project costs, potential failure to deliver against forecast programme, insufficient officer resources to deliver the project, delays to project start and potential failure to secure planning permission. A range of control measures include close working relationship with lead project officers, contractors and Senior Management. Options to reprofile projects to ensure annual allocation of the programme is fully defrayed. Compliance with planning policies where possible and liaison with Development Control and County Highways prior to submission of planning application. Maintain a detailed and up to date programme. Procurement of design contractors to expedite delivery. Regular cost reviews with Design and Build Contractors throughout the design and procurement of the main contract stages. Close working relationship with contractors to understand supply chain shortages as necessary.

10. **UN Sustainable Development Goals (UNSDG)**

10.1 Newcastle town centre is a highly accessible location, encouraging greater use of its land and assets enhances its role as a centre for services, leisure, retail and living and its connection to local residents. Further this project is intended to enable the redevelopment of a key strategic site that is currently partially derelict and partially used for surface level car parking bringing with it sustainability improvements, regeneration and economic benefits. In that respect, the project supports the realisation of the following UNSDG objectives:-



11. **Key Decision Information**

11.1 This is not a Key Decision

12. **Earlier Cabinet/Committee Resolutions**

12.1 October 2019, Cabinet concerning development of the second stage FHSF bid and procurement of consultancy support.

12.2 December 2019, Economy Environment & Place Overview and Scrutiny Committee Town Centre Funding Update (information item).

12.3 July 2020, Cabinet concerning approval for submission of bid into MHCLG (now DLUHC).

12.4 April 2021 Cabinet accepting FHSF Grant monies and grant conditions.

12.5 March 2022 Cabinet Rycroft update

13. **List of Appendices**

13.1 Avison Young Feasibility Study

14. **Background Papers**

14.1 Ryecroft Masterplan Sketchbook