

# Private Agenda



**To:**  
**All members of the  
Cabinet**

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Date: 6 April 2020

## Supplementary Agenda

### Extraordinary Cabinet - Wednesday, 8 April 2020

Dear Councillor

I enclose the financial appendix to the following item which was marked 'to follow' on the agenda for the Cabinet meeting to be held on Wednesday, 8 April 2020:

- 4. Exempt Item - Tender report on Staines Development - Key Decision** **3 - 8**  
**Councillor Helen Harvey**

To consider an exempt report on tenders for a development in Staines-upon-Thames.

Yours sincerely

Gillian Scott  
Committee Services

To the members of the Cabinet

Councillors:

I.T.E. Harvey (Leader)	I.J. Beardsmore	H. Harvey
A.C. Harman (Deputy Leader)	A. Brar	O. Rybinski
R.O. Barratt	S. Buttar	J.R. Sexton

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**Waterfront Financial Proposition**

Bidders were requested to make offers to the Authority providing best bids based on three elements –

1. A nominal annual ground rent is assumed during the planning and construction phases. From practical completion, a fixed annual ground rent is payable to the Authority that is reviewable every five years to CPI throughout the term of the lease (250 years).
2. Turnover Rent – a percentage of annual turnover is to be paid to the Authority. In order to properly assess this, bidders were requested to provide trading forecasts for their proposals over a 10 year period. Bids were then scored based on the total rents received during this period. This approach has been adopted as hotels typically take 4-5 years for their income to stabilise. In the earlier years they often need to offer discounted rates and packages to generate new business and establish themselves in new market places. After this period of stabilisation turnover is assumed to grow in line with inflation. This is evidenced in the recommended Bidder's trading cashflow forecast.
3. Residential Offer – the bidders were invited to make best offers based on £x per square foot of residential sales area payable to the Authority.

The preferred Bidder B has responded as follows. Commentary on their bids is also included–

- a. An annual fixed ground rent of [REDACTED] during their 4 year planning and construction phases. Thereafter they will pay a commencing rent of [REDACTED] reviewable to CPI every 5 years. This is capped and collared at [REDACTED]. Therefore, if CPI is zero there will be no rent increase but if there is growth the increase in rent will be capped at [REDACTED]. This is higher than the other bidder. [REDACTED]

When compared to average inflation rates in recent decades this provides good inflation proofing of this element of the long term income stream.

- b. Turnover Rent – this is [REDACTED] in year 1, [REDACTED] in years 2 and 3 and [REDACTED] from year 4 onwards. Their turnover forecast has been reviewed by Cushman & Wakefield Hotel Advisory Team and they are satisfied this is reasonable in a normal market. As hotel room and function room prices rise over time with inflation so would the Council's turnover rent. Their turnover projections and their percentage of turnover bid were higher than those of the other bidder. The bids have been evaluated in the context of the possibility of Heathrow expansion not happening, Bidder B already have so much airport related business without reliance on the 3<sup>rd</sup> runway that its timing would not affect their business plan for the Waterfront. [REDACTED]

- c. Residential Offer - they have offered [redacted] of residential sales at [redacted] [redacted] which equates to a payment to the Authority of [redacted] based on their [redacted] square feet scheme proposals. This represents a total payment of [redacted]. This is higher than the other bidder.

[redacted]

There is an option for SBC to buy the residential around the start of construction which would provide a rental stream rather than capital receipt which could be reinvested to earn interest. The potential value of such a rental stream will depend of the mix and exact number of units secured at planning. [redacted]

[redacted]

Assuming the option of receiving [redacted] is pursued resulting in a [redacted]

[redacted] this would generate an additional income stream of [redacted]. If this income stream is added to the ground rent and turnover rent it is projected that by 2028 the Council would be receiving in excess of [redacted]

[redacted]

In collaboration with Cushman & Wakefield, an opinion of value for the ground rent interest in the hotel that the Authority will retain has been estimated at [redacted]

On a gross basis and after stabilisation of the hotel trading income, the value is estimated at [redacted]. Depending on residential sales income the total returns will vary. Assuming the figures in Bidder B's bid, the total would be [redacted] based on the net value and [redacted]. If higher residential sales are achieved [redacted]

[redacted]

[redacted] In the long term this represents a better return than a one off capital receipt where the value and that of interest earned on it would decline in real terms over time.

A cashflow statement that articulates the bidders' proposals and the valuation appraisal of the Authority's interest is attached.

One of the two alternative options to accepting either of the bids would be to continue operating the site as a car park. Gross income is approximately [REDACTED] and net income after business rates is [REDACTED]. This is before taking into account future maintenance liabilities. So accepting bid B is significantly better financially for the council than continuing on a long term basis to operate the site as a car park. The second option is to sell the site. This would deliver a future capital receipt in the order of [REDACTED] which if re-invested at say [REDACTED] could generate an income stream of [REDACTED] once a sale was completed and receipt received. However any return would be eroded by inflation over time whereas the capitalised value of our long leasehold interest would increase in line with the ground rent indexation and any increase in turnover. Furthermore, in the long term the site ultimately reverts to the Council on expiration of the lease or enfranchisement payments from tenants to the Authority start to become real prospects as the residential and commercial interests go below 70-90 years.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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