

Report of the Director of City Development

Report to Executive Board

Date: 13th February 2019

Subject: Proposed Heads of Terms for Joint Venture arrangements between London and Continental Railways (LCR) and LCC

Are specific electoral wards affected?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
If yes, name(s) of ward(s): Beeston & Holbeck Hunslet & Riverside		
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?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
If relevant, access to information procedure rule number: 10.4(3) Appendix number: A – Heads of Terms for Joint Venture with London & Continental Railways (LCR)		

Summary of main issues

1. The Council seeks to support the redevelopment of Leeds railway station, which is the busiest in the north of England, to meet the projected increase in capacity of 49% by 2023 and 135% by 2043. To do this it is working in partnership with Network Rail, Northern Powerhouse Rail (NPR), HS2, West Yorkshire Combined Authority (WYCA) and London & Continental Railways (LCR). This redevelopment is critical to supporting the Inclusive Strategy call for 21st century infrastructure to support the growth of the city and region.
2. Over the last 4 years LCR has been central to the development of the Leeds Integrated Station Masterplan and Southbank Regeneration Framework now adopted as Supplementary Planning Document. LCR procured and managed the consultants to deliver these outputs as well as the development of a Strategic Outline Business Case.
3. In March 2015, Executive Board approved the proposal for the Council to formalise its working arrangements with LCR through a Collaboration Agreement. Since then the Council has been working closely and proactively with LCR on how Leeds may develop its proposals for delivery of the current station redevelopment and integration with the

HS2 Station and other related commercial ventures. During this time LCR has also entered into joint venture arrangements with Network Rail to develop the next stage of design for the station.

4. LCR is a UK Government (DfT) owned company which specialises in railway led regeneration. LCR played a leading role in facilitating the exemplar transformation around Kings Cross station and has national and international expertise in delivering complex regeneration associated with major infrastructure. LCR has a skill set which is not available within the Council but is complementary to the Council's expertise and leadership role in driving forward regeneration. In addition, LCR has unique access to Network Rail and DfT to support and promote the Council's ambitions.
5. On the 17th October 2018, Executive Board approved the principle of the Council entering into a joint venture agreement with LCR, subject to a report on the heads of terms being brought back to Executive Board for approval.
6. The Joint Venture Arrangements (as defined at paragraph 3.4, below) would provide the structure to enable regeneration and station redevelopment investment opportunities to be progressed and this report seeks approval to delegate authority to the Director of Development and the Chief Officer Financial Services in consultation with the Executive Board member for Regeneration, Transport and Planning and the group leaders of Executive Board to support this.

Recommendations

That Executive Board:

- a) approve the detail of heads of terms for Joint Venture Arrangements with London & Continental Railways (as set out in Confidential Appendix A) to progress the proposals for the redevelopment of Leeds railway station;
- b) delegate authority to the Director of City Development to finalise and enter into the Joint Venture Arrangements with London & Continental Railways;
- c) agree to inject and give authority to spend £2m as the Council's capital contribution to the partnership to be established pursuant to the Joint Venture Arrangements;
and
- d) note that the principle of joint acquisitions with LCR will be the subject of a further report.

1. Purpose of this report

- 1.1 To seek approval of the heads of terms for Joint Venture Arrangements with London & Continental Railways (LCR) to progress the proposals for the redevelopment of Leeds railway station and delegate authority to enter into the joint venture arrangements to the Director of City Development
- 1.2 To agree to inject and give authority to spend £2 million as the Council's capital contribution to the partnership and note that the principle of joint acquisitions with LCR will be the subject of a further report to Executive Board.

2. Background information

- 2.1 Leeds station is the busiest station in the north of England, with nearly 31 million passengers a year. The station is one of the most important pieces of transport infrastructure in the UK and passenger demand is expected to more than double with growth of over 135% anticipated in the next 30 years.
- 2.2 The redevelopment of Leeds' existing station, integration with HS2 and the regeneration of the Southbank are integral in delivering the 21st century infrastructure identified as key to the Inclusive Growth Strategy, doubling the size of the city centre, supporting the redevelopment of Southbank.
- 2.3 In order to meet future capacity growth, including our ambitions for Northern Powerhouse Rail, and to create a gateway befitting of the station's national importance, there is a need for investment into the station to secure its redevelopment. Additionally, the proposed HS2 Station will integrate with the existing station – further driving a need for a proactive plan for the station's redevelopment. It will also be important to ensure Leeds city centre, our people, and our businesses and, in particular, the existing station are HS2 ready.
- 2.4 Over the last four years LCR has been integral to the development of the Leeds Integrated Station Masterplan (LISM) and the Southbank Regeneration Framework Supplementary Planning Document, having procured and managed the consultants to deliver them and procured the consultants to develop a Strategic Outline Business Case for LISM. LCR has now entered into JV arrangements with Network Rail to facilitate the redevelopment of 10 pilot stations across the country including Leeds and has procured consultants to develop the design, cost and business cases for LISM.
- 2.5 In March 2015, Executive Board approved a proposal for the Council to enter into an agreement with LCR for collaborative working on regeneration based activities associated with the regeneration of the existing Leeds Railway Station and development of the HS2 Growth Strategy. Since then the Council has been working closely and proactively with LCR on how Leeds may develop its proposals for delivery of the HS2 station, the current station redevelopment and other related commercial ventures. HS2 has established an in-house team to progress the HS2 Growth strategy proposals and LCR has turned their focus to the redevelopment of the existing station.
- 2.6 In October 2018 Executive Board approved the principle of LCR and LCC entering into Joint Venture Arrangements to support the delivery of LISM.

2.7 Both parties have worked together to agree Heads of Terms and a structure for Joint Venture Arrangements.

3. Main issues

- 3.1 LCR is a UK Government (DfT) owned company which specialises in railway led regeneration. LCR played a leading role in facilitating the exemplar transformation around Kings Cross station and has national and international expertise in delivering complex regeneration associated with major infrastructure. LCR has a skill set which is not available within the Council but is complementary to the Council's expertise and leadership role in driving forward regeneration. In addition, LCR has access to Network Rail and DfT to support and promote the Council's ambitions.
- 3.2 On the 17th October 2018, Executive Board approved the principle of the Council entering into a joint venture agreement with LCR, subject to a report on the heads of terms being brought back to Executive Board for approval.
- 3.3 The Council and LCR have now agreed heads of terms for a joint venture agreement to support the progression of the Leeds Integrated Station Masterplan (LISM) together with other commercial ventures supporting regeneration and economic growth. The Council will nominate 2 directors to sit on the Board for the joint venture and initially these will be the Executive Member for Regeneration, Transport and Planning and the Director of City Development.
- 3.4 The heads of terms propose that the Council and LCR will initially enter into an overarching Joint Venture Agreement followed by specific regeneration/redevelopment Joint Venture Agreement(s) as opportunities for regeneration and redevelopment arise. It is anticipated that further arrangements will also include a joint venture with Network Rail, in respect of the redevelopment of the existing Station, and possibly other potential investors/stakeholders. Together these are referred to in this report as "the **Joint Venture Arrangements**".
- 3.5 The Joint Venture Arrangements will be supported by an annual Business Plan where both parties will identify their resource commitments, programme of work and costs together with an outline 3 year plan to show forward programme and strategy. It is anticipated that the Joint Venture Arrangements will be in place for 20 years, reflecting the timeline for the delivery of HS2 and Northern Powerhouse Rail.

4. Corporate considerations

4.1 Consultation and engagement

4.1.1 Both the Executive Member for Regeneration and Planning and the Leader of the Council have been consulted on the proposals set out in this report and are supportive of them.

4.2 Equality and diversity / cohesion and integration

4.2.1 The Joint Venture Arrangements reflect a requirement for LCR to comply with all equalities legislation.

4.2.2 An Equality Impact Screening schedule is included at Appendix B.

4.3 Council policies and best council plan

- 4.3.1 The vision from the Best Council Plan is for Leeds to be a compassionate, caring city that helps all its residents benefit from the effects of the city's economic growth. These values frame the HS2 Growth Strategy which will be a complementary addition to the council plan. The proposals build upon themes contained within the Leeds Inclusive Growth Strategy.
- 4.3.2 The proposed investments in the Station and infrastructure to drive growth will make a direct contribution to the Best Council Plan Priority of 'Transport & Infrastructure' - connecting people and places, improving air quality, meeting housing needs. The proposals will also help to support the delivery of the Best Council Plan outcome of 'Move around a well-planned city easily'.
- 4.3.3 The Joint Venture Arrangements support the Council's Inclusive Growth Strategy ambition to deliver 21st Century infrastructure as well as the delivery of the HS2 Growth Strategy which relies on the integration of the redeveloped existing station with the HS2 station.

4.4 Resources and value for money

- 4.4.1 The Council will initially commit to make available £2 million as starting capital invested in the Joint Venture which will support the redevelopment of the existing Station. Members will note that the Financial Budget paper on this agenda makes reference to this within the Capital Programme titled Leeds Station Joint Venture.
- 4.4.2 Similarly LCR will also initially commit to make available £2 million capital to match the Council's commitment.
- 4.4.3 Due diligence will be undertaken in respect of any proposed investment (including in respect of risk, collateral and likely return on investment), and advice taken as to the most tax efficient structure, having regard to the statutory obligations of the Council and relevant Government guidance concerning the activities of local authorities. It is intended that investments will only be made where the due diligence is satisfactory and it is considered that they will provide the Council with an appropriate level of return (with returns to be shared with LCR and any other investors to reflect their respective contributions). The principle of joint acquisition will be the subject of a further report to Executive Board.

4.5 Legal implications, access to information, and call-in

- 4.5.1 Appendix A contains information which relates to the financial and business affairs of both the Council and LCR and is to be considered as exempt information for the purposes of Rule 10.4 (3) of the Access to Information Procedure Rules. To disclose the information contained in Appendix A could prejudice the Council's position in relation to the proposals outlined in this report. In the circumstances, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.
- 4.5.2 Following consultation with officers from Procurement and Commercial Services, it is considered that there is a strong argument that the Property Joint Venture Arrangements envisaged by this report will not amount to services contracts., In any event, LCC and LCR (being wholly owned by DfT) are entitled to enter into the proposed arrangements as being contracts between entities within the public sector

pursuant to the Public Contracts Regulations 2015. This view mirrors legal advice received by LCR. Further, it should be noted that these proposed arrangements have been previously publicly published by the Council without any suggested challenge. However, it is proposed that a voluntary transparency notice be publicly issued before the overarching Joint Venture Agreement is entered into to provide the further opportunity for any potential challenge to be identified, and that the legality of any subsequent Property Joint Venture Agreement(s) or other related arrangements will be reviewed as part of the due diligence process referred to at paragraph 4.4.3, above.

- 4.5.3 The Council has wide ranging powers in respect of the proposals outlined in this report: Section 111 of the Local Government Act 1972 gives the Council the power to do anything which will facilitate or is conducive or incidental to the discharge of any of its functions, whilst Section 12 of the Local Government Act 2013 gives the Council the power to invest for any purpose relevant to any of its functions. The Local Authorities (Land) Act 1963 give the Council the power to make advances to any person to acquire land and/or erect buildings or carry out works on land whilst Sections 120 to 123 of the Local Government Act 1972 give the Council the power to acquire, appropriate and/or dispose of land. In addition, Section 1 of the Localism Act 2011 gives the Council the power to do anything that individuals generally may do, though it should be noted that where the Council is using that power to do things for a commercial purpose, it must do them through a company. In the case of the proposals outlined in this report, whilst the Council would be acting in a commercial manner, the objective and therefore the purpose of the Council is to facilitate the redevelopment of the existing railway station. Consequently, the Council does not have to effect the proposals through a company.
- 4.5.4 It is possible that the proposals outlined in this report and the Joint Venture Arrangements will be subject to the European Commission's rules as to the provision of State aid in that the Council will be investing in another body which will be involved in commercial activities. This will be kept under review and further advice taken before any arrangements are entered into.

4.6 Risk management

- 4.6.1 LCR is a unique organisation specialising in rail station commercial development such as Kings Cross and Waterloo Stations. Their skill sets complement the Council team and provide expertise where there are currently gaps in knowledge. LCR has supported the development of the Leeds Integrated Station Masterplan for the last 4 years (under a Collaboration agreement with the Council for 2 of these) and these Joint Venture Arrangements will ensure that the Council and the redevelopment of Leeds railway station benefits from LCR's expertise over the life of the LISM programme.

5. Conclusions

- 5.1 The Council should continue to support the redevelopment of Leeds railway station (which is the busiest in the north) so as to meet the projected increase in capacity of 49% by 2023 and 135% by 2043 by entering into the Joint Venture Arrangements with LCR.

5.2 If the Council did not enter into the Joint Venture Arrangements with LCR the Council would lose the £2 million investment committed by LCR and would lose the insight and experience in rail led regeneration. It is likely that this would have a detrimental effect on the Council's role in relation to the redevelopment of the existing railway station.

6. Recommendations

6.1 That Executive Board:

- a) approve the detail of heads of terms for Joint Venture Arrangements with London & Continental Railways (as set out in Confidential Appendix A) to progress the proposals for the redevelopment of Leeds railway station;
- b) delegate authority to the Director of City Development to finalise and enter into the Joint Venture Arrangements with London & Continental Railways;
- c) agree to inject and give authority to spend £2m as the Council's capital contribution to the partnership to be established pursuant to the Joint Venture Arrangements; and
- d) note that the principle of joint acquisitions with LCR will be the subject of a further report.

7. Background documents¹

7.1 None.

8. Appendices

8.1 Appendix A - Confidential Joint Venture Agreements Heads of Terms

8.2 Appendix B - Equality Impact Screening Schedule

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.