

Meeting	Public SPA Board
Date and Time	20 June 2016
Location	Stirling Court Hotel, Stirling
Title of Paper	CTIL Radio Mast Licence Agreements
Item Number	14
Presented By	Colette Sherry Head of Corporate Procurement
For Approval/Information	For Approval
Appendix Attached:	Appendix 1 - Overview of Transaction

PURPOSE

Approval is being sought to enter into a contract with CTIL which will have a cumulative value of income of £8.48M over the 15 year period of the contact.

This paper is being submitted to the Committee in accordance with Section 9 of the Scheme of Administration.

1. BACKGROUND

- 1.1 The SPA Radio Towers Network was initially set up in the late 70s to carry the VHF Network. This network was built up over the following years with the addition of UHF and Microwave networks. At this time, the SPA has 139 Radio Sites in its property portfolio. This portfolio is mixed in nature comprising stand-alone Mast sites (hill sites) and masts/equipment within the curtilage of/or on police premises. The masts are a combination of owned property or owned masts situated on land leased from ground landlords.
- 1.2 Included in SPA's portfolio of mast licences are 102 separate licence agreements to two companies, Vodafone Limited and Telefonica UK Limited ("O2"), which currently generate a total gross income to the SPA of £752,400 per annum (£659,829 per annum after "pay away" sums to landowners, where applicable). These licences in general are held on **short-term agreements and could be cancelled within a year.**
- 1.3 CTIL has been formed as a joint venture between Vodafone Limited and Telefonica UK Limited to manage the network sites between the two companies, including the consolidation of sites to create a single grid. Many of the current 102 separate licence agreements include two different licences to Vodafone Limited and Telefonica UK Limited on the same SPA mast.
- 1.4 Without prejudice discussions, instigated by CTIL, have been entered into with CTIL and Police Scotland's Estate Department (supported by Cell:cm Chartered Surveyors-specialist agents in telecommunication property matters) on possible Heads of Terms for a revised Multi-Site Agreement (MSA) for the proposed CTIL consolidated holding. The discussions have been assisted by CTIL dealing with one national point of contact rather than eight separate Police Authorities as would have been the case before the creation of Police Scotland and the SPA.

2. FURTHER DETAIL ON REPORT TOPIC

- 2.1. This proposal was considered and approved by the SPA Finance and Investment Committee at its meeting on 11th May, 2016, subject to the approval of the Board, as the value of the income stream over the period of the Licence Agreements is in excess of £1 Million.

- 2.2 CTIL intends, through consolidation to reduce its proposed equipment requirements on SPA sites to 63 separate installations at 63 separate mast sites/properties.
- 2.3 These discussions have been ongoing for several months and the Heads Terms includes the proposed payment of a one off sum in return for granting the new 63 licences, which in effect generates an additional one off income of £385,000.
- 2.4 The headline net Licence fee under the proposed Multi Site Agreement (MSA) for these 63 sites will reduce, after pay-away, from £659,859 per annum (under existing Vodafone/Telefonica licences) to £540,323 per annum - a reduction of c£119,536 per annum. It is possible that where the mast sites are not owned by the Authority but held under ground leases Landlords (or some of them) may seek compensation for any reduction in their income stream. Should this arise it will be dealt with on a case by case basis having regard to the terms of the individual ground leases.
- 2.5 As the existing 102 licences are of a short term nature (all less than 1 year) it is possible that Vodafone Limited and Telefonica UK Limited could remove from some, if not all, SPA masts at short notice with the resultant complete loss of this current £659,859 per annum income stream.

Consolidation/Rationalisation Proposal

- 2.6 CTIL is looking not only to reduce the number of licences currently held by Vodafone Limited and Telefonica UK Limited from SPA to avoid unnecessary duplication and to have uniformity of licence terms, but also to upgrade its equipment to a standard suitable to deliver "4G" technology to the customers of both Vodafone and Telefonica ("O2") from the 63 SPA mast sites. Completion of each of the 63 new Licence Agreements is dependent upon a number of factors including securing delivery of:
- (i) Renunciations by Vodafone /Telefonica of their existing licences;
 - (ii) And the necessary Landlords' consents in sites where SPA is not the site owner.
- 2.7 The agreement would include:

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- The current 102 licence agreements currently held by Vodafone Limited and Telefonica UK Limited from SPA will be replaced by 63 licence agreements between SPA and CTIL based on an agreed template developed from heads of terms agreed with CTIL

2.8 TECHNICAL IMPLICATIONS

2.9 Airwave Solution Limited which provides Police Scotland Communications and mobile phone operators utilise different network frequencies and no interference by these proposed licences is expected. Vodafone Limited and Telefonica UK Limited already have equipment on these masts and it will be a condition that should any interference occur, it will be immediately remedied.

3. FINANCIAL IMPLICATIONS

3.1 The headline total licence fee under the proposed MSA will reduce, after pay-away from £659,859 per annum (under existing Vodafone/Telefonica licences to £540,323 per annum - a reduction of c£119,536 per annum.

3.2 However, the advantages of the CTIL proposal are:

- It will be a condition of the consolidation/rationalisation proposal that CTIL will pay the total one off payment of £385,000. This represents just approximately 3 years value of this annual Licence Fee reduction. It is to be noted that the Licence Fee under the new Licences will be reviewed every 3 years (with a guaranteed increase in line with inflation on years 3 and 9). A comparison is provided in the table below:

	EXISTING	PROPOSAL		
	Current Rent	New Rent	One Off Access Payments	Net Increase/ Decrease
2016/17	£659,859	£540,323 (as from 1/7/2016)	£385,000	£295,348
2017/18	£0	£540,323	£0	-£119,536
2018/19	£0	£540,323	£0	-£119,536
			Total Net Change (2016-2019)	£56,276

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- This transaction will significantly increase the investment value of the portfolio by tying CTIL into 15-year agreements, which can only be terminated on extremely narrow grounds.

3.3 It is to be noted that the due diligence will be carried out and any outstanding rental, electricity and rates payments due in respect of the existing 102 licences will be required to be paid in full before new licence agreements are entered into.

4. PERSONNEL IMPLICATIONS

4.1 The Masts are presently managed by a combination of Police Scotland Estates Department personnel and external managing agents. It is intended to procure a single external managing agent to manage the SPA portfolio on a National basis. This management proposal is consistent with the proposed Estates staffing structure and the proposed CTIL consolidation would not impact this proposal.

5. LEGAL IMPLICATIONS

5.1 The CTIL proposal, if approved and implemented, would result in the current 102 Licence Agreements with Vodafone/Telefonica being renounced and replaced by 63 Licences with CTIL (subject to Landlords' consent in respect of those Sites where the Scottish Police Authority is not the heritable proprietor of the Site). The terms of the new licence will be drafted by Police Scotland Legal Services and reflect the Heads of Terms agreed in discussions between CTIL and Cell:cm, but include terms consistent with the Authority's standard radio mast licence.

5.2 Any agreement with CTIL in furtherance of its consolidation/rationalisation programme will be subject to the inclusion of appropriate safeguards to ensure that the financial commitments given by CTIL as a prerequisite of the SPA progressing the work involved in the rationalisation/consolidation programme are honoured and that CTIL bears an appropriate level of risk as to purification of any pre-conditions attached to the granting of the new licences.

6. REPUTATIONAL IMPLICATIONS

6.1 The proposed MSA to CTIL can demonstrate that the SPA is managing the Radio Mast estate in a responsible manner obtaining Best Value. In the opinion of Cell:cm the proposed package of

transactions represent best value for SPA. This opinion takes into account the proposed one-off payments, Licence Fee levels and other terms for each of the proposed 63 Licences (concluded as a package) with a focus on the longevity of guaranteed income and the resulting enhancement in the capital value of the SPA "mast sites"

7. SOCIAL IMPLICATIONS

7.1. There are no social implications as a consequence of this report.

8. COMMUNITY IMPACT

8.1 There are no community implications as a consequence of this report.

9. EQUALITIES IMPLICATIONS

9.1 There are no equalities implications as a consequence of this report.

10. ENVIRONMENTAL IMPLICATIONS

10.1 There are no environmental implications as a consequence of this report.

RECOMMENDATIONS

It is recommended that Members;

- I. Note and approve the contract with CTIL for a period of 15 years for a total contract value of £8.48M (cumulative income value over the period).

On receipt of this approval also;

- II. Subject to approval from SPA, and as part of service provision to the Authority by police staff permitted under section 83 (2) of the Police and Fire Reform (Scotland) Act 2012, to instruct Procurement staff within Police Scotland to prepare contract documentation for the contract period, to present this documentation for review and signature by the Accountable Officer and subsequently issue on behalf of the Authority.

**SPA & Cornerstone Telecommunications Infrastructure Limited
(CTIL)**

Proposed Multi-Site Agreement (MSA) concerning existing telecoms installations on Police Scotland Property

Existing Portfolio Facts

102 – Number of current total existing “lettings” to either Vodafone Limited or Telefoncia UK Limited (“O2”).

£752,400 per annum – Current total “gross” income to PS.

£659,829 per annum – Current total “net” income to PS (after “pay-away” sums to Property Owners).

Proposed Portfolio Information

63 – Number of installations to be included in the MSA and new Agreements to be granted to CTIL.

39 – Number of installations to be brought to an end and the apparatus removed.

£598,500 per annum – Total proposed “gross” income to PS from the 63 Agreements to CTIL (@ £9,500 per annum).

£540,323 per annum – Total proposed “net” income to PS from the 63 Agreements to CTIL (@ £9,500 per annum).

62% of the current installations to be retained, 81.8% of the current net income to be retained.

One Off Payments

£135,000 – Payment to be made by CTIL (where applicable on behalf of Vodafone Limited and/or Telefonica Limited) to SPA on completion being 1 July 2016, for the “run-off” rents applicable to the “non-keep” sites.

£250,000 on 1 July 2016 – Additional payment to be made by CTIL to the SPA for agreeing to the 63 licences

On completion, CTIL is required to also:

ensure that in exchange for the acceptance of Renunciations from Vodafone Limited and/or Telefonica UK Limited and the grant to new Licences to CTIL the said Vodafone Limited and/or Telefonica UK Limited bring all existing Licence fee rental accounts up-to-date; and

the said Vodafone Limited and/or Telefonica UK Limited bring all existing Licence electricity, rates and other charges (under current licence obligations) up-to -date.

Pros & Cons

Cons

A reduction in the annual income of 18.2%, or £119,536 per annum (but reviewed after 3 years, with a clause that ensures costs can only increase).

Pros

- Higher total initial payments due to substantial £385,000 up-front payments.
- Where applicable all new Agreements to be for 15 years, without unconditional break for CTIL, to include licence fee review provisions to guarantee increases.
- Significant increase in "Capital Value" of all lettings to Vodafone/Telefonica UK Limited/CTIL. Most of the existing Agreements have expired or include an open 6-month break for the occupier. These all therefore have very limited capital value (6–12 months of licence fee). 15 years' (where applicable) of secure income from 63 licences will increase the capital value of this portfolio by Millions of pounds.

Retention of all required Vodafone/Telefonica UK Limited installations (they may depart if CTIL deal not progressed).

All 63 new Agreements on uniform terms assisting management/visibility.

Mechanism to settle/regularise all outstanding reviews, arrears & electricity use charges as part of deal.

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Substantial reduction in amount of apparatus actually installed at each existing mast site/property (relieving wind-loading, structural capabilities and mast site maintenance costs).

39 less installations to manage (estate management, licence fee collection, etc.).