

**TELFORD AND WREKIN COUNCIL**

**CABINET – 8<sup>th</sup> December 2011**

**TELFORD INTERNATIONAL RAILFREIGHT TERMINAL**

**REPORT OF HEAD OF ECONOMY AND SKILLS**

**PART A) – SUMMARY REPORT**

**1. SUMMARY OF MAIN PROPOSAL**

1.1 Telford International Railfreight Park includes a rail terminal hub and 24 acres of associated development land. The facility was operated by JG Russell (Transport) who executed a thirty month break clause in their 15 year lease / operating agreement on 23<sup>rd</sup> September 2011. JG Russell are currently operating the railfreight terminal on behalf of the Council under a temporary licence at a maximum cost of £2,250 per week, pending procurement of an operator for the terminal.

1.2 This report seeks Cabinet agreement to commence a European procurement process to secure an operator for the Telford International Railfreight Terminal.

**2. RECOMMENDATION**

**Cabinet is recommended to:**

**2.1 Approve the commencement of a European procurement process to secure a new operator for the Telford International Railfreight Terminal**

**2.2 Authorise the establishment of an evaluation panel, involving the Cabinet Member for Housing, Regeneration and Economic Development to assess submitted tenders and make a recommendation to Cabinet.**

**2.3 Agree to receive a further report seeking authority to enter a contract with a preferred operator.**

**2.4 Agree to extend the current temporary licence agreement for operation of the site, pending procurement of an operator**

**3. SUMMARY IMPACT ASSESSMENT**

**IMPACT ASSESSMENT AT A GLANCE**

<b>COMMUNITY IMPACT?</b>	Do these proposals contribute to specific Priority Plan objective(s)?	
	Yes	Supports the delivery of the 'helping to boost the local economy' objective within the Housing, Regeneration and Prosperity Priority Plan
	Are there any measures that will be used to show the proposals are making a difference?	
	Yes	Contract delivery, including outcome performance will be measured through agreed monitoring procedures
	Will the proposals impact on specific groups of people?	
	No	The proposals will benefit all residents through boosting the local economy
<b>TARGET COMPLETION/DELIVERY DATE?</b>	It is anticipated that the OJEU tender process could take between three and six months from initial commencement date to secure an operator.	

<b>FINANCIAL (VALUE FOR MONEY) IMPACT?</b>	Yes	There are a number of financial implications arising from this report which are detailed in paragraph 5
<b>LEGAL IMPACT?</b>	Yes	There are a number of legal implications arising from this report which are detailed in paragraph 5
<b>OTHER RISKS &amp; OPPORTUNITIES?</b>	Yes	Operation of the railfreight terminal offers the opportunity to develop adjacent employment land. There is a risk that no operators come forward with a suitable proposal, this risk has been mitigated by seeking expressions of interest.
<b>IMPACT ON SPECIFIC WARDS?</b>	Yes	The railfreight terminal is located in Donnington, and will facilitate job creation on adjacent employment sites.

## **PART B) – ADDITIONAL INFORMATION**

### **4. INFORMATION**

4.1 Telford International Railfreight Park includes a rail terminal hub and 24 acres of associated development land, developed in partnership with the Ministry of Defence (MoD) and the Homes & Communities Agency. Development costs were funded through Council; European Regional Development Fund (ERDF); and Regional Development Agency (AWM) funding. Authority was given to the Head of Legal Services to enter into an agreement with JG Russell (Transport) limited as terminal operator at Cabinet on 14<sup>th</sup> April 2008. Russell's executed a thirty month break clause in their 15 year lease / operating agreement on 23<sup>rd</sup> September 2011. That agreement included a profit share mechanism which would have generated income for the Council once the facility reached profitability (estimated in the business plan at year 5 onwards). Russell's reasons for executing the break clause were that the Company were bearing losses on the operation of the site that could not be sustained.

Those losses arose from:

- The negative impact of the recession on potential inward investment onto the site that may have generated products for movement by Rail.
- A contract with UK Coal for movement of coal from the site that did not materialise, due to the extraction of lower quality coal than anticipated, which required movement by road to grade with higher quality coal.

4.2 JG Russell are currently operating the Railfreight Terminal on behalf of the Council, under a temporary licence at a maximum cost of £2,250 per week (to be reduced if the operator reduces their operational losses). Authority is sought to continue this arrangement pending procurement of an operator for the terminal.

4.3 It is important to maintain an operational railfreight facility in order to meet grant funding obligations set out in paragraph 5.1, and to enable MoD Donnington (which is adjacent to the terminal) the option to move military vehicles and equipment by rail, contributing to the sustainability of that facility. This report therefore proposes that an operator for the terminal is secured through a procurement process. This procurement will need to be undertaken through the Official Journal of the European Union (OJEU) tender process. An indicative timetable for this process is set out below:

<b>Timetable</b>	
Return of Pre-Qualification Questionnaire	27th Jan '12

(These are indicative dates only)

Evaluation of Pre-Qualification Questionnaire	10 <sup>th</sup> Feb 2012
---	---------------------------

For those who are invited to participate in further stages:

Issue of Invitation to tender by	24 <sup>th</sup> Feb 2012
Return of Tenders	30 <sup>th</sup> March '12
Clarification Meetings if Required	w/c 16 <sup>th</sup> April '12
Contract start date	14 <sup>th</sup> May '12

4.4 An evaluation panel involving relevant officers and the Cabinet Member for Housing Regeneration and Economic Development, will assess the submitted tenders. Cabinet authority will then be sought to let a contract with a preferred operator selected through the procurement evaluation process. The criteria for selection of a preferred operator will be:

- Business Plan – demonstration that the operator has the financial and operational capacity, and demonstrable track record, to deliver the contract effectively and ensure sustainability of the facility
- Delivering best value for the Council's investment in supporting delivery of the Council's economic priorities

4.5 11 companies were invited to submit an expression of interest in operating the terminal including both national operators active in railfreight operations and local logistics companies. 4 expressions of interest were received, mitigating the risk that a suitable operator cannot be secured.

## 5. **IMPACT ASSESSMENT – ADDITIONAL INFORMATION**

### **Financial impact**

There are a number of financial considerations associated with this report:

- 5.1 Clawback of Grant - There is a risk of clawback of ERDF and AWM grant if the terminal is sold or undergoes a substantial change of use. The total grant at risk of clawback in this circumstance is £4.2m.. In addition, there is a further risk of clawback of AWM grant for non delivery of outputs relating to new jobs created. Any potential clawback will be the subject of negotiation between BIS (as the successor to AWM), but officers estimate the grant at risk at £30,000. Provision for this risk has been made.
- 5.2 Cost of Connection to Network Rail – As discussed in paragraphs 5.9 to 5.11, there is a requirement for the Connection Agreement with Network Rail to be retained, Should it become necessary for this agreement to be transferred to TWC the annual cost will be £12,500. These ongoing costs would be met from service efficiencies within the wider service delivery unit.
- 5.3 Work associated with the procurement will be contained as far as possible within existing resources and budgets. It is anticipated that specialist rail operator and legal consultancy advice will be required. Funding has been identified for these costs from within existing resources. These cost will be kept to a minimum and monitored and reported as necessary.
- 5.4 Interim Management of the Terminal by JG Russell's. – As discussed in paragraph 4.1 the terminal is currently being operated under a temporary licence agreement at a cost of £2,250 per week. It is anticipated that the procurement exercise may take

between three and six months. The costs of the interim management of the terminal for the 6 month period will be £58,500. A contingency fund has been retained from identified efficiencies in the Economy and Skills service budget to cover these costs.

- 5.5 Financial advice and support will be provided throughout the procurement exercise and further reports brought forward as necessary

### **Legal impact**

- 5.7 Because of the value of this opportunity the contract(s) must be procured through a European Procurement Process and any process must comply with the European requirements in this regard. Ongoing legal advice will be required in relation to the procurement and property aspects of this project.
- 5.8 The funding contracts attached to the ERDF and the AWM grant state that if the site undergoes a substantial change of use or is sold within 20 years then claw-back of some, or all, of the grant may be invoked. All outputs relating to the ERDF grant have been delivered but the Council are committed to delivering an additional 7.6 jobs by 31<sup>st</sup> March 2012 as a condition of the AWM grant.
- 5.9 Use of the rail network requires a connection agreement with Network Rail. Officers are in discussion with Network Rail regarding the Connection Agreement which is currently in place between the operator (JGR) and Network Rail. The Connection Agreement governs the maintenance and function of the rail connection between the main line and the Terminal branch-line.
- 5.10 There has to be a Connection Agreement in place before any trains can run off the main line into the Terminal. Such Connection Agreements are detailed and it was a term of the 2009 Operating Agreement with JG Russell that they obtain the Connection Agreement. No new operator will be able to run the Terminal without a Connection Agreement and having one in place during any procurement process may make the Terminal more attractive to potential operators and encourage more bids.
- 5.11 There are also potential cost implications for the Council if the Connection Agreement is terminated because Network Rail can demand a physical disconnection to the mainline on termination which would result in a future cost of re-connection when the Terminal comes back into operation. As long as JG Russell continue to operate the Terminal under the temporary arrangement currently in place they will keep their Connection Agreement with Network Rail. If the arrangement with JG Russell ceases it is suggested that Network Rail be requested to permit the transfer of the Connection Agreement from JG Russell to the Council to keep it in place until the future of the Terminal is clearer. If the Terminal is to be closed for such a long period that it is not worth paying the annual charges to keep it going, the Council will be able to terminate it giving appropriate notice.

## **6. PREVIOUS MINUTES**

Report to Cabinet 14<sup>th</sup> April 2008 – ‘Telford Railfreight Terminal Update’

## **7. BACKGROUND PAPERS**

None

Report prepared by  
Bryn Jones  
Business Sector Development Officer  
[Bryn.jones@telford.gov.uk](mailto:Bryn.jones@telford.gov.uk)

Tel 01952 567558  
Mob 07976 100379