

Date: 5 March 2018

Item: South Kensington – Around Station Development

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**This paper will be considered in public.**

## **1 Summary**

- 1.1 This paper describes the proposed redevelopment of TfL's property in and around South Kensington station. The proposal includes agreeing to work with a third party developer to obtain planning permission, the disposal of leasehold property interests in the Site and redevelopment of it, which includes provision of step free access, by way of a joint venture with the third party developer. The preferred third party developer, (the preferred bidder) has been selected by TfL through an OJEU competitive dialogue procurement process.
- 1.2 The purpose of this paper is to seek approval from Finance Committee to dispose of leasehold land interests in the Site and enter into a joint venture with the preferred bidder for the redevelopment of the around station development as described in this paper and the supplemental paper on Part 2 of the agenda.
- 1.3 A paper is included on Part 2 of the agenda, which contains exempt supplemental information. The information is exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the financial and business affairs of TfL. Any discussion of that exempt information must take place after the press and public have been excluded from this meeting.

## **2 Recommendations**

- 2.1 **The Committee is asked to note this paper and the supplemental paper on Part 2 of the agenda and:**
  - (a) **approve TfL or any subsidiary company or Limited Liability Partnership within the TfL group, whether existing or to be formed (Subsidiary Entity) entering into a joint venture with the preferred bidder as the selected joint venture partner for the purpose of developing the Around Station Development (ASD) on the basis as set out in this paper;**
  - (b) **approve the formation of a Subsidiary Entity as a wholly owned subsidiary of TTL Properties Limited for the purpose of working with the preferred bidder as the joint venture partner to satisfy the pre-conditions and then setting up and investing into a joint venture company (JVCo) that will undertake the development of the ASD and subsequently own part of the ASD as a long-term investment; and**

- (c) grant Land Authority in the sums and subject to the conditions set out in the paper on Part 2 of the agenda for:
- (i) the disposal of the property in and around South Kensington station, as described in this paper and depicted on the plan provided in Appendix 1 (the Site) to the JVCo, by way of the grant by TfL or any Subsidiary Entity of long leases of the Site;
  - (ii) the station enhancement works, which include the provision of Step Free Access (SFA) for the ticket hall and District and Circle line platforms, and repair of the supporting structure for part of the existing property and station that spans the railway;
  - (iii) the contractual commitments to the preferred bidder in the Conditional Joint Venture Agreement (CJVA), Shareholders Agreement, Business and Development Management Agreement and Works Agreement (described in paragraph 8 below) together with financial guarantees by TfL or any Subsidiary Entity, to stand behind such commitments; and
  - (iv) the costs to be incurred by TfL or any Subsidiary Entity including:
    - (i) TfL's or any Subsidiary Entity's share during the CJVA conditional period of the professional fees and other costs incurred in obtaining satisfactory planning permission, securing vacant possession of parts of the Site and satisfying a site value condition prior to the disposal of the Site to the JVCo;
    - (ii) TfL's or any Subsidiary Entity's share of project-related professional fees and costs of development as shareholder in the JVCo in the proportion of its shareholding following the disposal of the Site to the JVCo;
    - (iii) TfL's cost for the station enhancement works in paragraph (c)(ii) above; and
    - (iv) the 49 per cent equity investment by TfL or Subsidiary Entity in the JVCo.

### **3 Background**

#### **TfL's interest in the Site**

- 3.1 The Site (owned freehold by London Underground Limited (LUL) a wholly-owned subsidiary company of TfL) is on a 0.77 hectare area around and including the South Kensington Underground station (Station), which is bounded by Thurloe Street, Pelham Street and Thurloe Square, in the Royal Borough of Kensington and Chelsea (RBKC). The Station serves both the local community and acts as

the major public transport gateway to the treasured museums and other cultural institutions located in South Kensington.

3.2 The Site includes the following key areas:

- (a) the Bullnose and Arcade – The Bullnose refers to the semi-circular building abutting the Arcade. The Arcade serves as the entrance to the Station and is an important part of the Station's Grade II heritage listing;
- (b) 20 to 34 Thurloe Street – A four storey (plus basement), 19th century brick building that comprises retail units at ground floor and basement levels with a mix of residential and office uses above; and
- (c) Pelham Street – This stretch of land and airspace over the Station stretches along Pelham Street and along the abutting bridge which forms part of Thurloe Square.

### **Historical context**

3.3 Since the 1970s the Site has not been materially altered despite significant growth in use of the Station. Consequently the Station faces capacity challenges including demand for SFA, which are currently being addressed by LUL, and its associated buildings and land are in need of restoration and investment.

3.4 Between 1970 and 2012, TfL attempted to deliver large scale development, including transport improvements at the Station without success. Attempts in 1999 and 2003 failed partly due to the proposals' inadequate regard for local context and heritage of the Station.

3.5 Extensive consultation throughout 2016 with RBKC and local stakeholders led to the production of a Development Brief (Brief), prepared by TfL setting out principles for redevelopment, which are broadly supported by the local community. The Brief reflects the context, planning considerations and constraints and establishes principles that inform the potential for the Site that include refurbishment and new-build elements sympathetic to the character of the Station and surrounding area.

3.6 A complete historical context summary and a description of TfL's current approach to local consultation and recent consultation progress is set out in Appendix 2.

### **Commercial Considerations**

3.7 In addition to our operational priorities and plans to improve customer experience at the Station, our primary commercial motive at the Site is securing income for reinvestment in our transport infrastructure. Long-term income streams are preferred through achieving our objectives listed in paragraph 3.14.

3.8 The value of the existing property that we propose forms the ASD and the existing revenue stream from this property is set out in the supplemental paper on Part 2 of the agenda.

## **Operational Considerations**

- 3.9 The future station capacity programme is LUL's response to the rising passenger demand and forecasted congestion across the LU network to provide sufficient capacity at critical stations, meet the forecast increase in passenger demand over the long term and improve the quality of access, egress, and interchange, including the provision of SFA.
- 3.10 Annual usage of the Station is approximately 34 million entering and exiting passengers based upon 2016 station counts, placing the Station within the 20 busiest stations on the LU network. The Station sees particularly large exit flows in the AM peak coupled with large entry flows in the PM peak. In addition around 4.5 million passengers interchange at the Station each year. Over the last ten years, travel demand in the AM and PM peaks has increased by 13 per cent and 18 per cent respectively. Reflecting the area's heavy tourist traffic, daytime weekday demand has seen a greater rise of 22 per cent. Passenger counts were carried out in 2015 to estimate the proportion of passengers with restricted mobility. The surveys suggest that the proportion of passengers with large luggage and pushchairs is higher at the Station than a typical tourist station.
- 3.11 In January 2018, RBKC resolved to grant listed building consent for phase one of the Station's capacity upgrade, i.e. the new District and Circle line platform, its associated lift shaft structures and the ticket hall extension. This phase will provide significantly improved capacity for the District and Circle line and ticket hall until 2031 plus a 30 per cent additional capacity and enable the replacement of the Piccadilly line escalators, which is scheduled to take place in 2019 and 2020. The anticipated cost of these works is set out in the supplemental paper on Part 2 of the agenda.
- 3.12 The Station's configuration makes the provision of SFA challenging. The optimum solution is for lifts to link the street level, the ticket hall and subway levels within the footprint of the Thurloe Street building (part of the ASD). Further details of this are included in the options analysis, details of which are included in the supplemental paper on Part 2 of the agenda.
- 3.13 Following completion of the proposed ASD, LUL plans to install new passenger lifts linking the ticket hall with the Piccadilly line in the mid 2020s, once the Piccadilly line upgrade is completed. This will complete the SFA provision and the capacity upgrade at the Station.

## **Objectives of the Project**

- 3.14 TfL's principal objectives for the ASD are set out below in no particular order:
- (a) to deliver an exemplary development that enhances TfL's reputation;
  - (b) to develop the Site in a manner that respects and enhances the historic architecture of the Station, including its setting in the Thurloe Estate and Smith's Charity Conservation Area;
  - (c) to preserve and enhance the setting of the Station given its Grade II listed status;

- (d) to deliver SFA connecting Thurloe Street, the ticket hall, and the District and Circle line platforms, and provide a lift connection to the subway;
- (e) to deliver a new Station entrance on Thurloe Street to enhance Station capacity;
- (f) to provide an excellent quality and respectful scale of development and mix of uses, enhance the place and experience of South Kensington and receive a broad consensus of local community support;
- (g) to provide new homes and jobs;
- (h) to provide new and improved housing and retail properties;
- (i) to restore Pelham Street in keeping with the local and historical contexts;
- (j) to receive a capital return for divesting part-ownership in our assets;
- (k) to share the risks and rewards of the associated property development;
- (l) share an enhanced long-term revenue stream from the retail assets that are associated with the Station and invest those receipts in our London transport network; and
- (m) retain our long-term ownership and custodianship of the Station and its associated buildings.

## 4 Options Analysis

### Operational

- 4.1 **TfL could do nothing.** TfL would not provide SFA and other customer and staff benefits. **NOT RECOMMENDED.**
- 4.2 **TfL could decide to deliver the “Enhancement Works” (meaning the SFA and repair of the supporting structure for part of the existing property and station that spans the railway) directly.** Without the efficiencies and economies of scale associated with the delivery of these works simultaneously with and integrated with the ASD, the cost of the Enhancement Works would be higher. Additional capital would need to be identified and allocated to fund the Enhancement Works. Delivery of the SFA may therefore be delayed further than the currently planned opening in 2012 or 2022. This would result in increased costs for TfL, prolongation of disruption and inconvenience to passengers, and diminished trust with local communities. **NOT RECOMMENDED.**
- 4.3 **TfL could decide to fund and deliver the Enhancement Works including the SFA, simultaneously with the ASD.** The capital funding requirement for the Enhancement Works is anticipated to be completely offset by the ASD capital receipts. The Enhancement Works will cost TfL less than they would if delivered separately, due to the efficiencies associated with better access, simplified interfaces with the building and economies of scale. Providing TfL retains the

ability to step-in to undertake the Enhancement Works directly, the risk of long term delay will be mitigated. **RECOMMENDED.**

## **Commercial**

- 4.4 **TfL could do nothing.** This will defer TfL's opportunity to secure both significant investment of profit and enhanced revenue from the ASD. Despite the increasing values of retail lettings at the Station over the past few years, doing nothing would be negative for both TfL's reputation and finances. The state of repair of the existing buildings is not befitting the local area and station footfall. Doing nothing would complicate and increase the cost of SFA for the Station. **NOT RECOMMENDED.**
- 4.5 **TfL could undertake the ASD itself without involvement of a joint venture partner.** Assuming it could be successfully delivered we would then have the ability to retain or sell the various components of the development and its associated long term income stream. Financially this would require us to fully fund the ASD including the Enhancement Works. The capital requirement, some of which may be debt, may reduce our ability to use our finite capital and debt funding capacity for operational purposes. Working on the assumption TfL decides to retain the retail element of the scheme and divest the office and residential components, TfL's longer term income stream would increase. The risks associated with the ASD (health and safety, commercial, reputational and financial) would be TfL's alone. We would need to employ and procure the specialist skills and experience required to undertake a complex property development of this nature. We would be required to formally procure (via OJEU) the services and works required for the ASD. This would arguably prolong the development period, defer passenger benefit of the SFA, and delay income receipt associated with the ASD. We would also need to create or procure a high quality residential developer's brand to successfully achieve the prime London sales rates anticipated in the ASD. The historical context of multiple failed attempts by TfL and other developers at the Site provides some context of the risk associated with undertaking arguably a very challenging property development. **NOT RECOMMENDED.**
- 4.6 **TfL could use its Property Partnership Framework (PPF)** to procure a joint venture partner. The ASD is a unique mixture of high value residential and high value retail which needs to be delivered and phased in a complex operational environment. The Site requires a developer that is comfortable delivering a high value, bespoke, intricate, mixed use development and long term investment. None of the members of the PPF Panel attempted to qualify for the opportunity. Accordingly use of the PPF Panel is **NOT RECOMMENDED.**
- 4.7 **TfL could sell the site conditional upon planning permission being secured.** This would ensure we are not significantly exposed to property development risk. It would enable us to secure a long term income stream of low risk ground rent type of income: however we would likely to be limited to a share of only five per cent or 10 per cent of commercial income streams. Accordingly this would not enable us to fully exploit the opportunity for long term revenue, which is our commercial requirement. Our control of the commercial property that is physically integrated with and therefore associated with the Station and TfL's brand would be limited relative to the joint venture option. **NOT RECOMMENDED.**

- 4.8 **TfL could conditionally partner with a third party, private developer to maximise risk adjusted land value receipt, and share anticipated profit and long term revenue.** The preferred partner would be identified through an OJEU competitive dialogue procurement. In pursuing this option we would share the return of the risk associated with the development with an experienced partner and investor. This is with a view to attracting a quality partner who will require a significant equity interest, while also maximising our retained interest, and providing both partners a good degree of alignment of interests for longevity of the commercial working relationship for the joint venture. The structure of any conditional joint venture agreement would be permit capital to be released to LUL which would offset LUL's operational capacity improvement funding requirements, including those at the Station. It would also enable us to retain a significant stake in the enhanced retail asset and its long term income stream. **RECOMMENDED.**
- 4.9 Subject to granting of the approvals and authority pursuant to, and as set out in this paper, in the event the CJVA is not completed with the preferred bidder in a timely manner, an alternative proposal for the development at the Site being the ASD works will be prepared and presented afresh to the Committee.

## **5 Public Sector Equality Duty**

- 5.1 TfL must have due regard to the need to eliminate unlawful discrimination, harassment and victimisation as well as to advance equality of opportunity and foster good relations between people who share a protected characteristic and those who do not under section 149 of the Equality Act 2010. This may involve, in particular, removing or minimising any disadvantage suffered by those who share a relevant protected characteristic, taking steps to meet their needs; and encouraging them to participate in public life, or in any other activity where their participation is disproportionately low, including tackling prejudice and promoting understanding. The protected characteristics and groups are: age, disability, gender reassignment, pregnancy and maternity, race, gender, religion or belief, sexual orientation and marriage/ civil partnership status. Compliance with the Act may involve treating people with a protected characteristic more favourably than those without the characteristic.
- 5.2 An initial Equality Impact Assessment (EqIA) has been undertaken to assess the overall scheme including the provision of SFA. It identifies that when complete the ASD would provide significant positive impact however during construction there would be some negative impact associated with managed disruption to the normal operation of the Station. It is envisaged that construction works would be planned so as not to require planned station closure.
- 5.3 An EqIA is a live document that would be revisited as the project progresses. The next review would be undertaken with the preferred bidder prior to design development to ensure consideration of all equality group needs are integrated within the design.
- 5.4 The positive impact to all customers and staff is provided through a significantly improved arrival experience, including improved buildings, urban realm, lighting, wayfinding, safety and security. A positive impact would be provided with improved accessibility for those requiring SFA.

- 5.5 The negative impact is primarily associated with the construction of the new Station entrance and the new SFA, during which there would be some disruption to the normal operation of the Station as it is anticipated that areas of the station and surrounding public realm will be temporarily hoarded off for construction purposes. The impact of these will be mitigated by limiting the extent and duration of any temporary hoardings, while also mitigating associated health and safety risks. Details of ASD design and construction and the associated logistics plans are not known at this stage. Accordingly further consideration of potential impact would be undertaken at future stages.
- 5.6 Early engagement with local stakeholders including the Royal Brompton, Islamic Centre and Museums would be undertaken in order to mitigate any potentially negative impacts. The EqIA would be updated accordingly.
- 5.7 The Brief was shared with TfL's Independent Disability Advisory Group in February 2018 for initial comment.
- 5.8 A detailed communication plan will be developed following the appointment of the preferred bidder, to ensure customers, tenants, local businesses and institutions are aware of the work to be undertaken and prepared to inform their customers as necessary.

## **6 Operational Implications**

- 6.1 The primary operational implications of the ASD is the efficient and timely design and construction of new passenger lifts for the Station, space provision for Road Rail Vehicles, space provision for future cooling the tube-plant, and co-ordination of works with the station capacity upgrade, Four Line Modernisation, and Pumps and Drainage programmes.
- 6.2 Each of the ASD operational interfaces relevant to these programmes have been documented and agreed with the relevant operational stakeholders for each programme. Additional details are set out in the supplemental paper on Part 2 of the agenda.
- 6.3 Assurance work has been undertaken with the Strategy and Network Development Operational Sponsors. Proposed works have been developed in consultation with the Strategy and Network Development team and other programmes, and with TfL Engineering and Infrastructure Protection engineering input. The proposed delivery strategy for the Enhancement works is coordinated and agreed with LUL, including the Operational Sponsors and the station capacity upgrade team. Key members of the LUL team working on the station were involved in the ASD OJEU procurement process including the evaluation of final tenders.
- 6.4 The LU Design Governance Board has been consulted and has endorsed the Brief. A Space Allocation Request has been approved (ref, SA29402) and the relevant space requirements allocated to the ASD, in consultation with relevant TfL programmes.

## **7 Bid Analysis**

- 7.1 After receiving advice from TfL's commercial advisors and considering the operational and commercial delivery options, it was decided to proceed with the recommended option to achieve the objectives set out in paragraph 3.14 above, share the return and risk associated with the development with an experienced partner and investor. The joint venture structure aims to maximise risk adjusted land value receipt and share anticipated profit and long term revenue with a view to achieve the best possible alignment of interests to provide the basis for longevity of the commercial working relationship of the joint venture.
- 7.2 The route to market OJEU Competitive Dialogue was selected because it enables extensive and detailed dialogue with shortlisted bidders, while maintaining a competitive dynamic throughout. TfL was advised on the selection, legality and administration of the procurement process by our external legal advisers and Savills.
- 7.3 An OJEU Advert for this opportunity was published on 28 March 2017. A Standard Selection Questionnaire was published to the market on the same day.
- 7.4 Details of the final tenders and a summary of the procurement process and evaluation are set out in the paper on Part 2 of the agenda.
- 7.5 The commercial terms for the opportunity were fine tuned through the procurement process. The minimum requirements were not changed and are still applicable. A copy of the minimum requirements is included at Appendix 3.

## **8 Outline of Key Commercial Terms**

- 8.1 The primary purpose of the joint venture is to maximise the long-term value of the end development and the associated revenue stream in accordance with our good design and place-making approach. The proposed commercial structure of the joint venture is broadly consistent with the PPF.
- 8.2 TfL and the preferred bidder will enter into the CJVA, establish a project board during the conditional period and shall act in accordance with the business plan (as annexed to the CJVA). Changes to the business plan will require the express agreement of both parties during the conditional period. Once the conditions have been satisfied and the joint venture established the business plan will be adopted by the joint venture. Any changes that the parties may agree and any subsequent material variations to the business plan will require the agreement of both shareholders.
- 8.3 Accordingly our proposed corporate structure is based on contributions (e.g. land, skills and investment) and risk and return being shared in accordance with the parties' equity interests. The decision to pursue the establishment of a 49:51 joint venture (49 per cent TfL: 51 per cent preferred bidder). The rationale for the approach includes attracting the required skills, experience and reputations to maximise our ASD's potential at this complex and prestigious Site, and retaining as large a stake as possible for TfL to maximise our risk-adjusted returns and returns and retain a meaningful share of management control and influence. This structure involves TfL establishing a holding company wholly owned by TTL

Properties Limited that then in the same way as previously for PPF developments uses the same structure where the holding company owns the relevant percentage of the shares in the JVCo, which in this case is a limited company.

- 8.4 The JVCo will hold the land interest in the Site as tenant of the long leases, carry out the development and deliver returns to its shareholders (49 percent TfL; 51 percent preferred bidder). The preferred bidder and TfL will agree to finance their equity contributions in accordance with the agreed business plan and once the development has started it will be completed again in accordance with the agreed business plan.
- 8.5 The joint venture will be supported by a suite of legal documents. A summary of each of these agreements is included in the paper on Part 2 of the agenda. A summary of the key principles of these agreements is described below. Details of the terms based on the preferred bid are set out in the paper on Part 2 of the agenda.

### **Conditional Period Key Commercial Terms**

- 8.6 The CJVA will be entered into at the outset, it applies to the conditional period and regulates the parties acting collaboratively and in good faith to seek to satisfy the pre-conditions to establishment of the JVCo the details of which are set out in the paper on Part 2 of the agenda (Conditions). It also regulates the costs to be incurred during the conditional period and their allocation between TfL and the preferred bidder as joint venture partner.
- 8.7 The establishment of the JVCo is conditional upon the satisfaction of the Conditions.
- 8.8 Following payment for the Site to LUL, TfL and the preferred bidder, as partners will share in any future development returns in accordance with their interests. Planning overage provisions will not apply on the basis that the long leases' demise height is limited. If additional development height is sought by development above the premises demised under the long leases then approval from LUL as freeholder will be required. The planning permission will define use classes and landlord's consent is required for change in use.

### **Key Commercial Terms Following Establishment of JVCo**

- 8.9 The JVCo is governed by the Shareholders Agreement to be entered into once the Conditions have been satisfied.
- 8.10 The Shareholders Agreement contains usual provisions for the protection of TfL as a significant minority shareholder. It contains a list of material decisions which will require the consent of TfL whilst limiting the chance that TfL is judged to acquire control, which would have financial accounting implications for TfL. Meetings at both board and shareholder level require a TfL representative for such meetings to be quorate.
- 8.11 Material decisions include: material changes to the business plan; acquisition or sale of material assets of the JVCo; the JVCo entering into any partnership, joint venture or similar arrangement with a third party; financing arrangements; vacant

possession strategy; planning application submission; retail strategy; contractor procurement strategy; and the appointment of contractors.

- 8.12 The Shareholders Agreement includes the usual restrictions on the transfer of TfL's and the preferred bidder's interests in the JVCo and appropriate change of control provisions.
- 8.13 The Shareholders Agreement sets out when distributions of profits can be made to TfL and the preferred bidder proportionate to their respective interests. Distributions will only be made where appropriate reserves have been set aside for working capital needs.
- 8.14 TfL has the right to make an offer at market value for all developed commercial (retail and office) assets prior to such assets being marketed by the JVCo to third parties. The preferred bidder has the right to make an offer at market value for the private residential assets prior to such assets being marketed to third parties. In the event that one of the owners of JVCo wishes to sell its shares the other shareholders have the right of first offer for the shares.

### **Development Management Services**

- 8.15 An associate of the preferred bidder will provide the development management services (DM Services) and asset management services (AM Services) in accordance with the Business and Development Management Agreement (BDMA).

### **Services during the Joint Venture Period**

- 8.16 Once the JVCo has been established, the Business Development Management Agreement is novated to the JVCo, which shall become the development manager's employer and be responsible for the fees.

### **Head Leases Key Commercial Terms**

- 8.17 The landowner, LUL, will grant the JVCo long leases (head leases) of the Site, which will be completed upon satisfaction of the Conditions.
- 8.18 The head leases of the Bullnose and Arcade and Pelham Street will be for a term of 153 years and the head lease of Thurloe Street will be for 253 years. The head leases will be inside the security of tenure provisions of the Landlord and Tenant Act 1954. Underleases in the Bullnose and Arcade granted out of the head leases will be excluded from the security of tenure provisions of the Landlord and Tenant Act 1954.
- 8.19 The JVCo has first right of refusal in the event of LUL wanting to dispose of any superior leasehold interest in the various properties or in the relevant part of the subway.

### **Works Agreement Key Commercial Terms**

- 8.20 The Works Agreement regulates the ASD works. It contains LUL's standard infrastructure protection provisions and the acknowledgement that matters

relating to the operation of the railway (including safety and security) are paramount.

- 8.21 Design and construction of the ASD will need to be coordinated with other works being undertaken by LUL at the time.
- 8.22 The development works and the structural alteration elements of the Enhancement Works (meaning the SFA and repair of the supporting structure for part of the existing property and station that spans the railway including design and construction services) will be procured by the JVCo through a competitive process.
- 8.23 The lifts and finishes elements of the Enhancement Works will be procured by the JVCo using the relevant existing TfL framework, established following the Public Contract Regulations. The JVCo will manage, integrate and coordinate the delivery of these works.
- 8.24 The Works Agreement contains specific obligations in respect of the Enhancement Works, including complying with the LUL assurance process for new and altered assets.

### **Guarantees and Pre-emption Key Commercial Terms**

- 8.25 TfL requires performance and financial guarantees in respect of certain preferred bidder and JVCo obligations and liabilities.
- 8.26 Termination provisions for the JVCo in the event of failure to commence or complete the ASD will apply.

## **9 Financial Analysis**

- 9.1 Details of the financial analysis based on the preferred bidder's bid are set out in the paper on Part 2 of the agenda.

## **10 Best Value and State Aid**

- 10.1 Our external legal advisers provided advice on the planned disposal's compliance with state aid and best value. Details of this assessment are set out in the paper on Part 2 of the agenda.

## **11 Tax and Accounting**

- 11.1 Details of the tax and accounting analysis based on the preferred bidder's bid are set out in the paper on Part 2 of the agenda.

## **12 Due Diligence**

- 12.1 In the procurement process for the ASD the preferred bidder demonstrated good relevant experience including of: engagement with local communities and planning authorities; developing in partnership arrangements; managing retail

tenants; addressing heritage-listed structures within a development scheme; and considering transport-operational requirements within a development scheme.

- 12.2 Financial due diligence was undertaken on the preferred bidder as part of the evaluation process. Analysis conducted by TfL Corporate Finance determined that the financial standing of the preferred bidder's guarantors is sufficiently robust to support this development.
- 12.3 A summary description of the preferred bidder and its guarantor is set out in the paper on Part 2 of the agenda.

## **13 Risks**

- 13.1 Commercial risks exist for TfL both as landowner and joint venture partner including market changes, complexities of interrelation between ASD and the station capacity upgrade, Enhancement Works (new station entrance, step free access, structural repair of the Bullnose bridge structure), vacant possession strategy, non-satisfaction of the site value and planning conditions. The joint venture risks will be mitigated jointly with preferred bidder. The TfL specific risks will be mitigated by proactive management and monitoring of the TfL-funded works and their interfaces with development works.
- 13.2 A legal summary and risk analysis report on the transaction documents is set out in the paper on Part 2 of the agenda.

### **List of appendices to this paper:**

Appendix 1: Site Plan

Appendix 2: Historical context and consultation approach

Appendix 3: Minimum requirements

A paper on Part 2 of the agenda contains exempt supplemental information.

### **List of background papers**

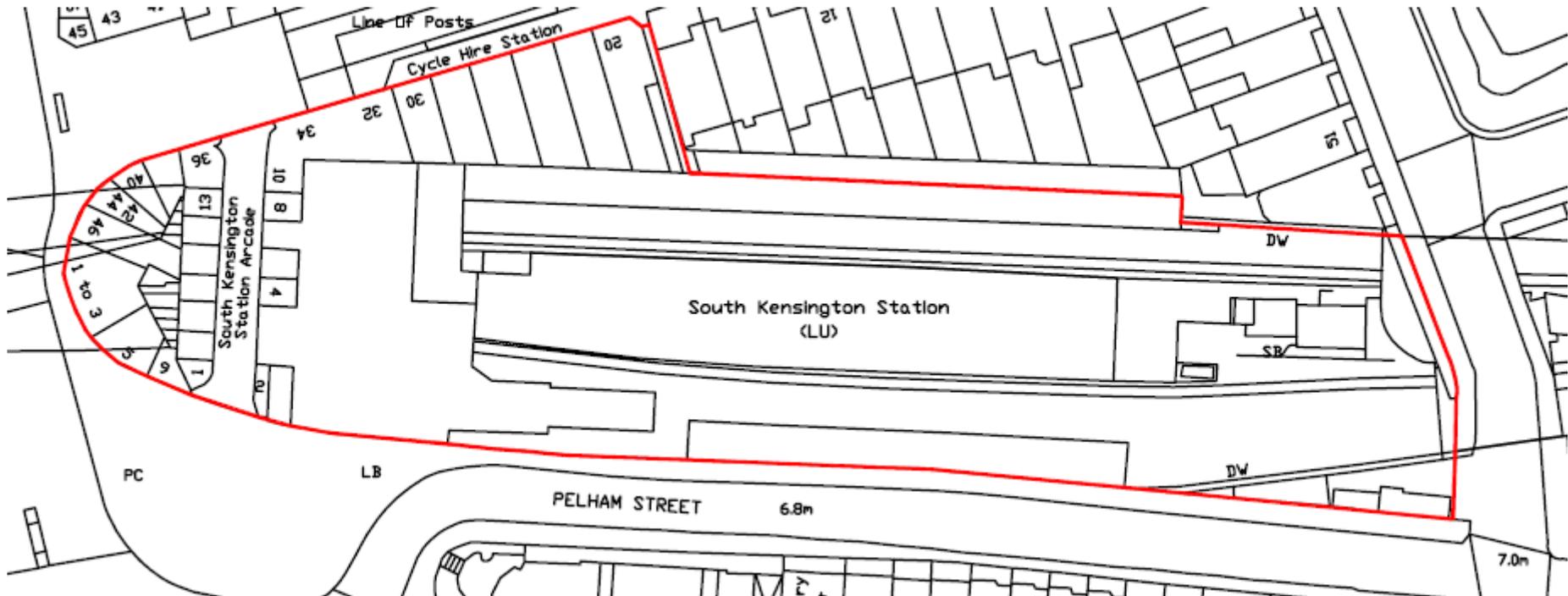
None

Contact Officer: Graeme Craig, Commercial Development Director  
Number: 020 3054 3417  
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Site Plan

Title:

London Underground Limited (LUL) owns the freehold land at South Kensington shown edged red on the plan below, which we refer to as the "Site".



The Site includes the land required for the Development Works described in the Memorandum of Information as well as operational land being retained by LUL. The freehold of the Site is owned by LUL with Title Absolute under titles **BGL85279** and **NGL645536**.

### Historical context and consultation approach

The Station was first brought into service in the early 1870s. Since 1908, when the Station's arcade entrance was built, the Station has been an important TfL commercial asset.

The Station's retail assets have been altered on several occasions for both operational and commercial reasons between 1908 and 1973.

### Current TfL approach

Through recent consultation with local stakeholders, we have confirmed that our approach must deliver step free access as soon as possible, must complement the existing context of the Station and surrounding streets, must retain the distinctive District and Circle line platform area in its open and unenclosed state, must be restorative and of a quality befitting the quality of buildings in the surrounding streets.

Throughout 2016, TfL consulted extensively with RBKC and local stakeholders. This led to the production of the Brief, which was prepared by TfL and set out principles for redevelopment, which are broadly supported by the local community. The Brief considers the context, planning considerations and constraints for the Site and establishes some principles that inform the potential for the Site. It included both refurbishment and new-build elements that are sympathetic to the character of the Station and surrounding area.

RBKC and local residents have broadly supported our current approach and the need for change at the Station. Written responses from RBKC and several local community groups including the Brompton Association, Kensington Association, Knightsbridge Association, Onslow Association, and South Kensington and Queensgate Association are included in the Brief. These responses included suggestions for improvements and identified the need for further work and design to inform the approach. TfL undertook to endeavour to find the best possible partner to deliver an ASD consistent with the objectives listed in the Brief.

The Brief was used in the procurement process to inform the bidding property development partners. Bidders were invited to propose enhancements to the Brief.

We aspire to improve the customer experience of the use of the subway linking the Station to Exhibition Road and its world renowned museums and institutions. The ASD will include the provision of passenger lift access connecting the Station with subway. Otherwise the delivery of improvements to the subway is contingent upon TfL, the Natural History Museum, the V&A Museum, other local stakeholders, and RBKC finding a funding solution and agreeing the scope, which should include provision of SFA for the institutions and Exhibition Road. Accordingly the improvement of the subway beyond the section that is adjacent to the Site is separate and distinct from the scope of the ASD.

### Minimum requirements

#### Overview of the Structure

1. The parties' interests in the JV will be 49% TfL and 51% JVP.

#### Payment

2. There will be a land payment paid to LUL by the JV when it takes the head leases.

#### Head Lease

3. The landowner, LUL, will grant the JV head leases of the ASD, which will be completed upon satisfaction of the conditions.
4. LUL will reserve its standard operational and infrastructure protection rights in relation to the ASD and any maintenance or alterations to the ASD. The head leases will contain an acknowledgement that matters relating to the operation of the railway (including safety and security) are paramount.
5. LUL will have the usual ability to step in to make safe or to carry out repair or maintenance works where the JV has failed to comply with its repair or maintenance obligations.
6. LUL will retain operational control of the Arcade thoroughfare.

#### Works

7. A works agreement will regulate the Development Works. It will contain LUL's standard protection rights and the acknowledgement that matters relating to the operation of the railway (including safety and security) are paramount.
8. The works agreement will contain specific obligations in respect of the Station Enhancement Works, including complying with the LUL assurance process for New and Altered Assets.
9. The JV will be required to undertake the works in accordance with relevant LUL standards and provide a robust indemnity to TfL that is also supported by insurances.

#### Guarantee

10. TfL will require appropriate guarantees or alternative form/s of security arrangement in respect of certain JVP and JV obligations and liabilities.