

TELFORD & WREKIN COUNCIL

CABINET - 10 JULY 2014

PROTECTING JOBS IN THE BOROUGH: DEVELOPMENT OF A LOGISTICS HUB AT MOD DONNINGTON

REPORT OF THE DIRECTOR: DEVELOPMENT, BUSINESS & CUSTOMER SERVICE

LEAD CABINET MEMBER: CLLR BILL McCLEMENTS

PART A – SUMMARY REPORT

1. SUMMARY OF MAIN PROPOSALS

1.0 To provide an update on the MOD's Logistics Commodities & Services (Transformation) Project and to seek approval for the Council to fund, on a commercial basis, the development of a Logistics Hub at MOD Donnington.

2.0 RECOMMENDATIONS

2.1 That Cabinet recommends to Full Council the approval of the investment as outlined in this report and the approval of prudential borrowing of up to £120 million to fund this commercial investment and all associated changes to the capital programme.

2.2 Subject to appropriate Council approval being secured as detailed in 2.1 Cabinet delegates the approval of the final business case for investment to the Director: Development, Business and Customer Service, in consultation with the Cabinet Member for Finance & Enterprise and notes that any such approval will be contingent upon the business plan demonstrating that risk has been properly managed through securing necessary agreements from the Delivery Partner and the MOD to ensure that, under the terms of the agreement, the Council will be fully indemnified against its own obligations to satisfy the terms of its borrowing.

2.3 That Cabinet delegate authority to the Director: Development, Business and Customer Service, in consultation with the Cabinet Member for Finance & Enterprise to negotiate and agree the necessary land deals, loan documentation and other commercial and contractual arrangements with all interested, directly and indirectly, parties to ensure that, should a bid using the proposed Telford site be successful, it can be fully implemented within the programme.

2.4 That Cabinet delegate authority to the Assistant Director: Law, Democracy & People Services to execute all documents in accordance with the Council's Constitution so required to give effect to the proposals contained in this report as approved by Cabinet.

3. SUMMARY IMPACT ASSESSMENT

COMMUNITY IMPACT	Do these proposals contribute to specific Priority Plan objective(s)?	
	Yes	Protect and create jobs as a 'Business Supporting, Business Winning Council'
	Will the proposals impact on specific groups of people?	
	Yes	The proposals will have a direct impact on those living and working in and around the existing MOD Donnington site but will have a positive impact on the Borough generally in terms of job creation

		and prosperity.
TARGET COMPLETION/ DELIVERY DATE		MOD contract award is planned for December 2014.
FINANCIAL/ VALUE FOR MONEY IMPACT	Yes	There are significant financial implications of this proposal, which are detailed in section 8 of this report.
LEGAL ISSUES	Yes	<p>The Council has the power to borrow money and invest, not only for any purpose relevant to its functions but also for the purpose of prudential management of its financial affairs.</p> <p>The Audit Committee have agreed the necessary changes to the Treasury Management Policy allowing for an increase in borrowing to enable this investment to be made.</p> <p>Legal advice has been obtained which has considered the proposal at this stage. The advice obtained clarifies the process by which the investment can be made in such a manner to protect the interest of the Council, including identifying the nature and format of the necessary legal agreements. Legal Services will continue to advise on the proposals as further details are developed.</p> <p>The specific legal issues are addressed within the body of this report.</p>
OTHER IMPACTS, RISKS & OPPORTUNITIES	Yes	<p>There are risks associated with the development of proposals relating to the expansion of the existing MOD Donnington site for logistics and warehousing. However, these need to be balanced against the risk of full or partial closure of the MOD Donnington site, should the decision be made to consolidate operations elsewhere in the country. If this was to occur, job losses at the base as well as in the supply chain could be considerable and would have a direct impact on the economic, social and environmental wellbeing of our community as well as direct impact on the local housing market and the potential loss of significant business rates income. The actions outlined in this report, and associated investment, have the potential to mitigate this risk and in doing so secure a significant opportunity for the borough, leading to safeguarding jobs, job creation both on site and within the supply chain, a positive impact on the local housing market and increased income through business rates.</p> <p>Subject to Council approval the investment will be funded via Council prudential borrowing. The interest rates payable will be fixed at the draw down of the loan at a rate to mitigate State Aid issues, and this rate will be reflected within Finance Lease payments made by the Delivery Partner. As this rate will be slightly higher than the cost to the Council a small margin will be earned by the Council to offset all Council costs. The risk of interest rate movement between the date of Council approval and the draw down of funding, therefore, rests with the Delivery Partner. The MOD will guarantee a lease payment if a default occurs within the operational contract or under the Lease or Finance Agreement.</p>
IMPACT ON SPECIFIC WARDS	Yes	The sites are within the Hadley & Leegomery Ward (Cllr M Smith, Cllr K Austin & Cllr L Murray) and the Donnington Ward (Cllr E Clare & Cllr C Mason).

PART B – ADDITIONAL INFORMATION

4. INFORMATION

4.1 Background

4.2 MOD Donnington is currently one of two main sites within the UK that provide warehousing and distribution facilities for the MOD. In September 2011, the Council became aware of a proposal to consolidate operations and to potentially create a major National Defence Gateway resulting in the partial closure of one of the two main current sites and the enhancement of the other. The Donnington site currently employs some 700 people, a large proportion of which are associated with the current warehousing and distribution function of the site. In addition, an estimated 300 people work within the local supply chain. As such, a partial closure of the Donnington site will have a significant and detrimental impact on these individuals as well as the local economy.

4.3 Since September 2011, Members and officers have been lobbying at various levels within the MOD for Telford to be recognised as a preferred location for a National Defence Gateway. A series of documents have been developed to support this activity and to demonstrate Telford's commitment and ability to deliver a logistics and storage hub. There is no doubt that this activity has raised the profile of Telford with an extension to the Donnington base being seen as a credible solution which could unlock asset rationalisation, realise savings for the MOD and Treasury and critically, ensure continuity of military supplies to the front line.

4.4 Delivery of the National Defence Gateway will be through a new operational contract for logistics and warehousing, with the preferred solution being identified through a procurement process which is currently ongoing. The Council is working closely with the MOD as a partner to find the best solution for their logistics operation and to reinforce the significant potential that MOD Donnington has to offer. We are also working with the shortlisted bidders to reinforce the fantastic opportunity Telford has to offer, which has been acknowledged by all parties.

4.5 Selection of the preferred bidder and therefore ultimately the location for a new Defence Gateway will be determined by the MOD in September 2014 with final bids to be submitted mid August 2014. As part of the bid evaluation process during August and September and prior to selecting the preferred bidder, the MOD will assess all areas of the bids as part of their due diligence. In particular their review will encompass planning, funding and land assembly. The fact that we still do not know which is the preferred option is the reason why officers are unable to be clear about all the details and be specific on the extent of the financing required but the following paragraphs set out how the Council has, and will continue to ensure that bidders have a robust and implementable solution at Telford.

5. Planning

5.1 A key element of the MOD assessment will be around delivery of the proposed solution which will include an assessment of the planning position. In this regard Telford's position has been significantly strengthened following the Plans Board decision on 5 March 2014, which granted approval for warehousing development shown indicatively at appendix 2 as well as planning consent issued on 10 March 2014 for warehousing shown indicatively at appendix 3. The planning decisions allow for development of a Fulfilment Centre and associated warehousing for storage and distribution, as well as an office building for use as a future Logistics Headquarters. Whilst an alternative MOD site also has outline planning consent, the approvals in Telford provide significantly greater flexibility in terms of the quantum, nature and deliverability of development. The final layout and configuration of the facility at Telford will depend upon whether the bidders deliver a fully automated or manually

operated facility as well as their view on the required storage space once the full logistics operation has been quantified.

- 5.2 Members should note that implementation of the planning consents may have an adverse impact on properties and businesses in the immediate vicinity of the site. As such a range of mitigation measures are likely to be required in and around the development site to meet our values and to ensure that the timetable can be adhered to. The work would only be carried out if the MOD decided that MOD Donnington is the preferred solution and the preferred bidder delivers a scheme on the site.

6. Funding

- 6.1 A major part of the MOD assessment will be around security of funding and will require the bidders to demonstrate that they have the necessary funding in place to deliver their proposals. The Cabinet report of February 2014 outlined a number of ways in which the Council could support delivery including design, build, fund and operate solutions. In accordance with that report, discussions with bidders have continued and culminated in a set of Heads of Terms being developed and issued to all bidders. Central to the Heads of Terms is an offer to provide capital funding for the investment in Telford. With final bids due to be submitted in mid August it is crucial that we can demonstrate that we have the necessary approvals and required funds in place, should the bidders wish to pursue this opportunity. Only then will Telford be in the best possible position to secure MOD investment at Donnington. In this context this report and a report to Council, is seeking approval for funding through Full Council to support the delivery of a National Defence Gateway in Telford.

- 6.2 The preferred delivery option involves the Council entering into a Finance Agreement with the Delivery Partner on the basis that the Delivery Partner uses funding from the Council to construct the facility to meet their requirements. Since the configuration of proposals varies from bidder to bidder, approval for a maximum funding amount of £120m is being sought. Upon entering into the Finance Agreement and Lease and/or by a fixed date set to coincide with the anticipated date of practical completion of the development, the Delivery Partner would make re-payments to the Council under the terms of the Agreement over the term of the lease. The Lease payments will be set at a level to ensure that the income received is sufficient to cover the costs of Council borrowing and repay the principal sum invested over the term of the Finance Lease as well as delivering a small return for the Council. The MOD has agreed to guarantee all lease payments if there is a default within the main operational contract or under the Lease or Finance Agreement. The final details of the lease period will be determined by the MOD but the shortest term will be 13 years (less the construction period) up to a maximum of a 30 year term. The contract for the logistics operation from the MOD is currently proposed for a 13 year period, where as a standard investment lease is usually in the region of 25 years. The MOD are currently reviewing the length of the lease and their position at the end of the contract which will ultimately define the lease period moving forward to the final bid stage. Based on the MOD timetable, this will be known by September 2014. At expiry of the Lease term the MOD may acquire the Council's freehold interest for a nominal fee. The value of the land will by that point have been recuperated out of the rental payments received under the Finance Lease.

7. Land Assembly

- 7.1 The final key area for assessment, which interfaces with the Council, will be around land assembly with the bidders being required to demonstrate that they have secured unencumbered land on which to deliver their development proposals
- 7.2 Local authorities have the power to acquire land for Planning Purposes (ss.226 & 227, *Town and Country Planning Act 1990*) if it will facilitate the carrying out of development, re-development or improvement which is likely to contribute to the economic, social or

environmental wellbeing of the area, or which is required in the interests of the proper planning of the area. Consideration as to how the acquisition is likely to contribute to these requirements is given in the Summary Impact Assessment and throughout this report.

- 7.3 We have previously secured an option to buy a parcel of land, identified in appendix 1 of this report, to facilitate development. Only if the MOD and Delivery Partner were to choose Telford as their solution would we seek to exercise the option, with the cost of the land being included in, and forming part of, the Finance Lease. There are also a number of small parcels of land associated with the development which could be acquired to allow for a more efficient approach to land assembly and potential operational activities. However, they are not essential to delivery of a solution in accordance with the Planning Consent.
- 7.4 Approval is sought to acquire the required land currently under option as well as the small parcels of land associated with the development for Planning Purposes all of which will be covered in the overall investment of £120m.
- 7.5 As the area(s) of land that the Council is seeking to acquire for Planning Purposes appear to be arable or other farmland the 'special rules' requiring public notice, consultation or consideration of public objections that relate to e.g. open space land do not apply.

8.0 FINANCIAL IMPLICATIONS

- 8.1 Based upon information from the MOD and bidders this report seeks approval to fund up to a maximum investment of £120m. Investment would include, but not be limited to land acquisition, building construction costs, fit out, funding costs during construction, associated fees etc. In order to facilitate the investment in this and other commercial projects it will be necessary to obtain Council approval to revise the Authority's maximum borrowing limits. A Treasury Management report was considered by the Audit Committee on the 30th June who resolved to recommend to Council that the Council's Treasury Management limits be amended to allow for this investment.
- 8.2 The Council will borrow the funding for this investment with due regard to the specialist advice from our financial and treasury management advisors. Funding for the total construction cost will be drawn down by the Council in accordance with the construction programme as agreed with the Delivery Partner, and the Council may, therefore, enter into a number of loans over varying periods in order to secure the most financially advantageous terms for the Council. The costs of borrowing will depend upon the length of the loan and will be fixed at the time of draw down of each tranche of funding. Interest incurred on borrowing during the construction period will be rolled up and capitalised and will be accounted for within the total investment. The risk of interest rate movement between the date of Council approval and the draw down of funding rests with the Delivery Partner.
- 8.3 The Delivery Partner will enter into a Finance Lease Agreement with the Council and will make Lease payments (quarterly in advance) which will be set at a level to include both the interest and the principal repayment on the amount invested. In order to comply with State Aid requirements a market rate of interest will be used when calculating the lease payments which are likely to be slightly higher than the interest rate paid by the Council.
- 8.4 As included in section 5.2 a number of mitigating measures are proposed in order to lessen the impact of the development on the community in the immediate vicinity. This report seeks approval to fund these measures with the costs being included in the overall investment value of £120m.

- 8.5 If the Fulfilment Centre and associated warehousing is located in Telford the new development would result in the generation of additional business rates of which an element would be retained by the Council until any 'reset' of the Local Government finance system is implemented. Clearly, if the current MoD facility was to be re-located away from the borough, the Council, the local community and the local economy would face significant adverse financial implications.

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9.0 PREVIOUS MINUTES

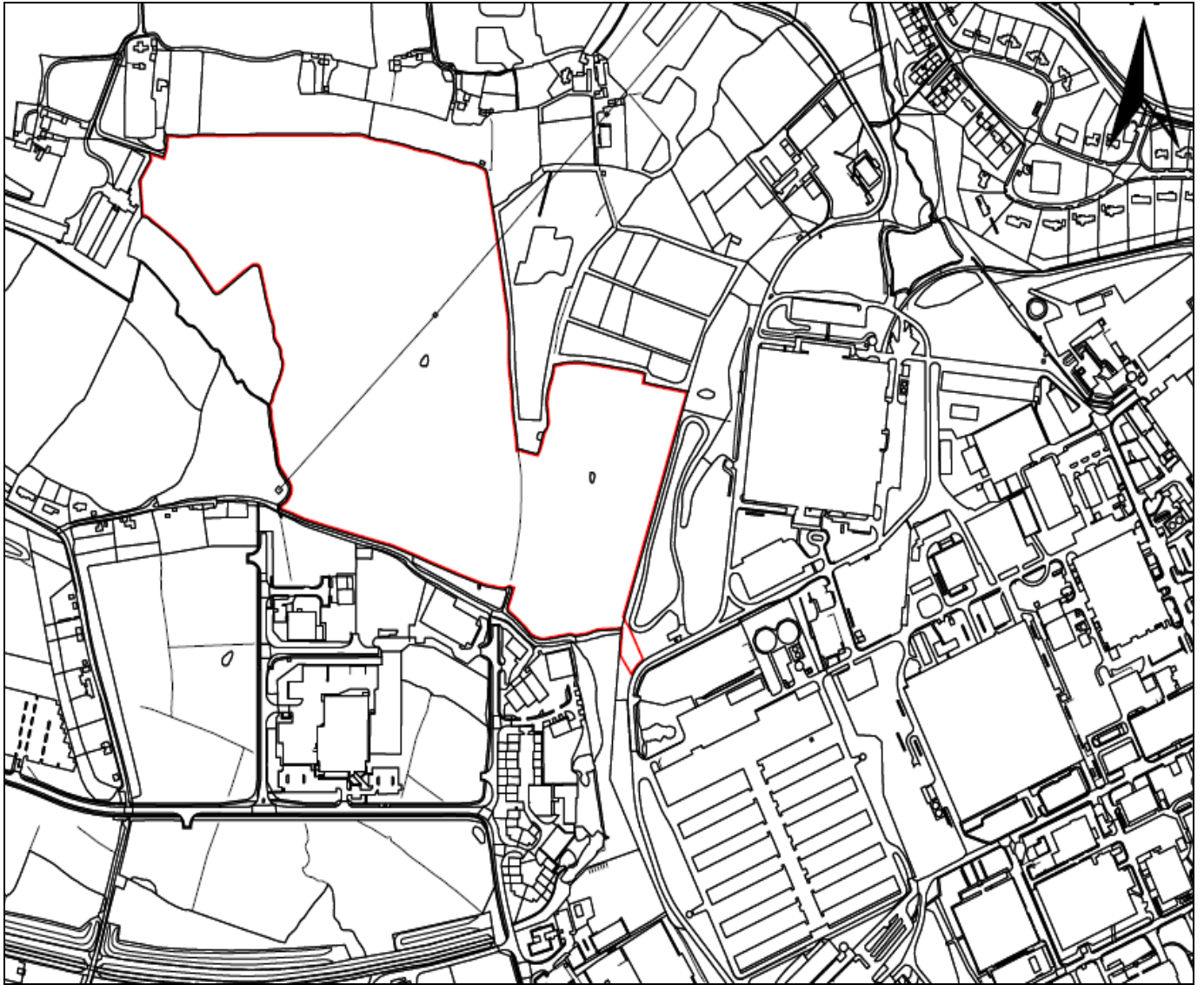
- 9.1 Development of a Logistics Hub at MOD Donnington – Cabinet of 20 February 2014.

10.0 BACKGROUND PAPERS

- 10.1 Town & Country Planning Act 1990

Report prepared by David Sidaway, Director: Development, Business & Customer Service

Appendix 1 – Site Plan (option land)



Appendix 2 – Proposed layout as per Planning Board 3 March 2014



Appendix 3 – Proposed Layout as per Planning Consent 10 March 2014

