

## Full Council – 10 April 2018

### Consulting with Hoteliers, room providers, Airbnb and the public to ensure business and public support for tens of millions of Pounds for a proposed hotel investment at Firepool, Taunton with public funds

#### Motion proposed by Councillor Habib Farbahi, seconded by Councillor Jefferson Horsley

##### Preamble:-

The idea of an international hotel brand coming to Taunton is really interesting and exciting to us all. We are all for commercial investment and a healthy return on our capital. In fact we have been vocal in the last nine years, calling for more commerciality on a win-win basis, especially now that we are at the mercy of the financially challenged authority of West Somerset. As custodians of public funds, we have to ensure there are no risks attached to the Business Case.

Some Members witnessed at the Corporate Scrutiny Committee meeting on 22 March 2018 which exposed that no consultation with local businesses had occurred to assess the impact such a development may have on them, some of whose Business Rates will go directly to pay towards a proposal that could potentially push them out of the market.

No evidence was produced as to how many established hotels and other related hospitality facilities were currently in the market within a five-mile radius of the proposed development, to indicate current capacity in this market.

If you do not know your market how do you go about investing in it?

According to Visit England figures for 2017<sup>1</sup>, the reported occupancy for the South West is 69%. This is much lower than reported to us on the night. Furthermore officers confirmed that the bedroom demand has been steady in the last year and is going to be so in the next year.....but according to PwC **key finding**<sup>2</sup>...

*“While the full impact of the UK vote to leave the EU will not be known for some time, economic growth is expected to slow. A weak pound should provide a boost to inbound leisure travel, but security concerns, tight corporate travel budgets, above average supply growth (especially in London) and consumer and corporate uncertainty will create an unfavourable backdrop. The industry is also tackling on going disruption via the Sharing Economy. We retain a cautious outlook”.*

Officers could not confirm whether more supply into the Taunton market would help or just dilute the market share of the current operators.

No one was aware of the number of Airbnb beds and the impact on this market. Furthermore the new Hotel Mercure in Bridgwater will take the majority of the Hinkley Point business, who currently stay in Taunton. This will apply to other corporate clients with business in Bridgwater.

There was no idea of how many white-collar jobs were created in Taunton Deane in the last five years, so that we could justify demand.

In the related restaurant sector we have, over the last 24 months witnessed extra seats locally and the additional supply has put pressure on the operators, which has resulted in unsustainable outlets. None of the officers or the Portfolio Holder were aware of this despite national discussion and known closures within a number of chains. We have learned only this week Prezzo is going to close its Taunton restaurant<sup>4</sup>.

At present there are financial pressures on hotels and the hospitality industry from minimum/living wage increases, Business Rate increases, utility and insurance cost increases and general cost inflation, an additional supply in to this market may depress average rates for all hotels.

Interest rates on loans are due to be raised in May<sup>3</sup>; the days of “cheap money” is rapidly disappearing. How would this affect the potential Business Plan?

There is no clear Business Case to justify the use of public money, as the risk and the return have not been properly assessed. There is a real risk that millions of pounds of public money and a long term debt carried by Council Tax and Business Rate payers will merely facilitate an external operator to make money with no investment and no risk.

We are being asked to pay tens of millions of pounds to build a hotel so that they could put their brand name on it for a disproportionately large fee.

**Recommending that:-**

- 1- The decision for the taxpayer’s to invest in a hotel venture be delayed until a consultation has taken place with the hoteliers, Airbnb and room providers as well as Taunton Deane taxpayers;
- 2- Should the Council decide to invest and operate a hotel business, the authority should ensure that the Business Plan is solid and not based on assumptions;
- 3- The option of not to pay the franchise fee and have our own distinct name should be on the table, saving taxpayers millions of pounds over the period;

- 4- Future investment strategy should be open, transparent and open to public scrutiny; and
- 5- The decision should only be taken after the new Council is established, as Taunton Deane should not commit a successor organisation to such a financial commitment.

**References:**

1- [https://www.visitbritain.org/sites/default/files/vb-corporate/Documents-Library/documents/may\\_2017\\_eos\\_newsletter.pdf](https://www.visitbritain.org/sites/default/files/vb-corporate/Documents-Library/documents/may_2017_eos_newsletter.pdf)

2- <https://www.pwc.co.uk/industries/hospitality-leisure/insights/uk-hotels-forecast-2017.html>

3- [https://www.telegraph.co.uk/business/2018/03/23/bank-england-policymaker-adds-speculation-rate-rises-may/?WT.mc\\_id=tmgliveapp\\_iosshare\\_AqYdNSqybbRD](https://www.telegraph.co.uk/business/2018/03/23/bank-england-policymaker-adds-speculation-rate-rises-may/?WT.mc_id=tmgliveapp_iosshare_AqYdNSqybbRD)

4- <http://www.bbc.co.uk/news/business-43515133>

## Taunton Deane Borough Council

### Motions to Council – Assessment Form

On receipt of a Motion from a Councillor, the Democratic Services Manager will carry out an assessment as to its contents to establish whether there are likely to be significant consequences to the Council should the Motion be carried at the subsequent Full Council meeting.

The first question to be addressed will be:-

“Can the Motion, if approved, be implemented without the need for any resource (financial and otherwise) to be identified outside existing budgets or staffing capacity?”

If the answer is ‘yes’, then the Motion can proceed towards discussion and resolution.

An example of a Motion which would fall into the above category would be where the Council is being asked to lobby the Government, Somerset County Council or other body on a particular issue. If the motion is carried, the action required will usually involve no more than a letter being prepared and sent to the intended recipient.

However, as in the case of the recent Motion on ‘Legal Hights’, the answer to the above question would clearly be ‘no’.

In such circumstances, detailed analysis of the wording of the Motion will be required to identify what will be needed if the Motion – when it comes before Full Council – is carried.

Such analysis will include:-

- What additional resource would be required to ensure the Motion (if approved) could be implemented?
- What needs to be done to identify the level of resource necessary both in financial and staff terms?
- Are any approvals needed to provide these resources?
- Will this require reports to be submitted through Scrutiny and the Executive?  
If a Supplementary Estimate is required, Full Council approval will be required too.

If such analysis is required, the Democratic Services Manager will arrange for the attached pro-forma to be completed and this will accompany the relevant Motion onto the agenda of the Full Council meeting so all Members are aware that further investigation will be required before the Motion – even if it is carried – can be implemented.

# Motions to Council – Assessment Proforma

(To be used in circumstances where it appears the wording of a proposed Motion will commit the Council to providing further financial or staffing resources which cannot be met from existing budgets)

## Brief Details of the Motion -

### Motion

### Recommending that:-

- 1- The decision for the taxpayer's to invest in a hotel venture be delayed until a consultation has taken place with the hoteliers, Airbnb and room providers as well as Taunton Deane taxpayers;
- 2- Should the Council decide to invest and operate a hotel business, the authority should ensure that the Business Plan is solid and not based on assumptions;
- 3- The option of not to pay the franchise fee and have our own distinct name should be on the table, saving taxpayers millions of pounds over the period;
- 4- Future investment strategy should be open, transparent and open to public scrutiny; and
- 5- The decision should only be taken after the new Council is established, as Taunton Deane should not commit a successor organisation to such a financial commitment.

### Questions to be addressed

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| <ul style="list-style-type: none"><li>• <b><i>What additional resource would be required to ensure the Motion (if approved) could be implemented?</i></b></li></ul> |
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Answer – Taking each recommendation in the Motion in turn:
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1 – The Hotel project is being proposed as a commercial investment for the Council – one which will bring revenue benefits, therefore given that it is a commercial decision that is required it is the view of both the portfolio holder and lead officers that public consultation regarding this scheme is not appropriate
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2 – No new resources are required given that a feasibility study has already been completed and these have been subject to robust review by officers. The Council has used an established expert in the market to draw up the feasibility study and officers have also met with a range of hotel operators and franchise holders as part of a robust procurement process and all are of a view that there is a market for a mid-range hotel in Taunton. In addition it is the nature of schemes such as these
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which require a view over the medium and long term outlook that certain assumptions have to be made. There is no certainty with regard to certain key metrics (such as the performance of the economy) which can provide the business case for the hotel with any cast iron guarantees on future financial performance.

3 – The Council is not an expert in the marketing and management of hotels hence it is felt that this specialist work needs to be done by companies with the appropriate experience. For example the chosen brand is likely to bring brand awareness and customer loyalty to the venture. In addition the chosen operator will bring the operating expertise and employment of the staff for the hotel. This expertise would not be available if the Council chose to run the hotel directly itself. The operating model proposed ie franchise and operating arrangements is now the common model used by other local authorities who wish to invest in hotels for commercial gain.

4 – A project is ongoing to develop a detailed strategy for commercial investment decision making, however given the commercial nature of some decisions which are designed to generate income for the Authority, confidentiality in decision making needs to be observed. Public reporting of investment decisions can be reflected in regular reports to members in line with the new requirements under the CIPFA Prudential Code and other government regulations.

5 – At the time of writing this response, and in the absence of Parliamentary approval for the creation of the new Council, the current view is that it is within the remit of TDBC to make any decision on the hotel project without reference to the Shadow Council. However confirmation is currently being sought on this from MHCLG and a verbal update on this will be provided at the Full Council meeting on 10 April.

***What needs to be done to identify the level of resource necessary both in financial and staff terms?***

Answer – Taking each recommendation of the motion in turn:

1 – It is not known what the cost of any public consultation on the hotel project would be given that the scope and size of the suggested consultation is not defined. Clearly consultation with potential direct competitors with a Council-owned hotel would be of limited value in terms of the objectivity of their responses.

2 – No new resources are required given that a robust feasibility study and procurement process has already been undertaken

3 – See the response above. The Council would not have the required expertise to run and manage a hotel on its own and hence the proposed franchise model is recommended.

4 – This is already in progress so no new resources for an investment strategy are required. If the Council were to agree to public consultation (which is not

recommended) for individual investment decisions then the size and scope of the consultation would need to be defined.

5 – See response above

- ***Are any approvals needed to provide these resources?***

Answer – taking each recommendation of the motion in turn

1 – Any public consultation could be funded through the Growth budget but no current allocation exists and hence, if approved, consultation could be funded through a virement or new allocation of new homes bonus monies.

2 – No new resource is required given that the in depth feasibility study has already taken place, see responses above

3 – See the response above

4 – No new approval is required for an investment strategy – work is already ongoing and will be considered by Members in due course

5 – See response above

- ***Will this require reports to be submitted through Scrutiny and the Executive? If a Supplementary Estimate is required, Full Council approval will be required too.***

Answer – taking each recommendation of the motion in turn:

1 – If the Council were to agree to public consultation on the Hotel project then it is anticipated that the results would be shared with Councillors through both Scrutiny and Executive meetings.

2 – Data from the feasibility study should be regarded as commercially confidential and should only be shared with members in confidential session via “pink” papers. It is also important to note that the feasibility study is only part of the investment decision, other factors such as the feedback from the procurement process, need to be considered alongside.

3 – See response above.

4 – Yes the investment strategy will be shared with Members through both Scrutiny and Executive meetings

5 – See the response above. At the moment it is not known what scrutiny arrangements will be in place for the shadow council.

**Likely timescale involved – N/A**