

Committee: Cabinet

Date of meeting: 16 March 2023

Title of Report: Carlisle Station Gateway

Report by: Angela Jones, Executive Director – Economy and Infrastructure

Cabinet Member: Stewart Young, Leader of the Council

What is the Report About? (Executive Summary)

1. Carlisle Station Gateway project (the Project) is a strategic regeneration project included in the Borderlands Inclusive Growth Deal (the Deal) to revitalise Carlisle City Centre and wider Borderlands area. The Project will strengthen Carlisle's position on the national rail network, improve access and connectivity to Carlisle and the Borderlands region as well as contribute to decarbonisation by encouraging more journeys to be taken by rail.
2. The business case for the project was approved by DLUHC in 2019 confirming a £20m investment in the station through the Deal. In December 2020, Cabinet agreed to enter a Grant Funding Agreement with Northumberland County Council (as accountable body for the Borderlands Inclusive Growth Deal) with responsibility for delivery of Carlisle Station Gateway Project in line with the approved business case.
3. The project is split into four components: Northern Gateway, Southern Gateway Station Interior and Enabling Streets and junctions. Fundamental to the success of the project is the relocation of car parking and vehicular traffic from the Northern Gateway to the Southern Gateway and Cumbria County Council has been working in partnership with Carlisle City Council, Network Rail and Avanti West Coast to enable delivery of the Project and relocation of the car park.
4. The proposed Project involves closure of the existing public car park on the northern side of the station operated by Avanti and the creation of a new public car park on the southern side by the County Council. This required Avanti to surrender their lease for the existing car park, however it has not been possible to achieve this without paying compensation to Avanti or identifying replacement provision. Neither of these requirements could be met by the Council.
5. Due to this impasse, Network Rail has proposed an alternative approach, with Network Rail facilitating the current car park relocation, owning the site and taking responsibility for the management and operation of the new station car park instead of the Council. This report seeks approval from Cabinet to progress these changes to facilitate project delivery.

Recommendation of the Executive Director

6. It is recommended that Cabinet
 - 6.1 Notes the changes to the total project cost and that funding for this scheme is now £20m from Borderlands and £7.915 m from Network Rail and that there is no longer a contribution required from the local authority (Cumberland Council).
 - 6.2 Subject to Section 24 consent from Cumberland Council on 27th March 2023, delegates authority to the Executive Director - Economy and Infrastructure to finalise the detailed terms and enter into the necessary legal agreements with Network Rail for the sale of the Station Retail Park and The Pools site (excluding the James Street Baths) before 31st March 2023 as aligned with the Heads of Terms documented in appendix 1.
 - 6.3 Subject to Section 24 consent from Cumberland Council on 27th March 2023, delegate authority to the Executive Director - Economy and Infrastructure, to finalise the detailed terms and enter into a Lease for the Station Retail Park and The Pools site with Network Rail before 31st March 2023 as aligned with the Heads of Terms documented in appendix 1.
 - 6.4 Delegates authority to the Executive Director - Economy and Infrastructure to finalise the terms of and enter into a Contribution Agreement with Network Rail to increase the funding received to support project delivery as aligned with the Heads of Terms documented in appendix 1.
 - 6.5 Delegates authority to the Executive Director - Economy and Infrastructure, to agree with Northumberland County Council a variation to the Borderlands Grant Funding Agreement for the Carlisle Station Gateway Project in line with the Change Control documented in appendix 2.
 - 6.6 Cabinet acknowledges the Capital Receipt for the disposal of the Station Retail Park and The Pools site will be reinvested back into Carlisle Station Gateway Project and agrees the inclusion of additional funding received through the Contribution Agreement into the Capital Programme

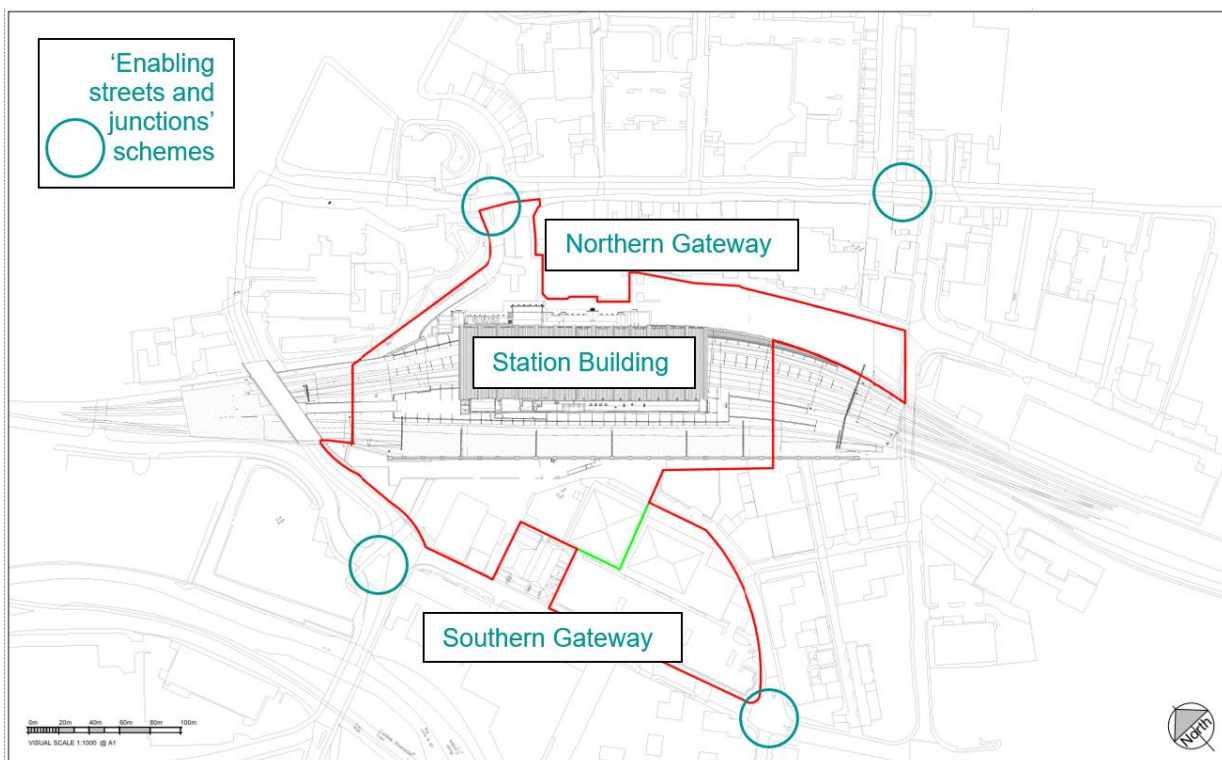
Background to the Proposals

7. As defined in the approved project business case, the primary objectives of the Carlisle Station Gateway Project are to increase passenger use of the station and to create a more attractive gateway to the city centre. The strategic objectives as set out in the business case are:
 - Maximising this historic asset by respecting its heritage significance and architecture.
 - Encouraging investment by improving the commercial opportunities of the station and the wider city area.
 - Supporting passenger growth by improving the station and the facilities for all users.

- Growing the regional role of the station by making the station user-friendly and accessible, improving parking and drop-off facilities, and easier to navigate around.
- Creating a gateway by providing high-quality entrance and exits to the station, enhancing historic buildings, encouraging visitors, and better connecting to and showcasing the city.
- Future-proofing by making the station accessible by greener forms of transport and making it safer to use.

8. The project has been split into 4 distinct but complementary elements as illustrated in Plan 1 below:

Plan 1: Carlisle Station Gateway Project (as defined in the approved Business Case)



9. The 4 aspects to the project are summarised below:

- Northern Gateway: partial pedestrianisation of Court Square, enhancements to the space for passengers to enter and exit the station. It will significantly reduce vehicular movements to the North of the station and Court Square, with improved connection to the city centre. The Northern Station car park will close for public use and will be repurposed for staff parking and station servicing.
- Station Building and Interior: enhancements to the access to the platforms from the north using an easily accessible stairway. The southern entrance will also be enhanced to provide a secure and welcoming entrance to the station. Secure cycle parking is also included.

- Southern Gateway: creation of new transport infrastructure and public realm to the south of the station. All public car parking will be relocated to the south entrance to reduce the vehicular traffic at Court Square, together with the new car park, coach services, rail replacement services and additional taxi ranks and pick-up and drop-off will also be relocated to the southern side of the station.
 - Enabling Streets and Junctions: junction improvements at Water Street and Court Square Brow to improve access to the station, particularly for pedestrians and cyclists.
10. Project cost estimates included in the approved business case were £23.851 million, with funding from Borderlands and Cumbria County Council. In December 2020, Cabinet agreed to enter into a grant funding agreement with Northumberland County Council as the accountable body for Borderlands Inclusive Growth Deal for £20 million, to be spent by March 2026. The grant funding agreement was signed in March 2021.
 11. In February 2021, prior to signing the funding agreement, the County Council agreed to increase the level of prudential borrowing from 2024/25 to fund the £3.851 million contribution to the project. Approval to increase the level of prudential borrowing was on the basis it would be repaid from income generated from the new car park.
 12. As the asset owner of the Station Building, Network Rail agreed to be responsible for the delivery of the station interior works. In parallel to entering into the Grant Funding Agreement, Cumbria County Council entered into an Implementation Agreement with Network Rail for the delivery of the station interior works. The value of the grant paid to Network Rail under the terms of the Implementation Agreement is £4.1 million.

Project Progress and Delivery Model

13. Working with project partners, Network Rail, Avanti West Coast and Carlisle City Council, design and public consultation has been progressed for all elements of the scheme and the project is entering RIBA 3 stage of development.
14. Delivery of the project requires the remodelling of the current car parks that are owned by Network Rail and leased to Avanti West Coast. The business case proposes the existing Northern Car Park (managed by Avanti West Coast) are closed for public use. A new car park to accommodate all station car park demand will be created on land currently occupied by the Station Retail Park and The Pools site (Southern Gateway). The Masterplan proposes the existing car parks are used for accessible and staff parking and for active travel infrastructure.
15. This approach to delivery assumed Cumbria County Council would own the new Station Car Park and would have the benefit of future car park income that would fund the borrowing costs associated with the Council's contribution to the scheme. However, it was not possible to reach a settlement with Avanti for surrender of the existing car park lease that was affordable within the project budget.

16. Cumbria County Council has worked closely with partners, DfT and DLUHC to identify an affordable solution which is accepted in principle by Network Rail and Avanti West Coast. The proposed solution is summarised below and detailed in the Heads of Terms agreed with Network Rail included in appendix 1.
- Network Rail purchase the freehold of the Station Retail Park and The Pools. The James Street Baths (also referred to as the Turkish Baths) will be retained by the County Council and transferred to Cumberland Council on Vesting Day. These have been valued at £5.615 m (Station Retail Park £5.4m, The Pools £0.215m)
 - As Borderlands funding was used to acquire the Station Retail Park, the capital receipt from the sale of the site will be ring fenced and recycled to fund other project costs. In the event that the project has surplus funding, the Network Rail funding would be retained and any unspent funding would be returned to Borderlands.
 - Network Rail lease the site back to Cumberland Council in two phases for a period of up to 6 years, to allow the works to be delivered.
 - The works will be delivered in two phases, Phase 1 moves existing car parking provision to the South of the Station to allow improvement works to Court Square to be delivered.
 - The Local Authority will continue to receive rental income from the retail unit leased by Matalan until the end of their lease in September 2025. Phase 2 will commence after September 2025 and deliver an increase in car parking provision to accommodate forecast increase in demand.
 - Following the completion of the works, the site will revert to Network Rail who will be responsible for future management and operation of the car park. At this point, Cumberland Council would no longer own the land or receive any future capital or revenue from the site.
 - The Council's £3.851million contribution to the Project is no longer required and is being replaced by the funding contributed by Network Rail.
17. To meet Network Rail deadlines, these agreements must be complete by 31st March 2023.
18. Network Rail have agreed in principle to review the scope of Phase 2 works with Cumberland Council as required to reflect changes in priorities and commercial viability.
19. It is noted that any further significant changes to the project would require Borderlands Partnership Board approval.
20. In parallel to the Heads of Terms, Network Rail have committed to provide a capital contribution of £2.3 million to support the additional costs that have been identified as part of wider project development. This will be agreed via a Contribution Agreement to be agreed simultaneously with the sale and lease detailed in appendix 1.

Project Costs and Funding

21. At the time of signing the Grant Funding Agreement the cost of the project and agreed funding was £23.851m, £20 million from Borderlands Inclusive Growth Deal and £3.851 million from Cumbria County Council prudential borrowing.

22. Since approval of the business case, further design work and public consultation has been undertaken, allowing the designs to be refined in further detail. The process of design development and the changes in the global economic climate have resulted in an increase in estimated project costs. This increase can be attributed largely to the increase in costs associated with inflation, an increase in contingency to reflect the uncertainty in the market and an increase in costs associated with the active travel infrastructure that has now been developed in greater detail. A detailed cost breakdown is included in the Change Control (see appendix 2).
23. The latest project cost estimate is £27.915 million. The proposed change to the funding model is detailed in appendix 2 and summarised below:

	Approved GFA March 2021	Revised March 2023
	£m	£m
Project costs		
Project Development	0.598	0.422
Northern Gateway and enabling streets	4.287	4.767
Station building and interior (to be delivered by Network Rail).	4.115	4.115
Southern Gateway (including the acquisition of the Station Retail Park site for £6.1m incl SDLT and Legal costs).	14.851	18.611
Total Costs	23.851	27.915
Funding		
Borderlands Grant	20.000	20.000
Cumbria County Council	3.851	0
Network Rail Contribution		2.300
Cumbria County Council capital receipt for sale of land to Network Rail		5.615
Total Funding	23.851	27.915

24. Due to the scale of change in the project, the Council has sought approval of a Change Control via DLUHC and will also require approval of the Borderlands Partnership Board on 15th March 2023.
25. Given the proposed new contractual arrangements and the value of the changes to the project the Local Government Reform Section 24 agreement applies. Cumberland Council will consider the proposal at its Shadow Executive meeting on 27th March 2023.

Options Considered and Risks Identified

26. **Option (a) Agree the sale of the Station Retail Park and The Pools to Network Rail and enter into the associated lease and contribution agreement.**
27. This option would allow the Project to continue to be delivered to the scope identified in the original business case. The contribution agreement from Network Rail increases the overall project funding to address the increase in project costs. Project benefits as defined in paragraph 34 would be realised.
28. **Option (b) Progress with the project as the original business case and Grant Funding Agreement and do not agree the sale of the Station Retail Park and The Pools to Network Rail.**
29. This option is not affordable within the terms of the Grant Funding Agreement and without the existing car park closed for public use this option is not deliverable. The Council would be unable to proceed with the project and would not be able to invest the £20 million of external grant funding committed in the grant funding agreement.
30. Whilst Option (a) is the recommended way forward, there remain a number of risks that will need to be addressed. These are summarised below:

Risks Identified

31. **Cost over-run** - The Grant Funding Agreement states that the Council is responsible for the cost of any over-run. As the grant recipient, Cumberland Council will therefore be responsible for any future cost over-run. The project costs are aligned with the available funding and a project contingency is included within the project budget. The additional funding secured as part of this project further mitigates this risk. A breakdown of the costs and contingencies is included in appendix 3.
32. **Delivery on behalf of a 3rd party** – The new Station Car Park as set out in the agreed Heads of Terms (see appendix 1) must be constructed to Network Rail specification and as such there is a risk that standards may not be achieved within the agreed programme or budget available, and Cumberland Council will be required to cover costs relating to delay. To mitigate this risk, in parallel to the sale of the land and lease agreement, Cumberland Council will enter into a Contribution Agreement with Network Rail. The Contribution Agreement will increase the funding available for the project helping to mitigate the cost risk.
33. **Programme Delay** – Network Rail require a number of design approvals that were not included in the original programme. It is anticipated that this approval process will increase the length of the delivery programme and ability of Cumberland Council to meet the project milestone dates as defined in the Grant Funding Agreement. To mitigate this risk programme milestones have been extended and are included in the Change Control request (see appendix 2).

Reasons for the recommendation/Key benefits

34. The Carlisle Station Gateway project had 'paused' whilst a solution for the car park was agreed between partners. In the identification of the solution, Cumbria County Council identified a range of different proposals and sought support from a range of different partners. Based on the work undertaken to date, the proposed solution is the only affordable way forward that supports the continued delivery of the project.
35. The recommended option increases investment into Carlisle Station and maintains the Borderlands investment.
36. Sale of the site will enable the delivery of transformational improvements to Carlisle Station which will benefit Carlisle and the wider Borderlands region. The key benefits to be realised from this Project are:
 - The heritage value of the Station and its links to neighbouring historic buildings and street-scene (as well as onwards to the city centre) will be showcased, restored and respected. This in turn helps to encourage more visitors, more investment, and improve the quality of the public realm.
 - Future major employment opportunities in Cumbria and Carlisle will be easier to access by rail as part of drive-and-ride trip-chaining; in turn, by encouraging investment in and around the station more local jobs could be created. That trip-chaining will increase the regional role of the station through intercepting end-to-end car trips, turning them into mostly rail journeys, and in turn benefitting the environment.
 - Passenger growth will be supported and encouraged through creating a better offer at the station, more carparking and more accessible platforms, and encouraging more visitors. The forecast increase of passenger numbers as a result of this scheme is from 2.44m (in 2018/19) to 2.71m by 2039.
 - New services could also be encouraged – and this Project is future-proofed through passively providing for HS2 . Carlisle is an excellent location for HS2 to stop at in the future and this Project not only future-proofs for it but creates the conditions to encourage use of the HS2 stop at Carlisle.
 - Improvements to the public realm will encourage and benefit sustainable travel and accessibility – particularly active travel – as well as encourage more investment and visitors. Alongside the improvements within the Station, severance will be decreased and a true gateway to Carlisle and the Borderlands region created.
 - Increased parking provision for customers (including electric charge points and disabled bays) and enhanced pedestrian access and cycle facilities in and around the Station.

Financial – What Resources will be needed and how will it be Funded?

37. The recommendations set out in this report ask Cabinet to note the increase in the cost of the Carlisle Station Gateway project from £23.851m to £27.915m as summarised in paragraph 21. Cabinet is also asked to note the change in funding for the scheme which includes the removal of the £3.851m Local Authority contribution, which was to be funded by Prudential Borrowing, and replaced by £7.915m from Network Rail. This includes £5.615m of capital receipts for the

disposal of the Station Retail Park (£5.4m) and The Pools (£0.215m) and £2.3m as a contribution towards the cost of the development works.

38. The replacement of prudential borrowing with funding from Network Rail would save the council financing costs for borrowing. However, Cumberland Council will no longer own the land and buildings or receive any future revenue income streams from the point of completion. It is not clear, at this stage, whether the future income from the completed car park would have given a surplus or deficit over what would have been needed to fund the prudential borrowing.
39. Cabinet is asked to ringfence the £5.615m capital receipt from the sale of the land to Network Rail for investment back into the scheme. If this were not agreed the scheme would be unable to proceed. This may result in the £20m Borderlands funding being lost and any grant received to date may be clawed back. Funding would need to be identified to meet any expenditure to date, which may also need to be re-categorised as revenue expenditure. It should be noted that £6.1m of Borderlands Grant funding was originally used to fund the land acquisition to facilitate the scheme.
40. The Station Retail Park was purchased for £6.1m (including SDLT and legal costs) and would be disposed for £5.4m (latest valuation). As a result of disposal, the asset would be removed from the Councils balance sheet. There would be no profit or loss on disposal as this asset is currently valued on the County Councils balance sheet at the reduced value of £5.4m. There would be no impact on the General Fund Balance.
41. The Pools were transferred during 2022/23 from Carlisle City Council at £Nil cost. As a result of disposal, they have been valued at £0.215m. The assets would be removed from the Councils balance sheet generate a profit on disposal of £0.215m (as the asset value as not been adjusted on the County Councils balance sheet). Local authority accounting rules mean that there would also be no impact on the General Fund Balance. The Turkish Baths were also transferred from Carlisle City Council at £Nil cost, there is currently no value estimated for these. They are not being disposed of but will re-transfer to Cumberland Council.
42. Tax advice has been sought on the tax implications arising from the proposed sale and leaseback arrangement. There are two potential tax matters to be considered in relation to Stamp Duty Land Tax (SDLT) and VAT.
43. SDLT is a tax which is potentially payable by the person or entity that acquires land and/or buildings and the amount payable is based on certain thresholds which increase to 5% of a proportion of the purchase price. Potentially, the sale of the land to Network Rail could trigger a SDLT charge for Network Rail and the lease back transaction could give rise to a SDLT charge to the Council even if a peppercorn rent is being charged for the lease.
44. There are exceptions to these rules where it is clear the arrangement is merely to change the type of ownership (i.e. from freehold to leasehold) but there are specific criteria which must be met to ensure that no SDLT charge arises for the Council on the leaseback element of the transaction. Originally, the sale was due to take place on 31 March and the leaseback on 1 April, but the agreements have

now been amended so that both transactions take place on 31 March to ensure that the eligibility criteria for tax relief is met.

45. Under S57A of the Finance Act 2003 the leaseback element of a sale and leaseback arrangement is exempt from SDLT if all the required conditions are met.
1. Party 'A' transfers a major interest to party 'B' ('the sale'), and
 2. Out of that interest, party 'B' grants a lease back to party 'A' ('the lease back'), and
 3. The sale part is either wholly or partly the consideration for the lease back.
 4. The only other consideration is cash and/or the assumption of debt.
 5. It must not be transfer of rights transaction (i.e. involving a pre-arranged transfer to a third party)
 6. It must not be between connected parts ('A' and 'B' cannot be connected).

Party 'A' is the County Council and Party 'B' is Network Rail.

46. There are also VAT implications from land transactions. Generally speaking, the sale of land is a "supply" for VAT purposes which is exempt from VAT. As the transaction is exempt then any VAT incurred in connection with that supply would not be recoverable.
47. However, it is possible for owners of commercial land to "opt to tax" the land which means that they would then charge VAT to any tenants, but this does mean that they can also recover any VAT they have incurred in connection with the land. The Council has already opted to tax the Retail Park but has not yet exercised an option over the Pools site.
48. Whilst the VAT implications are very complex, the Council's tax advisors have advised the Council to consider whether there is any significant VAT either incurred already or will be incurred by 31 March on any works to the pools site and, if there is, to exercise the option to tax on that site to ensure that it can recover this VAT before 31 March.
49. The advisors have also stipulated that, because any option to tax does not transfer to a new owner then Cumberland Council should also exercise the option to tax on both sites at the point of transfer to safeguard their VAT position. However, Cumberland Council will need to obtain their own tax advice in this respect as, once the option to tax has been granted, it remains in force for up to 20 years.
50. The risk of a cost overrun remains with this project. Stress testing the potential cost of additional inflationary increases has been undertaken. A 10% inflationary increase on inflation volatile expenditure is estimated at c£1.1m whilst 20% increase is estimated at £2.2m. There is sufficient funding within the contingency budget to support these additional costs, should they arise, as well as a level of unforeseen costs at this stage of the project.
51. Existing resources within the legal department and capital programme team will be used to enter into the agreements and these are funded through existing departmental budgets or the project budget.

52. Paragraphs 35 – 47 are subject to the decision of Cumberland Council on 27th March 2023.
53. This decision is also subject to the change control being approved by DLUHC and their agreement to the Council no longer making a contribution to the scheme, as well as ownership of the land and completed car park passing to Network Rail.

Legal Aspects – What needs to be considered?

54. Cabinet is authorised to make the recommendations by virtue of paragraph 2.1 (f) and (l) of Part 2B of the Council's Constitution. As set out in the report, the decision requires the consent of Cumberland Council's executive prior to the implementation of the decision, due to the Direction made under s24 of the Local Government and Public Involvement in Health Act 2007 dated 10 May 2022.
55. As the terms of the various legal agreements are yet to be finalised, the legal aspects arising from those agreements will need to be considered once they are finalised.

Health and Safety Aspects – What needs to be considered?

56. The Council has appointed a programme manager to ensure that the Council meets its duties under CDM. A Principle Designer has been appointed to plan, manage and coordinate the planning and design work to ensure that the designers have done all they can to check that it can be built safely. As there will be one more than one contractor on site for each phase of the project, the Council has appointed a Principal Contractor to plan, manage and coordinate the construction work.

Council Plan Priority – How do the Proposals Contribute to the Delivery of the Council's Stated Outcomes? (Outcomes - People in Cumbria are Healthy and Safe, Places in Cumbria are well connected and thriving, the Economy in Cumbria is growing and benefits everyone)

57. Delivery of the Carlisle Station Project will have an important role in supporting the delivery of the Council Plan objectives:
 - The economy in Cumbria is growing and benefits everyone – The Carlisle Station Project will increase accessibility to the Station, which will result in increased usage of the Station from residents within the wider Borderlands Region, therefore promoting economic growth. It will also enhance the gateway outside the Station, improving the image of Carlisle from tourists that visit the City, thus encouraging more return visits.
 - Places in Cumbria are well-connected and thriving – The Station Project will improve accessibility to the Station and will encourage more people to use the train rather than the car for commuting and leisure trips.
 - People in Cumbria are healthy and safe – The Station project will promote healthy travel choices by enhancing cycling and walking facilities in and

around the station. It will also reduce the number of car journeys which reduces the release of harmful greenhouse gases.

What is the Impact of the Decision on Health Inequalities and Equality and Diversity Issues?

- 58. The various elements of the Carlisle Station project will require both statutory and non-statutory consultation periods with the public and other interested parties.
- 59. The aim of the Carlisle Station Project is to make the station more accessible for all. This will include the provision of dedicated disabled parking bays and DDA compliant accesses and public realm.

Appendices and Background Documents

- Appendix 1 Agreed Heads of Terms for the sale, lease and Contribution Agreement with Network Rail. (copy enclosed for members only)
- Appendix 2 Change Control request. (copy enclosed for members only)
- Appendix 3 Financial breakdown of the project costs.(copy enclosed for members only)

Key Facts

Electoral Division(s): Currock and Castle

Executive Decision	Key Decision Included in Forward Plan	Exempt from call-in	Exemption agreed by scrutiny chair	Considered by scrutiny, if so detail below	Environmental or sustainability assessment undertaken?	Equality impact assessment undertaken?
Yes	Key	No	No	No	No	No

Previous relevant Council or Executive decisions

15th October 2020 (Part 2) Development of the Carlisle Station Gateway
 17th December 2020 Carlisle Station Gateway Project – Borderlands Grant Funding Agreement

Consideration by Overview & Scrutiny

None

Background Papers

None

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