

**Joint Meeting of the Alexandra Park & Palace Statutory Advisory
Committee and Consultative Committee**

8th April 2014

Report Title: **Report on market testing options for hotel and events business, Alexandra Palace**

Report of: Duncan Wilson, Chief Executive Alexandra Park and Palace

1. Purpose

1.1. To outline the proposed approach to issuing an invitation to tender for the hotel opportunity and an associated interest in the events business, and seek SAC/CC views prior to a Board decision on how to frame an approach to the market later in 2014

2. Recommendations

2.1. That the SAC and CC endorse the recommended approach as at most likely to meet the Trust's objectives and secure investment of the magnitude needed on terms acceptable to the Trust

Report Authorised by: **Duncan Wilson, Chief Executive Alexandra Palace and Park**



Contact Officer: Duncan Wilson, Chief Executive Alexandra Palace and Park

3. Executive Summary

3.1 To deliver the programme set out in the masterplan and to underpin the future of the Palace and Park the Trust needs to raise a significant quantity of investment. Realistically this needs to come from not just the Borough and the Lottery, but also from the private sector, especially if a hotel is to be built at the Palace

3.2 The hotel would sustain round the clock activity at the Palace, and allow us to grow the events business eg for conferences and exhibitions

3.3 However the feedback from the "soft" market testing in 2013 was that whilst there were several potential operators at varying price/quality points, to find a developer willing to put up the capital we would need to give some reassurances about the strength and vitality of the events business

3.4 Those reassurances might take a number of different forms, from a model where an developer took over all or part of the events business in return for investment in the facilities, to a more straightforward "operating agreement" whereby the present system of an independent Trading Company wholly owned by the Trust continued, but the hotel developer and operator had some measure of control over the events diary

3.5 This "operating agreement" would leave the Trust to raise the capital to repair and replace the events infrastructure itself, from internally generated funds and (potentially) prudential borrowing via the Borough. This organic growth model would take longer than a major commercial investment programme, but might be more realistic

3.6 We therefore suggest that the hotel development and operating agreement over events is our core option in approaching the market, but that at this early stage we do not rule out other possible models of commercial engagement, and see what potential developers and operators propose.

3.7 Whatever proposals emerged from this process would of course be fully consulted on before decision was made by the Board. The length and form of the consultation process would depend on the statutory position – ie whether the proposals were within the scope of the 1985 Act or the 2004 Charity Commission order.

4. Reasons for any change in policy or for new policy development (if applicable)

N/A

5. Local Government (Access to Information) Act 1985

N/A

Background

- 6.1 Commercial investment in the Palace is an important part of our regeneration strategy. Finance from LBH, the Lottery and other charitable donations will not be enough to address significant underinvestment in the facilities of the Palace to bring them up to a modern standard, to put the historic fabric in good repair and to take advantage of new opportunities to sustain the business such as building a high quality hotel. It is the latter opportunity – the risk capital for building and operating a hotel - which best fits the private sector investment model.
- 6.2 The information from the “soft” market testing conducted last year is that there is strong interest from four and three star hotel operators but interest from developers willing to invest substantial capital in the building is more limited. The feedback is that it is unlikely that developers would put up the substantial investment which would be needed to build a hotel without greater certainty about the future of the events business, which would underpin demand for hotel bedrooms. That certainty might take a number of forms – an operating agreement is the one suggested above but it seems advisable to keep an open mind on this as we approach the market.
- 6.3 Given the level of investment required the Trust might not receive significant additional returns for a number of years. But the added vitality the presence of a high quality hotel and its customer base could give would significantly increase our chances of making the place more sustainable, taken together with the extra life that the HLF bid would bring.
- 6.4 We should also not rule out an investor being willing to put up capital to invest in the events business, in return for a share in the profits. However we would need to be clear that our overall objectives to achieve financial self-sufficiency in the Palace and continue to provide a place of public recreation were not adversely affected by any share of the income from trading which we had to surrender.
- 6.5 Whatever emerges from the market testing process must be practically operable. We know of one other major live events site where the hotel and the events business are separately owned and operated, where the different parties have resorted to litigation. We must avoid that.
- 6.6 Finally we are not planning to approach the market in any case before greater clarity has been achieved on a number of issues including the status of the debt owed to the Borough in our accounts. That may mean after the summer break, in practice

12. Legal Implications

- 12.1 The Council's Assistant Director Corporate Governance has been consulted in the preparation of this report, and has no comments.

13. Financial Implications

- 13.1 The Council's Chief Financial Officer notes the contents of this report and has no further comments to add.