



Report to: Cabinet Meeting - 12 July 2022

Portfolio Holders: Councillor David Lloyd, Strategy, Performance & Finance and Councillor Rhona Holloway, Economic Development & Visitors

Director Lead: Sanjiv Kohli, Deputy Chief Executive and Director - Resources

Lead Officer: Nick Wilson, Business Manager, Financial Services, Ext. 5317

Report Summary	
Type of Report	Open Report Non-Key decision
Report Title	Development of the Former Robin Hood Hotel, Newark
Purpose of Report	To update Cabinet on the final development and lease(s) position of the Joint Venture, for the development of the former Robin Hood Hotel on Beaumont Cross, with final completion dates and financial performance.
Recommendations	<p>To establish a reduced, revised capital budget for landlord incentives of £167,000 (from £275,000).</p> <p>To note the successful delivery of the 66 room Travelodge Hotel and reputable tenants for the 3 commercial units.</p> <p>To note that the Council's actual loan value required for the development of the whole demise was £3.146m, against the capital loan budget of £3.300m, therefore a capital borrowing requirement reduction of £0.154m.</p> <p>To note the final financial position of the development of the former Robin Hood Hotel and the positive contribution from the development, to the Council's general fund of £163,930.</p> <p>To note the ongoing positive estimated revenue return per year to the Council that the letting of the 3 commercial units will generate.</p> <p>To approve the revision of the current capital budget by a reduction of £108,000 from £275,000 to £167,000 for landlord incentives, in respect of the 3 commercial units.</p>

1.0 Background

At the meeting of the Policy & Finance Committee on 21 January 2021, a financial update report was considered by Members where it was agreed that a further report would be brought to Members setting out the final financial position once the various legal arrangements – Sale to Knights Frank Investment Llp (KFIM), Head Lease with KFIM and Sub Leases for Travelodge and the 3 commercial units - had been completed

2.0 Proposal/Options Considered and Reasons for Recommendation

Final Position

2.1 Construction and Practical Completion

It was reported at the January 2021 meeting that the anticipated practical completion date of the building would be 8 March 2021. The final completion date was slightly delayed due to COVID and legal completion took place on 18 March 2021. The sale of the whole demise to Knights Frank Investment Management Llp (KFIM) was completed on 13 April 2021.

2.2 Financial Performance Summary

The financial performance of RHH Ltd's delivery of the development project and the Council's 50% share is summarised in the tables below:

Table 1 –Development Receipt	RHH Ltd Joint	NSDC 50%
Sales Value	7,000,000	3,500,000
Less: Rent free – 6m to Travel Lodge(TL)	(152,625)	(76,313)
Less Sales/Lease legal costs	(110,851)	(55,425)
Net Sale Proceeds	6,736,524	3,368,262

Table 2 – Development Costs	RHH Ltd Joint Venture	NSDC 50%
Total development costs	6,667,990	3,333,995
Less: Reduction in land value (equal to 6m rent free to	(152,625)	(76,313)
Net development costs	6,515,365	3,257,683

Table 3 – Development Profit	RHH Ltd Joint Venture	NSDC 50% Share
Net Development Profit	221,159	110,580
Corporation Tax	(42,020)	(21,010)
Net Profit after Tax	179,139	89,570

The Council's s151 Officer was the Council's representative on the Board of RHH Ltd. By the close management of the delivery of the development of the former Robin Hood site, RHH Ltd have returned additional monies of £89,570 over and above the funding requirement of £3.146million, against the original capital loan budget of £3.3million, that the Council had loaned to the joint venture.

In addition, the total interest earned by the Council on the amount loaned to RHH Ltd for the development costs through to completion of the development is £74,360.

Therefore, the development of the Travelodge and the 3 commercial units has returned the £3.146million (budgeted amount:£3.3m) that the Council had loaned for its 50% share of the development costs and made a contribution to the Council's general fund of £163,930.

The construction contract for the project is complete, however it is still within the contractor's retention period. After the expiry of this defects period, RHH Ltd will be wound up and deregistered with the Companies House.

Legal Agreements

2.3 Over-Riding and Sub-Lease

The 'back to back' legal agreements for the Head lease of the site (Over-Riding Lease) and the Hotel lease (Sub-Lease) were executed and signed between the Council, RHH and Travelodge on 19 March 2021. Subsequently the leases were legally transferred to Knights Frank Investment Management Llp (KFIM) on the sale completion date of 13 April 2021.

The final terms on the Over-Riding lease of the whole site and the Sub-lease with Travelodge is detailed below:

	Over-Riding Lease (Cost to Council)	Sub-Lease with Travelodge (Income for Council)
Term	25 Years + 1 day	25 years
Annual Rent	£310,000	£305,250
Rent Review Period	5 yearly	5 yearly
Rent Review Details	Linked to RPI compounded increases with a collar and cap of 1% and 4%.	Linked to RPI compounded increases with a collar and cap of 1% and 4%.

The rent differential between the Council's Head Lease with KFIM and the Sub-Lease with Travelodge is a cost to the General Fund of £4,750. This is the same as that reported to Policy & Finance Committee on 21 January 2021. This differential cost is more than covered by the rental income to be received from the 3 commercial units (section 3.2 below).

A stamp duty amount of £71,239 was also paid on the purchase of the lease from KFIM. This was funded by Policy & Finance Committee, at its meeting of 21 January 2021, by reducing the approved amount of capital incentives by £75,000 from the previously approved amount of £350,000 on 26 November 2020.

2.4 3 Commercial Units

In addition, the Council will benefit annually from the rental income from the 3 commercial units, for which lease terms have been agreed with the following businesses

Unit A – RW Stokes & Sons Limited t/a [Stokes Coffee and Tea](#) (Lincoln) - 10 year lease with an option to break after year 5.

Unit B – SJK Kitchens t/a [Kutchenhaus](#) Newark – 10 year lease with an option to break after year 5.

Unit C – [Beaumont House Community Hospice](#) – 5 year lease

The total, minimum, stepped rent receivable (RPI increases from year 6 are not included) as per the agreed lease agreements for the 3 units is set out in the table below:

Year 1	33,000
Year 2	63,500
Year 3	67,500
Year 4	71,500
Year 5	78,000
Years 6 to 10 (per annum)	86,000

It can be noted that the rent differential between the over-riding lease and the sub-lease of the Travelodge demise of £4,750 is more than covered by the rent from the 3 commercial units; with a positive contribution to the council's general fund from year 1 of £28,250, increasing to £81,250 by year 6.

In addition, the leases with the Council's 3 tenants include service charges which are not quantified in this report.

Capital Incentives. Policy & Finance Committee on 21 January 2021 agreed a budget of £275,000 for capital incentives (reduced from the original amount of £350,000 that was approved by the same Committee on 26 November 2020). The total actual amount of incentives agreed with the above 3 tenants is £167,000. The saving of £108,000 will be released back into the general fund capital programme.

2.5 Community Plan

Under the Council's Community Plan objective of Enhancing and Sustaining the District's town Centres, it is a specific action to facilitate the redevelopment of the former Robin Hood Hotel site and to create a Travelodge hotel and retail units.

2.6 Reason for Recommendations

The final outcomes and completion dates of the joint venture company RHH Newark Limited (RHH Ltd) and returns on the Council's 50% share of the investment together with the positive impacts on the Council's General Fund account.

3.0 Implications

3.1 In writing this report and in putting forward recommendations officers have considered the following implications; Data Protection, Digital and Cyber Security, Equality and Diversity, Financial, Human Resources, Human Rights, Legal, Safeguarding and Sustainability, and where appropriate they have made reference to these implications and added suitable expert comments as per below.

3.2 Financial Implications (FIN 22-23/99)

- 3.2.1 The original capital loan budget allocated within the capital programme for the project is £3.3m, however as per para 2.2.2 only £3.146m loan was actually required for the joint venture. The capital budget of £3.3m was financed by borrowing therefore the favourable variance of £0.154m has reduced the Council's capital borrowing requirement within the financial year 2021-22. Of the total monies received of £3.236m, on 13 April 2021, £3.146m of the receipt will be used to extinguish the capital borrowing requirement and the remaining £89,570 will be available for future capital investment.
- 3.2.2 As per para 2.2.4 the development on the former Robin Hood site has generated a positive general fund return, on the Council's investment into the joint venture, of £163,930. The value is split between the interest earned, £74,360, on the amount loaned to RHH Ltd and the additional monies returned over and above the funding required, £89,570. These values have been recognised within the Councils year end accounts for financial year 2021-22.
- 3.2.3 The ongoing revenue benefits from the rental income for the 3 commercial units as per para 3.2.2 will be built into the 2023-24 budget setting process for the future financial years.
- 3.2.4 The paper brought to 21 January 2021 Committee approved a reduction in the capital budget for Landlord Incentives from £350,000 (policy and Finance Committee of 26 November 2020) down to £275,000. It is proposed that a further budget reduction be approved from £275,000 down to £167,000 as per paragraph 3.2.5 now that the incentives have been agreed with the 3 tenants.

3.3 Legal Implications

The sale of the whole demise by RHH Newark Limited to Knights Frank Investment Llp (KFIM); the Over-Riding Lease between the Council and KFIM and the Sub-Lease between the Council and Travelodge were all completed on the terms and dates set out in this report.

Background Papers and Published Documents

Report to Policy & Finance Committee – 4 April 2019
Report to Policy & Finance Committee – 2 April 2020
Report to Economic Development Committee – 18 November 2020
Report to Policy and Finance Committee – 26 November 2020
Report to Policy and Finance Committee – 21 January 2021