

MID SUFFOLK DISTRICT COUNCIL

TO:	Council	REPORT NUMBER: MC/22/14
FROM:	Cllr Peter Gould Cabinet Member for Assets & Investments	DATE OF MEETING: 21 July 2022
OFFICER:	Emily Attack Director Assets & Investments	KEY DECISION REF NO. N/A

GATEWAY 14 LIMITED- EXTENSION TO PEAK LOAN FACILITY

1. PURPOSE OF REPORT

- 1.1 This report provides an update of progress at Gateway 14 in Stowmarket and seeks additional funding to complete the infrastructure works whilst simultaneously progressing the delivery of buildings on site in accordance with the planning application DC/21/00407.
- 1.2 The Council approved total funding of £37.9m in February 2020 to deliver the scheme. This budget assumed infrastructure costs of £16.2m and delivery over a 12–15-year period. Since that date there has been considerable cost inflation in the construction market due to the pandemic, Brexit and the war in Ukraine and the period of delivery has been reduced due to the strong interest in the site and timescales associated with Freeport East.

2. OPTIONS CONSIDERED

- 2.1 **Option 1:** - Do Nothing- the peak debt threshold could remain at the current level; however this would result in rephasing some of the infrastructure works to a later stage which would reduce the impact of the first phase of works and potentially delay subsequent occupier phases. This could impact on the reputation of the Council and Gateway 14 and does not maximise the opportunities to realise the economic benefits of the development.
- 2.2 **Option 2:** - The Council increases the level of funding for Gateway 14. This will enable all the infrastructure works to be delivered in the first phase, creating a high-quality business park environment by Spring 2023 and enable further development phases to be progressed simultaneously. The funding would be by way of a loan to Gateway 14 Ltd which is secured against the land. Interest is payable to the Council at a market rate in respect of loans to Gateway 14. This interest is accrued and will be paid from capital receipts from the development.
- 2.2.1 **Option 3:** - The Council approves a grant to Gateway 14 Ltd from future business rates generated on site (Pot B). The Freeport Designation allows local authorities to retain the growth in non-domestic rating income in Freeport tax sites for 25 years, which are expected to be used to reinvest in supporting Freeport objectives. Mechanisms will be developed allowing retained rates income to be transferred to third parties e.g., Tax Site operators such as Gateway 14 Ltd. The retained business rates are divided into 3 main pots for distribution, Pot B provides additional funding to support or accelerate the development of a Tax Site.

This pot is expected to be used to support the delivery of added value activity at G14 that will stimulate additional economic growth including acceleration of the development of the Innovation and Skills Centre and additional net zero projects and can also be used for infrastructure purposes. The policies relating to the use of business rates are still in development with our partners, and as such this could be a potential option for the future but isn't sufficiently progressed at the current time to be a viable funding source for Gateway 14 now.

- 2.3 **Option 4:-** Gateway 14 Ltd could seek funding from third parties, such as its development partner Jaynic. This would reduce the return to the Council (with interest being payable to a third party rather than the Council) and result in further legal charges/ security being granted over the land.
- 2.4 Option 2 is recommended as it is currently the most deliverable funding option to ensure that the infrastructure works are completed at the earliest opportunity alongside the development of further phases.

3.	RECOMMENDATIONS
3.1	The Council agree to add £5m to the Capital Programme and to extend the peak debt threshold for Gateway 14 Limited to £42.9m
3.2	Delegate authority to S151 officer to approve and document loan authorisation.
REASON FOR DECISION	
To support the delivery of Gateway 14 and the agreed business goals and objectives.	

4. KEY INFORMATION

- 4.1 A revised hybrid planning consent was granted in November 2021 comprising outline consent for 2.4m sq. ft. of employment uses and detailed consent to enable the delivery of the site infrastructure, including the new road layout, structural landscaping works and service connections on and off site.
- 4.2 Contractors were appointed by Gateway 14 in February 2022 and the infrastructure works commenced on site in April 2022. Photographs are attached at appendix B showing the works to date.
- 4.3 The works include the creation of the estate service road infrastructure and works to roads off-site as well as service connections. A further contract will be awarded this Summer (subject to the availability of funding) to complete the landscaping works in the next available planting season. Subject to funding, Gateway 14 is intending to complete all infrastructure and landscaping works by Spring 2023.
- 4.4 A cost plan for the infrastructure and landscaping works is attached as confidential appendix A. The total cost of the infrastructure works has increased from £16.2m in 2020 to £19.2m due primarily to significant cost price inflation since the budget was set in 2020, with particularly high inflation since the beginning of 2022. Cost price inflation has been mitigated by competitive tendering and negotiation as well as fixed price contracts, however current cost inflation in the construction industry is at unprecedented levels as a result of the pandemic, Brexit and the war in Ukraine.

- 4.5 In February 2020 the Council agreed a peak debt facility of £37.9m for Gateway 14 to cover the costs of acquiring the land and instigating the infrastructure works on site. Details of expenditure to date and the remaining facility available are set out in the finance section below, however it is anticipated that a further £5m will be required to complete the works simultaneously with progressing the delivery of the first building on site and any other subsequent buildings.
- 4.6 Interest in Gateway 14 remains strong. In June 2022, Gateway 14 contracted to deliver a new state of the art distribution facility for the Range. The scheme comprises a large freehold high quality distribution warehouse totalling some 1,172,160 sq ft including 30,000 sq ft of office accommodation, situated on a plot of 58.5 acres. The building height will be 15m to eaves and the premises will have circa 750 car parking spaces. The development will be delivered in accordance with the outline planning consent and design guide and will be delivered to a BREEAM EXCELLENT standard. Indicative drawings are attached at appendix C.
5. The Range is one of the fastest growing retailers in the UK and is investing in the order of £200m in this building. It has over 200 retail stores nationwide and more than 65,000 products across 16 different departments from Homeware and Furniture to DIY and Art Supplies. It has two existing major distribution centres and the proposed new distribution facility at Gateway 14 will be the third and final piece in the jigsaw of its associated distribution network to service the south/south east. In addition, a further 100+ retail stores are planned as well as growing its on-line presence.
- 5.1 The Range anticipate providing 1650 new jobs in the region, including highly skilled positions within a modern automated distribution facility. This is an added value logistics function, aligning with the Freeport East aspirations, with goods being imported through Felixstowe and sold on-line and in stores to the UK and European markets.
- 5.2 The sale will deliver significant land and development receipts, which will result in Gateway 14 making debt repayments to the Council. However, prior to realising the receipt, Gateway 14 needs to obtain reserved matters planning consent for the new distribution centre at a budgeted cost of £500,000. Assuming consent is forthcoming, a capital receipt would be received in late December 2022/ early January 2023 with further stage payments throughout the construction period.
- 5.3 In addition to this building, Gateway 14 is keen to progress the delivery of a Skills & Innovation Centre on site to promote local innovation and businesses and is in discussions with other occupiers, which could lead to further reserved matters planning applications being submitted.
- 5.4 We anticipate that peak funds of £5m will be required to complete the infrastructure works whilst simultaneously seeking planning approval for the new distribution facility for the Range, Skills and Innovation Centre and any other subsequent planning applications and works in respect of other occupiers

6. LINKS TO CORPORATE PLAN

- 6.1 The delivery of the Gateway 14 development will generate income for the Council, regenerate local areas to benefit the local economy delivering up to 4,800 direct jobs and providing gross value added to the economy of between £75m and £250m per annum which will enable our market towns to thrive.
- 6.2 The development will also use low carbon technologies, deliver significant enhancements to biodiversity and improve local utilities, particularly broadband connections.

7. FINANCIAL IMPLICATIONS

Income/Expenditure Items	2018/19	2019/20	2020/21	2021/22	Total
Accrued Income	468,505	914,317	1,042,999	1,216,260	3,642,081
Interest paid	(141,000)	(219,000)	(179,893)	(104,910)	(644,803)
Accrued Recharges Income	68,776	60,000	70,000	70,000	268,776
Net Effect	396,281	755,317	933,106	1,181,350	3,266,054

	2018-19	2019-20	2020-21	2021-22	Cumulative to end of 2021/22
Loans Made to G14 (90% of exp up to & incl 31/03/19, then 100%)	14,602,394.17	4,153,189.00	600,000.00	4,500,000.00	23,855,583.17
Overdraft	247,804.08	312,195.92	70,000.00	70,000.00	700,000.00
Equity	1,622,358.24	-	-		1,622,358.24
Gross Investment in Year	16,472,556.49	4,465,384.92	670,000.00	4,570,000.00	26,177,941.41

	31/03/2021	31/03/2022
Total amount drawdown	19,355,583.17	23,855,583.17
Overdraft	630,000	700,000
Total Equity	1,622,358.24	1,622,358.24
Total accrued Income	(2,425,821)	(3,642,081)
Cost of Debt	539,893	645,909
Total Facility	£37,884,431.17	£37,884,431.17
Remaining balance against the £37,884,431.17	£17,898,848.00	£13,328,848.00

- 7.1 The Council has accrued income of circa £3.9m including income and recharges as at 31 March 2021 since Gateway 14's inception with details set out in the table above.

- 7.2 The Council's investment in Gateway 14 shows a total of £23.9m being drawn down as at 31st March 2022. The remaining balance against the £37.9m (including £700k overdraft facility) as at 31 March 2022 is £13.3m which we expect to continue to be drawn down during the year for the infrastructure works.

8. LEGAL IMPLICATIONS

Vires Considerations

- 8.1 Since the enactment of Part 1 of the Localism Act 2011 (the Act), local authorities have been able to rely upon the power of general competence to justify the types of activities that the Council would need to undertake to facilitate the development of the Site. Subsection 1 (1) of the Act permits a local authority to do anything that an individual may generally do. This is an intentionally wide power. S.95 of the Local Government Act 2003 provides local authorities with the power to trade in function related activities but this power is only exercisable through a company.
- 8.2 In establishing a Special Purpose Vehicle (SPV) and providing finance to the SPV to enable the acquisition and development of the site, Devonshires solicitors advised previously that it is open to the Council to rely on the general power of competence to justify these activities.
- 8.3 When exercising any power, the Council must act for a proper purpose and have regard to the usual "Wednesbury" reasonableness principles, its fiduciary duty to obtain value for money and whether the Council's involvement in Gateway 14 would be proportionate and properly balanced against the anticipated benefits as well as the wider interests of the Council's local Business Rate and Council Taxpayers. There is nothing in this report which indicates any cause for concern with regard to any of those matters.

9. RISK MANAGEMENT

- 9.1 This report is most closely linked with the Council's Significant Business Risk No. 11, which considers the risks of the scheme not being delivered by Gateway 14 Ltd. Key risks in relation to this recommendation are set out below:

Risk Description	Likelihood	Impact	Score	Mitigation Measures
Increasing the peak debt from £37.9m to £42.9m could result in other corporate growth priorities being potentially delayed until the debt is repaid.	(2)	(2)	(4)	G14 would use the debt funding to deliver financial as well as economic and social benefits, the first significant conditional deal has now been exchanged. This is a short-term borrowing facility and G14 will pay interest for the loan.

Other project risks:				
Continued construction cost inflation	(2)	(3)	(6)	Progress scheme in phases and review each phase and market prior to progressing. Phases to be tendered separately. High proportion of phases to be pre-sold or let.
There is a market downturn which means that the viability position is altered for the project.	(2)	(3)	6	The phasing of the development would be altered with a focus on delivering only build to suit opportunities on a pre-let or sale basis.

10. CONSULTATIONS

- 10.1 The Section 151 officer and Monitoring Officer have been consulted and are supportive of the recommendation.
- 10.2 The board of Gateway 14 Ltd and MSDC (Suffolk Holdings) Limited are also supportive of the recommendation.

11. EQUALITY ANALYSIS

An Equality Impact Assessment (EIA) is not required as the Council acting as a guarantor in this case would not have an impact on any individual protected characteristics.

12. ENVIRONMENTAL IMPLICATIONS

- 12.1 Environmental issues are being considered as part of the planning and delivery process however there are no direct environmental implications in respect of the recommendation at section 3.
- 12.2 Gateway 14 Ltd has a clear business goal to maximise sustainable construction opportunities and explore low carbon heat and energy/water sources on the site. A summary of some of Gateway 14's commitments in this regard is set out below: -
- The development will be designed to meet the BREEAM 'Very Good' target as a minimum. Where feasible this will be increased to BREEAM 'Excellent' (i.e., Innovation Centre and low energy usage tenants, such as The Range).
 - Building fabric and airtightness will be designed in excess of Building Regulations standards, incorporating Green Guide A rated products where feasible.

- The proposals for the development shall mitigate carbon impact of the development as far as practically possible, during construction and whilst in use. Individual building CO₂ emissions will be reduced by 15% over current target as a minimum.
- All roofs will be designed to be fully PV Ready. PV installation to roofs will be sized in accordance with the tenant energy usage. Additional renewable technologies to be considered alongside individual building design.
- Gateway 14 Ltd is reviewing opportunities for a local energy network where occupiers could share solar generated energy.
- Rainwater Recycling will be incorporated for all buildings and buildings will be designed to meet higher water efficiency standards. Low flow wash hand basin, small flush WC's and shower water outlets shall specified throughout to prevent excessive water use.
- 20% active and 20% passive EV charging points will be installed to all units at the outset.
- Construction waste and recycling will be managed and monitored as part of the development strategy to ensure the minimisation of waste and maximisation of recycling of any waste generated during construction and operation of the proposed development.
- Improved transport links and provision for bicycle storage and bike routes. 13.59% net gain for habitats and 148.65% for linear features (hedgerows).
- Planting of 13,819 whips (tree seedlings), 330 trees, 1,003sqm native hedge, 16,931sqm woodland, 7,626sqm scrub and 60,000m² wildflower meadow
- Retention of 21,640sqm of existing habitat and enhancement of 25,432sqm
- Inclusion of green corridors to facilitate species movement through the site and to maintain ecological links with the wider landscape
- Inclusion of brash piles, bat and nest boxes and hibernacula to provide nesting opportunities and dens
- 20% of each plot to be delivered as green landscaping in addition to the structural landscaping proposed
- 31.85ha of agricultural land at Saxmundham provided as mitigation for Eurasian skylark which will be specifically managed to enhance breeding habitat.
- The Suffolk Wildlife Trust (SWT) have reviewed the application proposals and have confirmed they are happy with the application. Gateway 14 are exploring opportunities for SWT to have an ongoing role.

13. APPENDICES

Title	Location
(a) Gateway 14 Cost Plan (Confidential Paper)	Attached in Part 2
(b) Photos of works on site	Attached
(c) The Range Indicative Drawings	Attached

14. BACKGROUND DOCUMENTS

14.1 None

15. REPORT AUTHORS: Emily Atack, Director Assets & Investments/ MD Gateway 14 Ltd.

APPENDIX B



APPENDIX B



APPENDIX C

PROPOSED BUILDING



GATEWAY14
STOWMARKET

APPENDIX C

PROPOSED PLOT LAYOUT

