

Report of Director of City Development

Report to Executive Board

Date: 10th February 2016

Subject: Potential Investment in the East Leeds Orbital Road

Are specific electoral Wards affected? If relevant, name(s) of Ward(s): Crossgates & Whinmoor, Harewood, Temple Newsam	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: 10.4(3) Appendix number: 2	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Summary of main issues

This report sets out a proposal from Legal & General to invest in the East Leeds Orbital Route, a strategic piece of infrastructure that will enable up to 5,000 new homes to be built.

The East Leeds Extension (ELE) is a major strategic growth point for Leeds, with the potential to make a major contribution to the continued economic growth of the city. Alongside the development of Thorpe Park, it has been recognised as an investment and growth priority for the Leeds City Region and as a key component of the government's 'Northern Powerhouse' initiative.

The East Leeds Orbital Road (ELOR) is the critical infrastructure that will enable this growth. At its meeting in October 2015, Executive Board noted the progress being made in bringing the ELOR project forward and that a funding case continues to be developed through the West Yorkshire Plus Transport Fund, prudential borrowing and developer contributions. Executive Board affirmed the principle of using a roof tax on development in the East Leeds Extension as the means by which the ELOR should be secured. ELOR will require significant investment, with the onus currently on the public sector to fund and cash-flow its construction.

Executive Board also requested that the Council continues to explore alternative means of financing the costs of this infrastructure and that a further report is brought forward to update on progress.

Infrastructure improvements are essential for national and local economic and housing growth. There is increasing recognition of the need for innovative ways through which private investment can be brought in alongside public funding, to accelerate delivery, create certainty and drive value for money. The Council has engaged proactively with this agenda through promotion of Leeds in national and international trade and investment discussions and in the development of relationships with key government agencies, making it well-positioned to consider funding and investment opportunities.

The Council has been positioning Leeds as an attractive place for investment in infrastructure and regeneration. A presentation was given to potential funders at No. 10 Downing St and Leeds has participated in two high profile trade missions in the second half of 2015. As a result of this the Council has worked with UK Trade & Investment's Regeneration Investment Organisation, which has brokered a discussion between the Council and a major UK institutional investor, which has expressed an interest in funding the ELOR. Legal & General is a FTSE 100 company with a strong track record in direct investments across the country. It has made a commitment to government to invest £1.5bn in infrastructure and regeneration assets, as part of a co-financed £15bn programme with other national and international investors. As one of its first investments as part of this, it has recently invested in Thorpe Park, showing confidence in the Leeds economy and East Leeds as a location.

The initial proposal is that Legal & General would provide equity investment alongside public grant from the West Yorkshire Plus Transport Fund to enable construction of ELOR by the Council. This would be predicated upon Legal & General receiving a return on this equity investment via the 'roof tax' on development in the East Leeds Extension that is to be secured by the Local Planning Authority under s106 legal agreements with developers. This would remove the current requirement for the Council to borrow funds to supplement the public grant and transfer risks associated with the rate of housing development and uncertainty on timescale for recovery of the roof tax to meet the Council's borrowing costs.

This is a potentially attractive and innovative investment model that would highlight and promote Leeds as a great location for further private investment in infrastructure.

The report sets out the range of issues to be further assessed and resolved, with particular reference to the Council's base funding case, value for money and risk assessments required, before decisions can be made as to whether the investment can be considered to be appropriate and commercially acceptable for the Council, L&G and developers in the East Leeds Extension.

Recommendations

Executive Board is asked to:

- a. Note and welcome the expression of investment interest from Legal & General in the East Leeds Orbital Road;
- b. Approve that the Director of City Development leads further due diligence on the investment proposals and that discussions continue to take place with Legal & General on the matters set out in paras 3.18 – 3.23;

- c. Request that the Director of City Development reports back to Executive Board to provide assurances on risks and value for money to the Council relating to the investment and proposed Heads of Terms by September 2016;
- d. Agree that the Council continues to develop its baseline funding model for the East Leeds Orbital Road, as set out in paras 2.12-2.14, alongside any further discussions with Legal & General or other third party interests.

1 Purpose of this report

- 1.1 This report provides Executive Board with initial details of the Council's efforts to source funding for the East Leeds Orbital Road and an emerging proposal for private sector funding for its construction.

2 Background information

- 2.1 Executive Board has previously noted the importance of the East Leeds Extension (ELE) as a major strategic growth area for the city, estimated to accommodate around 5,000 new homes. The plan at Appendix 1 shows the area and its component parts.
- 2.2 The ELE was allocated in the 2006 Unitary Development Plan Review and is carried forward as residential development land in the Site Allocation Plan (Publication Draft). Executive Board has recognised the significance of the programme to support the delivery of new homes here alongside the necessary infrastructure and community facilities and the need to progress this with clarity and pace, as a significant part of the Core Strategy requirement for 70,000 new homes by 2028.
- 2.3 There is also potential for significant employment growth at the adjoining Thorpe Park to complement the ELE as a desirable residential neighbourhood with high quality transport links, new community facilities and access to local jobs and training, which will also benefit existing neighbourhoods in the area, contributing to the regeneration of East Leeds as a whole.
- 2.4 The delivery of the ELE will clearly relate to the Best Council Plan objective to promote Sustainable and Inclusive Economic Growth by providing new homes and meeting housing needs as the city grows, boosting the local economy, delivering new social and physical infrastructure and improving travel and access to new employment opportunities.
- 2.5 The programme for the ELE also embraces the wider objectives of the BCP and the Best City ambition for Leeds to support communities, build a child friendly city, deliver the better lives programme, enable positive public health outcomes, ensure that development is sustainable and that the Council acts in ways that reflect the need to be more efficient and enterprising.
- 2.6 Together the ELE and Thorpe Park have also been recognised by the Local Enterprise Partnership (LEP) as key components of the LCR Strategic Economic Plan and by central government, through UK Trade & Investment (UKTI) and its Regeneration Investment Organisation (RIO) as major development and investment opportunities that will help drive forward its 'Northern Powerhouse' initiative.
- 2.7 The Council has therefore committed to playing a leading role in the co-ordination and delivery of the infrastructure that will be necessary to realise this residential and economic growth, in a complex context of multiple land owners and funding requirements.

- 2.8 An East Leeds transport package is central to this programme, comprised of three related projects, which in combination are considered essential to the overall improvement of travel and movement across East Leeds and enabling growth. At its meeting in October Executive Board noted the positive progress of work by the Council to bring this package forward - improvements to junctions on the A6120 Outer Ring Road in North Leeds; environmental enhancements and measures to improve the A6120 through East Leeds for pedestrians, cyclists and public transport; and the construction of East Leeds Orbital Road (ELOR) between Red Hall and the M1 at J46, Thorpe Park. Measures to improve public transport accessibility and ensure bus services are enhanced and extended to serve new and existing neighbourhoods will also be brought forward alongside the delivery of this 'hard' infrastructure.
- 2.9 The Board approved that the Council continues to develop a funding case for the construction costs of the ELOR through the West Yorkshire Plus Transport Fund (WYTF), prudential borrowing by the Council and developer contributions. The overall package cost is currently estimated at £116.23m (including risk pricing and 'optimism bias') with ELOR comprising £96.35m of this. The maximum WYTF grant to the whole package will be £76.23m, subject to a final business case, requiring third party contributions to the ELOR construction costs of £40m, which are to be secured from the development of new homes within the ELE.
- 2.10 It is to be expected that the final ELOR works cost estimate will be significantly less than the current estimates as greater design certainty is obtained through current, ongoing work and risks - with their associated costs - can be reduced or eliminated.
- 2.11 The approach to securing developer contributions is known as a 'roof tax'. In simple terms, the calculation of this will be based on the detailed cost or estimate of cost for ELOR in the relevant section of the ELE at the point that residential planning applications are submitted and determined. The overall amount of developer contributions required in each section will be derived through deducting the WYTF grant available from the overall cost estimate (or actual cost, depending on timing of applications in relation to the ELOR construction programme), with the identified gap in funding then being recovered through payments made by the developers to the Council over time related to the progress of house building - each dwelling completed would trigger a payment towards the total agreed funding gap. The roof tax would be a planning obligation secured through s106 legal agreements attached to planning approvals.
- 2.12 The East Leeds Transport Package is a large and complex scheme - the programme for ELOR provides for a construction period from March 2018, opening by December 2021. Whilst there is a very strong business case developing for significant WYTF grant towards its funding, there is still a gap to be met for the ELOR construction costs, pending receipt of the roof tax payments from developers that will only come forward as new dwellings are completed in the ELE. This funding gap will need to be met by the Council in the first instance using prudential borrowing, the full costs of which should ultimately be recovered via the roof tax incrementally received as housing development progresses.

- 2.13 In effect the Council will provide a cash flow facility to enable the road to be constructed and the residential development to move forward, enabling the housing potential to be fully realised. It should be noted that the c.5,000 new homes in the ELE have no fixed timescale for completion and could take up to 30 years to fully build-out and therefore fully pay back the Council's initial borrowing.
- 2.14 The Council would be accepting a measure of financial risk under this approach whereby the borrowing undertaken would have to be repaid regardless of whether or not the Council had received sufficient roof tax to fund the repayment. As there are no guarantees as to when or how much roof tax the Council would receive this could mean that the Council would have to find other ways of financing the repayment of its borrowing.
- 2.15 In view of this potential long term debt exposure Executive Board has requested continued exploration of alternative means of financing that may offer better value for money or reduce risk to the Council. In doing so the Council is seeking to pursue investment opportunities that go beyond the usual recourse to further public funding bids, to source new and innovative means of delivering infrastructure.
- 2.16 The main part of this report sets out a potential alternative financing route that officers have explored with a major institutional investor.

3 Main issues

- 3.1 The delivery of effective and efficient infrastructure is at the heart of the Council's ambitions for housing and economic growth, in recognition of its capacity to unlock economic potential and ensure that growth and its benefits are distributed across the country. Investment in infrastructure helps the delivery of new housing and business development, the creation of new jobs and improvements to economic and social well-being.
- 3.2 Transport and connectivity improvements across the northern cities are of critical importance to the delivery of the Leeds City Region's plans for growth and to ensure its contribution to the government's Northern Powerhouse initiative. Much of the onus for funding such work is currently with the public sector, including Local Authorities and the West Yorkshire Combined Authority, but through the renewed national focus on infrastructure delivery there is a growing recognition of the need to find innovative ways in which value for money solutions to these investment needs can be found, working with the private sector.
- 3.3 Government has formed a National Infrastructure Commission to provide greater certainty to the funding and delivery of the UK's critical infrastructure and published a National Infrastructure Plan. This recognises that public funding will continue to play a crucial role in delivery of infrastructure but that there is also significant scope for private funds, equity or debt investment to meet the country's infrastructure needs alongside this. This is a principal that extends beyond nationally critical infrastructure to that which has importance at the city-regional scale, such as ELOR.

- 3.4 The Council has therefore proactively engaged with this agenda through promotion of Leeds in national and international trade and investment discussions and in the development of relationships with key government agencies, making it well-positioned to consider funding and investment opportunities.
- 3.5 Arising from the Council's activities to position Leeds as an attractive place for investment in infrastructure and regeneration and following a presentation to potential funders at No. 10 Downing Street, the Council has been working with the Regeneration Investment Organisation (RIO) within UKTI. RIO's mandate is to source projects across the country that are investable and ready for development, in line with its mandate of helping national and international investors identify and fund regeneration opportunities in the UK. It seeks to broker relationships between investors and projects that will contribute to the regeneration and renewal of UK towns and cities with positive economic and social benefits.
- 3.6 ELOR is one of three Leeds projects (alongside Kirkstall Forge and South Bank) and 20 from across the north of England that UKTI has included in its 'Northern Powerhouse Investment Pitchbook', which has been used by RIO to support international trade missions, particularly to China and far east, in which Leeds City Council has actively participated.
- 3.7 RIO also works with domestic interests and has sought discussions with UK institutions towards investment in regeneration schemes. One such institution is Legal & General (L&G), a FTSE 100 company and one of the world's oldest insurance companies.
- 3.8 At the start of 2015, L&G committed to co-invest £1.5 billion to a new £15 billion regeneration fund to provide investment into UK regeneration projects including housing and infrastructure, alongside capital secured by RIO from other institutions and leading overseas investors. L&G's funding will come from its own balance sheet in the form of equity, as opposed to being from pension or insurance funds under its management. It has a set of corporate goals and priorities for the investments it makes directly in the UK that align closely with the growth ambitions for Leeds, the City Region and the Northern Powerhouse.
- 3.9 L&G's strategic aim is to invest its own balance sheet to become the UK leader in direct investments, including housing and other vital infrastructure. This form of investment has been characterised as 'slow money' – investment in the 'real economy' of housing, infrastructure and other social goods that delivers a profit on the assets created but often over long timescales and bridging economic cycles, taking a long-term view of investment risk. This is in contrast to many other forms of investment that seek short-term returns based on financial cycles and sector or business trends. Through direct investments in 'slow money' projects, L&G is committing to playing a role in the 'Northern Powerhouse' initiative and bringing about major regeneration to help bridge the north-south divide, as a strong, stable and long term partner.
- 3.10 It has already worked with several local councils and developers across the country to regenerate some of the UK's most important city centre sites. Most recently L&G has taken a 50% stake in Thorpe Park and committed financing for development totalling £162m, which will assist in delivering the Manston Lane

Link Road and driving forward the next phase of mixed use development for office, retail, housing and leisure uses. It has a clear interest in Leeds as an investible proposition and recognises the strength and further prospects for growth of the city's economy.

- 3.11 Through the Council's engagement with RIO and the prominence of the ELOR in its investment pipeline, L&G has expressed interest in this as an opportunity to use its direct equity funding to help realise the scheme and deliver income over the long-term.
- 3.12 L&G initially approached the Council in late 2014, since when a mature dialogue has developed around the possible scope for investment. The investment interest has strengthened due to the geographical proximity and potential for synergy with L&G's more recently acquired interest in the adjoining Thorpe Park.
- 3.13 These discussions have been held alongside the continued promotion of ELOR by RIO as an investment opportunity nationally and internationally. No commitments have been made by either party to an investment, other than an ongoing willingness to explore the opportunity.
- 3.14 Officers have been clear that as a starting point any direct funding to the scheme would need to demonstrate a clear benefit to the local authority in comparison with the current base funding approach of using the WYTF grant and prudential borrowing. In broad terms there must be a value for money assessment that factors in any cost to the Council over and above the current assumed funding approach, together with the value of any risks transferred to the funder.
- 3.15 It should be noted that the Council has access to very favourable loan terms through the Public Works Loan Board and other borrowing at highly competitive rates, which will generally be lower than more commercial funding arrangements available to other bodies. This is therefore a strong comparator against which other funding proposals must be tested, alongside a robust assessment of the risk relating to the forecast return from roof tax receipts to re-pay this and what debt costs may need to be carried by the Council if roof tax is not generated and received in a timely way.
- 3.16 The proposition from L&G is that its equity investment would replace the need for the Council to separately borrow to cover the initial gap in the costs of delivering ELOR. The Council would continue to design, procure, deliver and adopt the ELOR as public highway infrastructure. A roof tax would continue to be levied on housing constructed in the ELE through s106 legal agreements relating to planning permissions. The current proposal is that L&G and the Council will make equity investments in a special purpose vehicle (SPV), which will be a trading company, with roof tax payments received from development being paid into the SPV by the Council, and with L&G receiving an agreed level of return by way of dividends paid out by the SPV. Given that L&G's return is predicated on the construction of housing units in the ELE, housebuilding risk will be transferred from the Council to L&G under this investment proposition.
- 3.17 The principle of capturing development value to pay for infrastructure is not a new one. Local Authorities have been collecting payments for transport and

community infrastructure from developers under s106 legal agreements relating to development for many years. The construction of the East Leeds Link Road (A63) through the Aire Valley between the M1 and city centre was enabled through s106 planning agreements requiring payments towards the scheme from adjoining developments at agreed trigger points in their progress. Also, Tax Increment Financing models (TIF) are beginning to be used in the UK, where private loan funding is publicly invested in infrastructure, with additional levies placed on business rates in the defined TIF area to fund the loan.

3.18 Whilst the principle of private funding of infrastructure is therefore well-established, the nature of the equity investment proposal from L&G is a potentially ground-breaking and innovative model with a number of matters and details still to be resolved before full recommendations on it can be made to Executive Board. These are broadly summarised in the cross-related headings below and set out in detail underneath:

- Market Testing
- Risk Transfer
- Costs & Timescales
- Development Scope & Planning Matters
- Legal & Financial Structures

3.19 ***Market Testing***

3.19.1 The Council has not so far tested the wider market to establish commercial benchmarks against which any investment offer from L&G could ultimately be measured. Further bespoke advice will be required once detailed figures relating to the funding offer become clear to ensure that the proposition represents value for money for the Council and complies with State Aid legislation. A reasonable suggestion at this stage is that market investor analysis takes place and subject to the outcome of this that a funding competition could be undertaken. It is however to be noted that this is a relatively new market with a very limited number of interested entities.

3.20 ***Risk Transfer***

3.20.1 Given that L&G's return is subject to roof tax receipts generated on the construction of housing units, the transfer of housebuilding risk to L&G is central to this proposition. This investment is therefore potentially attractive to the Council in so far as it could remove a significant borrowing requirement and potentially enable the risks associated with the performance of the housing market – and therefore the rate and extent to which roof tax would be collected to otherwise fund the full costs of the Council's borrowing – to be transferred to a third party. The construction, delivery and cost risks associated with ELOR would reside with LCC.

3.20.1 It would be for L&G to gain the appropriate commercial comfort on the development programme and to take a long-term view on the housing market and property cycle to inform their position on this. The extent of risk transfer offered would form part of the Council's overall assessment of the proposal, in

comparison with its base funding case.

3.21 ***Costs & Timescales***

- 3.21.1 Confirmation of any investment and the amount of funding required will be dependent upon there being planning certainty, WYTF grant approval and clarity on the final business case cost estimate for the Council to deliver the ELOR construction project. A planning application for ELOR is to be submitted in late Spring 2016, with work currently taking place to confirm the design and to refine cost estimates, to be informed by the outcomes of consultation. It is also possible that the project will go to a Public Inquiry before permission can be confirmed (which the programme allows for). Detailed engineering refinement and estimating will also continue beyond planning approval, with the likely final cost and WYTF grant available not being known until procurement completes.
- 3.21.2 This would require a phased or staged approach to any third party funding deal, with principles first established in Heads of Terms and a clear joint programme of work to ensure agreement and clarification of details moving forward towards the point of funding and project delivery. If Heads of Terms can be agreed there will be early certainty of third party funding, so that the planning and procurement process for ELOR construction can be brought forward with more certainty.

3.22 ***Development Scope & Planning Matters***

- 3.22.1 Critical to any funding deal is the support and buy-in to the investment model from all development interests in the ELE, as roof tax is just one component in the developers' viability assessment, alongside affordable housing, other s106 provisions and CIL. Discussions with the major house builders with interests in the area have to date centred on the Council's baseline approach to funding the road and have established a consensus that a roof tax, secured through s106 legal agreements attached to planning approvals, is the appropriate way in which developer contributions should be secured, repaying the Council's reasonable borrowing costs.
- 3.22.2 L&G's interest in the scheme has been raised with these house builders as has the likelihood that the roof tax will need to have some form of indexation to ensure the investment can generate a return over time – whilst this is not in principle different to the way in which the roof tax would need to cover the Council's costs, further discussions would be required on the level of growth required to meet L&G's return expectations and the extent to which this would be reasonable, enforceable and viable.
- 3.22.3 To date there are no planning approvals for housing in the ELE and until schemes come forward it is difficult to confirm the amount of roof tax that each development would need to generate, to test this for viability or to discuss further in detail with developers. The Council is progressing work to establish a planning framework for the whole of the ELE that will help guide proposals coming forward and embed the roof tax mechanism.

3.22.4 The housing scheme that is furthest progressed is at the Northern Quadrant - discussions with the landowner Consortium on the s106 and roof tax obligations have pre-dated L&G's investment interest and so have not allowed for any of the detailed provisions that s106 agreements in other sections of the ELE may need to incorporate to align with the L&G investment.

3.23 **Legal & Financial Structures**

3.23.1 The way any investment is structured and its possible implications for the way in which the Council may need to account for this, may have implications for the Council's finances, which will require a cost-benefit comparison with the baseline position. Exempt Appendix 2 sets out further detail of the issues in this regard.

3.24 Executive Board is asked to approve that discussions continue with L&G in each of these areas and that house builder interests will be further engaged to enable all parties to progress towards a funding proposition.

3.25 Moving forward WYCA will also be further engaged to ensure that any investment model achieves a fit with the WYTF requirements.

3.26 Executive Board is also asked to note that the Council will continue to work on its baseline funding model and assume this as the means through which ELOR will be delivered unless a resolution for an alternative approach is made.

4 **Corporate Considerations**

4.1 **Consultation and Engagement**

4.1.1 The Leader of the Council and Executive Member for Regeneration, Transport and Planning have been briefed on the investment interest from L&G. Additionally the East Leeds Regeneration Board of local ward members has also been informed about the nature of the discussions that have been held to date.

4.1.2 There has been no specific public consultation on the matters raised in this report, though it should be noted that a programme of co-ordinated engagement on the ELE as a whole has taken place from November 2015 – January 2016. This brought together the various elements of the programme to ensure residents, businesses and other stakeholders have a clear view on all the proposals for the area, how they are linked and offering a formal opportunity to comment and influence the future of the area.

4.1.3 A website has also been established, supported and publicised through social media and this will remain live and regularly updated with news and progress on the ELE programme. Further consultation exercise will take place on separate components of the programme as it progresses.

4.1.4 Landowners in the Southern and Middle Quadrants have been kept updated on the progression of the East Leeds Extension programme over the last two years and house builders with interests in the area have been canvassed on the initial interest from L&G with early issues identified for further discussion.

4.2 **Equality and Diversity / Cohesion and Integration**

- 4.2.1 An updated EDCI screening for the whole of the ELE programme as set out in this report is provided at Appendix 3 and this indicates that the issues set out in this report are very unlikely to have equality, diversity/cohesion and integration impacts and that there is no need for a full assessment.

4.3 **Council policies and Best Council Plan**

- 4.3.1 The East Leeds Extension will play a major role in delivering the housing required to meet the Core Strategy requirements for 70,000 new homes by 2028 and will assist in the delivery of the Best Council Plan, particularly the objective of Promoting Sustainable and Inclusive Economic Growth. There are also strong linkages to other objectives in the BCP, where work to plan for and develop significant new neighbourhoods for the city, effectively integrated physically and socially with the existing urban area, will require inputs from all services of the Council to ensure opportunities to deliver the best city ambition are realised.

4.4 **Resources and value for money**

- 4.4.1 The ability to deliver the ELOR will require financial contributions from both private and public sectors. Private contributions will ultimately be secured through the direct delivery of any relevant planning approvals in the ELE and s106 agreements secured in relation to these which will include the obligations for roof tax payments.
- 4.4.2 Public funding for ELOR will continue to be pursued through the West Yorkshire Plus Transport Fund as set out in the main body of this report. As cost estimates continue to be refined on the scheme a further report will be brought to Executive Board to set out the further borrowing requirements to meet the initial capital cost of the works and the revenue implications to the Council in carrying this debt until it is repaid through the roof tax.
- 4.4.3 These revenue implications will form one of the key comparators in a value for money assessment of any third party funding proposal, alongside other considerations such as the value of risk transferred from the Council.

4.4.4 **Legal Implications, Access to Information and Call In**

- 4.4.1 The construction of ELOR, the s106 agreements with developers, and the baseline funding model are all covered by the Council's highways and planning powers, and by the Council's power to borrow in the Local Government Act 2003, respectively. It is likely that the investment proposal by L&G would be covered by the Council's general power of competence in the Localism Act 2011, to do anything that individuals generally may do, subject to the proposal not involving unreasonable risk or speculation on the Council's part, and subject to compliance with the usual fiduciary duty to Council tax payers.
- 4.4.2 The information contained in the Exempt Appendix 2 attached to this report relates to the financial and business affairs of a third party investor and of the Council. It is considered that the release of such information during the

discussion about proposed investment and negotiation of terms could prejudice the interests of either party and the public interest in maintaining the exemption outweighs the public interest in disclosing this information at this point in time. It is therefore considered that this element of the report should be treated as exempt under Rule 10.4(3) of the Access to Information Procedure Rules.

- 4.4.3 The Council's Projects, Programmes and Procurement Unit has advised that as this would be a financial investment by a third party and not the delivery of works and/or services, this is not captured by the EU procurement or concessions regulations. As such it does not need to be subject to a procurement exercise.
- 4.4.4 The contract for construction of ELOR will however be entirely separate from any funding deal and will be subject to the procurement regulations, the Council's own CPRs and any further requirements of the West Yorkshire Plus Transport Fund grant.
- 4.4.5 As the investment proposal by L&G is developed, further work will be done to ensure that the proposal is State Aid compliant.
- 4.4.6 This report is subject to call-in.

4.5 Risk Management

- 4.5.1 Discussions with L&G have to date taken place with officers from Legal Services, Corporate Finance and City Development, which has enabled identification of the full range of risks that will need to be managed going forward. The headlines of these are set out in the main body of the report. Further technical advice is available through the PPPU should this be required.
- 4.5.2 The Council has also recently appointed a leading national external legal firm to provide advice on all aspects of the East Leeds Extension, which will provide additional expertise to draw upon as required.

5 Conclusions

- 5.1 The Council is continuing to bring forward the package of transport measures that will be essential to support the development of the East Leeds Extension strategic growth area. Central to these is the East Leeds Orbital Road, which is currently moving through its design phase towards a construction period between March 2018 and December 2021, subject to planning and procurement.
- 5.2 The Council's base funding case for construction is continuing to be developed, comprising grant through the West Yorkshire Plus Transport Fund and prudential borrowing by the Council, to be eventually reimbursed through roof tax contributions from developers of homes in the East Leeds Extension.
- 5.3 Through its proactive engagement with central government, the Council has received welcome investment interest from a major financial institution and FTSE 100 company, Legal & General, which could replace the need for the Council to undertake borrowing itself to fund the ELOR construction. This would be an innovative investment model that would position Leeds very well in its continued efforts to attract private investment to regeneration and infrastructure. It would

therefore be of benefit to the Council and the city, to further explore this interest in accordance with the issues set out in this report, with a view to bringing further details of any investment offer arising back to the Board for consideration.

6 Recommendations

6.1 Executive Board is asked to:

- a. Note and welcome the expression of investment interest from Legal & General in the East Leeds Orbital Road;
- b. Approve that the Head of Regeneration leads further due diligence on the investment proposals and that discussions continue to take place with Legal & General on the matters set out in paras 3.18 – 3.23;
- c. Request that the Head of Regeneration reports back to Executive Board to provide assurances on risks and value for money to the Council relating to the investment and proposed Heads of Terms by September 2016;
- d. Agree that the Council continues to develop its baseline funding model for the East Leeds Orbital Road, as set out in paras 2.12-2.14, alongside any further discussions with Legal & General or other third party interests.

7. Background documents¹

7.1 None

¹ The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.