

**REPORT TO:** 3MG Executive Sub Board

**DATE:** 16 July 2007

**REPORTING OFFICER:** Strategic Director – Environment

**SUBJECT:** Delivery Strategy Review - 3MG (Mersey Multimodal Gateway)

**WARDS:** Ditton and Riverside

## **1.0 PURPOSE OF THE REPORT**

- 1.1 The purpose of this report is to update the Delivery Strategy from 2004 and to seek members' approval to make the changes as outlined in the report.

## **2.0 RECOMMENDATION: That**

- (1) The Delivery Strategy be agreed on the basis of the up to date financial position of the programme.
- (2) That it is recommended to Council to approve the revised spending profile.

## **3.0 SUPPORTING INFORMATION**

- 3.1 The Executive Board on 9<sup>th</sup> December 2004 approved the Delivery Strategy (EXB172).
- 3.2 In December 2004 it was reported that the programme as a whole was likely to cost £31.68M of which it was anticipated £24.19M would come from the private sector and circa £7.48M from the public sector (Item 4a, Para. 6.2). We are four years on from when these costings were established. We also have the benefit of being in the delivery phase and therefore can be more certain of the costs.
- 3.3 In July 2007 the programme as whole is likely to cost £100M of which it is anticipated £56M would come from the private sector and circa £44M would come via the public sector. Over £40M Private Sector Investment has been made in the period of the masterplan to date.
- 3.4 Due to the scale of the programme and the nature of strategic development it will be necessary to review the Delivery Strategy periodically, as it will not remain static. The intention would be to report back to 3MG Executive Board Sub in the future when there has been significant change.
- 3.5 Points for consideration:

- 3.5.1 The funding profile describes the expenditure and the income for the programme. The accompanying notes describe the build up to the funding profile.
- 3.5.2 The deletion of the £1M Ditton Environmental Enhancement Scheme. Ditton Road is unlikely to be one of the Gateways into 3MG, with the main accesses being from the A5300 and Ditton Road roundabout. It was felt that the funding would be better utilised elsewhere.
- 3.5.3 HBC Fields land receipt for the purposes of this report has been estimated at £20M. The Westbury Group acquired AHC in March 2007 for £33.5M. The site, one hundred acres, with inferior road access, poor configuration, leaves in the region of 60 acres of usable brownfield land. The District Valuer commented on the unique nature of the 'HBC Fields' land in terms of planning, location and sites of this size being increasingly more difficult to acquire. Given also the competition between the main logistics companies has resulted in higher prices for prime sites. The interest in 3MG by developers and freight operators is growing. It would not be unrealistic to expect the similar values for HBC Fields; 60 acre greenfield site with excellent access to the primary route network. The sale of HBC Field is intended to reimburse the expenditure incurred by the Council on the delivery of the programme.
- 3.5.4 The Highway Infrastructure as shown is circa £27M. This includes approximately £18M for the essential A5300 and approximately £9M for the East West link. We are investigating a lower cost alternative for the East West link to satisfy the requirements of the UDP. The highway costings also include an optimism bias of 35%, as required on all Highway Projects at this stage in their development. As the two roads schemes are developed the optimism bias could reduce and if it was eradicated altogether, there could be a 35% (£9,450,000) reduction to the total cost. It is prudent to show the bias at this stage.
- 3.5.5 Funding has been included for the CPO to cover land acquisitions (not dealt with elsewhere) and all of the associated fees for the CPO. It is prudent to make substantial allowances for the CPO, as two CPOs may be required; highway and planning.
- 3.5.6 The advice received on State Aid rules (from Weightmans Solicitors) states that any assets the Council contributes for the sole benefit of 3MG must be leased to 3MG Ltd at Open Market Value. This would include the Rail Reception Sidings, the Rail Corridor Extensions and non-adopted Highway Infrastructure,

e.g. the internal roads. Thus providing an annual revenue income for the Council.

**3.6 The Delivery Strategy as it stands identifies a deficit of £10M.**

However, the report does describe opportunities to eliminate the deficit by realising a higher value for HBC Field, reducing the optimism bias on the Highway Infrastructure and by providing a lower cost alternative to the East West link road. It is likely that a combination of these will be the case. The Delivery Strategy is ever moving feast and has to react to a number of external circumstances and change course accordingly. The costings contained in this report are as realistic as they can be at this stage of delivery. As the programme moves forward and works are tendered and land negotiations are complete the Delivery Strategy will be reviewed.

**4.0 POLICY IMPLICATIONS**

- 4.1 The Council adopted the DSRFP Masterplan in December 2004. The DSRFP is heralded in the Council's Corporate Plan and LSP and HBC Urban Renewal Strategy and Action Plan, and supports the Council's Urban Renewal corporate priority.

**5.0 OTHER IMPLICATIONS**

- 5.1 There are no other implications.

**6.0 RISK ANALYSIS**

- 6.1 The risks remain the same as those identified at the outset of the programme. The risks associated with the delivery of the programme are identified below.

- 6.1.1 **Timing is paramount.** 3MG is currently operating within the allocated budget. Funding is not in the Council purse to cover expenditure after this financial year until HBC Fields is sold. As such, the Council will incur interest on money it borrows to fund the programme. The timing of the delivery of the programme is critical and as far as reasonably practicable must coincide with the income streams. Care must be taken not to over stretch the Council purse, before securing certainty over the sale of HBC Field. This has particular relevance to the two highway infrastructure projects.
- 6.1.2 **A reduction in land values.** The main risk to the Council is the requirement to realise a return on HBC Fields to cover the cost of the Council input to 3MG. The value of HBC Fields is largely dependant upon the delivery of the Western Approach (A5300). This risk will be reduced during the negotiations with landowners

(Network Rail and CCC) and by submitting a planning application later this year.

- 6.1.3 **Lack of developer interest.** The investment by the Westbury Group in AHC Westlink is very promising and Land values are increasing. The interest in 3MG by developers and logistics operators is growing more competitive. The Council has the opportunity to form a joint venture delivery vehicle for 3MG. This delivery vehicle would share the risks and provide capital for acquisitions / CPO / infrastructure and the like, thus reducing the Council commitment. The joint venture delivery will be considered over the next six months and the 3MG Executive Sub Board will consider a report. The establishment of a JV will provide certainty in terms of finance and delivery of the Masterplan and will reduce the risks presently, solely borne by the Council.
- 6.1.4 **Construction costs rising.** Items such as steel have risen significantly in recent years and other materials could follow suit. A 25% contingency has been included in the rail sidings estimate and a 35% optimism bias in the road estimate. Therefore, the major infrastructure projects contain contingencies in line with Government guidance for this stage of estimate.
- 6.1.5 **Failure to secure Planning Permission.** There are likely to be objections to each planning application submitted in relation to 3MG. However, by complying with Planning Policy as set out in the Halton UDP Policy E7 and the SPD for Ditton Strategic Rail Freight Park, reduces the risk of refusal or call in by the Secretary of State. The planning applications we anticipate all support the delivery of Policy E7.
- 6.1.6 **Grants surety.** To date £2M has been secured from ERDF towards 3MG infrastructure. This must be expended and claimed by June 2008 or it will be lost. The NWDA are have appraised a Phase 1 application for £1.7M, which will be considered by their Board on 9 July. This covers land acquisitions, fees and infrastructure projects. Once this grant is secured it will be paid retrospectively for expenditure the Council has incurred since 2 August 2006. The NWDA will also expect the Council to claim the full £1.7M by 31 March 2008. The in principal agreement with the NWDA is for £4.5M. As projects are progressed, further applications will be submitted for Phase 2 & 3, to draw down the remaining funding. WREN have provided a grant of £73k and an application will be made to BIFFA for £30k, this funding is being utilised on Halebank Rec.
- 6.1.7 **Utilising Council funding prior to securing a receipt from HBC Fields and grant income.** There will be a period,

particularly in this current year, where by the Council will front the expenditure of the masterplan. For example, the sludge diversion has been commissioned and United Utilities will be undertaking the work from September. We can only claim 24.13% from ERDF. Therefore, the balance will initially come from the Council Capital Programme. Once the NWDA Contract is in place for Phase 1, we can claim the balance of the sludge diversion, the remaining 75.87% from the NWDA.

- 6.1.8 **Acquisition of third party land.** The Council will only pursue the acquisition of Tessengerlo and Eddarbridge, if third party funding is available (see ESB 15). The Council will act in a facilitator role, potentially utilising its CPO powers.

## **7.0 EQUALITY AND DIVERSITY ISSUES**

*None*

## **8.0 REASON(S) FOR DECISION**

## **9.0 ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

## **10.0 IMPLEMENTATION DATE**

*(NB 8.0, 9.0 AND 10.0 ONLY IF KEY DECISION)*

## **11.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972**

<b>Document</b>	<b>Place of Inspection</b>	<b>Contact Officer</b>
<b>Ditton Strategic Rail Freight Park Delivery Strategy October 2004</b>	<b>Major Projects</b>	<b>Sally McDonald</b>