

## Board – Chair’s Action



Date: 30 November 2020

Item: Crossrail Funding

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### 1 Summary

- 1.1 This paper provides an update on the negotiations with the Greater London Authority (GLA) and Government since the meetings of the Finance Committee on 30 September and 16 October 2020 and describes an updated proposal for an agreement for the funding and financing of the remainder of the Crossrail project. The paper seeks approval of the updated proposal, which is also subject to relevant approvals by Department for Transport (DfT) and the Mayor of London.
- 1.2 The use of Chair’s Action by the Chair of the Board is considered appropriate as a decision is needed on the proposed funding arrangements as a matter of urgency, outside the usual cycle of meetings. The matters described in this paper were considered by the Finance Committee at its meeting on 16 October 2020 but approval was not given before resolution was reached on TfL’s wider funding for the remainder of the current financial year. Given the involvement of Members to date, in particular at the meeting of the Finance Committee on 16 October 2020 which was attended by most Members, and the urgency of the decision required, it is proposed that the Chair be asked to make his decision as soon as practicable, without further consultation with Members.
- 1.3 The exercise of Chair’s Action will be reported to the next meeting of the Board on 9 December 2020.

### 2 Recommendations

- 2.1 **The Chair of the Board is asked to note the paper and, subject to the approval of the DfT and of the Mayor to the GLA’s role in the proposed funding and financing arrangements for the Crossrail project:**
- (a) **approve TfL entering into the proposed binding Heads of Terms and subsequent agreements with Government and GLA for further funding and financing Crossrail Limited for the completion of the Crossrail project, as described in this paper, namely that:**
- (i) **TfL receives up to £825m by way of capital grant from the GLA;**
- (ii) **TfL agrees by 15 January 2021 a “Revised Mitigated Funding Shortfall” at a P80 confidence level for the cost of completing the Crossrail project provided that, if such sum is projected to exceed £1,071m, the Chief Finance Officer will consult with the Chair of the Elizabeth Line Committee before agreeing it;**

- (iii) a plan is developed for Bond Street station; and
  - (iv) TfL identifies further efficiencies within the Crossrail project;
- (b) authorise Delegated Officers as set out in paragraph 2.2(a) below to agree such changes as may be necessary to the Heads of Terms described in this paper in order to finalise them, in consultation with the Chair of the Elizabeth Line Committee;
- (c) grant further unbudgeted Financial Authority and Programme and Project Authority of £825m;
- (d) authorise the agreement and execution (whether by deed or otherwise on behalf of TfL or any Subsidiary as described in paragraph 2.2 below (as appropriate) any documentation to be entered into in connection with the completion and implementation of the agreements and amendments described above and any of the matters referred to in them (including, without limitation, all agreements, deeds, guarantees, indemnities, announcements, notices, contracts, certificates, variations, letters or other documents); and
- (e) authorise Delegated Officers and Subsidiaries as set out in paragraph 2.2 below to do all such other things as they consider necessary or desirable to facilitate the execution and implementation of the agreements and amendments described above and the matters referred to in them.

**2.2 The following Officers and Subsidiaries shall have delegated authority:**

- (a) **Delegated Officers: the Commissioner, Chief Finance Officer and General Counsel; and**
- (b) **Subsidiaries: Subsidiaries of TfL including Transport Trading Limited and any other subsidiary (whether existing presently or to be formed) of Transport Trading Limited and any of the directors of the relevant company shall be authorised to act for and on behalf of that company.**

### **3 Background**

- 3.1 On 21 August 2020 CRL advised TfL and DfT (the Sponsors) that the costs to complete the project were expected to be up to £1,071m above the available funding envelope of £14.964bn. CRL indicated that further work will be required to finalise the emerging opening schedule and the indicated additional costs were subject to further review and potential mitigations.
- 3.2 As described at the meetings of the Finance Committee on 30 September and 16 October 2020, we have been in discussions with DfT and the GLA in order to resolve this additional funding shortfall. The Committee was updated on the emerging funding solution proposed to the DfT, where the GLA would borrow a further £825m (subject to certain conditions) with the remainder of the funding shortfall to be covered by Government (also subject to certain conditions).

3.3 Further discussions have taken place since then and this paper describes an updated proposal. The terms of the proposal are substantially complete at officer level and are not expected to change materially prior to the approval by DfT and the Mayor of London.

## **4 Proposed Funding and Financing Agreement**

4.1 It is proposed that, given the time available, TfL, GLA and DfT enter into binding Heads of Terms for a funding and financing agreement which would then be drafted on terms following those for the existing loan facility from DfT. The proposed Heads of Terms are described below.

4.2 CRL's estimated £1,071m funding shortfall is currently being reviewed, with a view to settling a "Revised Mitigated Funding Shortfall" which is planned to be identified by TfL with CRL's assistance, and agreed with the DfT by 15 January 2021, based on the cost to complete the Crossrail Project at a P80 confidence level after any mitigating actions. TfL will commit to identify further efficiency options with respect to CRL, including indirect costs.

4.3 The GLA will undertake:

- (a) borrowing of a further £825m through an expansion of the existing loan facility with DfT in two tranches (passed on to TfL in the form of capital grant):
  - (i) £500m of conventional fixed rate borrowing, repayable on a pre-agreed profile; and
  - (ii) up to £325m repayable on a flexible basis with limited recourse if MCIL and BRS revenues are insufficient to fund such repayment by 2043, with the ability to extend to 2045 with agreement if necessary;

4.4 The GLA will use revenue proceeds from Business Rates Supplement (BRS) and Mayoral Community Infrastructure Levy (MCIL) only for the purpose of repaying its existing Crossrail debt obligations until all loans made under the GLA Facility from DfT are repaid. This will be subject to a regulatory amendment by Government to extend the usage of MCIL for the financing and repayment of Crossrail debt at least to 2043. We are confident that Government will be able to meet its commitment to deliver this amendment and therefore it is reasonable to proceed with the provision of authorities on this basis. There is nevertheless a risk that if the amendment is not delivered then alternative funding sources will need to be found.

4.5 TfL will be required to develop a plan for Bond Street station, considering all options and the most cost-effective opening strategy. TfL will also continue to explore whether any other efficiencies are possible.

4.6 If the project cannot be completed within the £825m of funding being provided by the GLA, then the parties will discuss further funding requirements as necessary. This is a change from the previously discussed position, where it was proposed that Government would fund any further amounts up to £1,071m (if needed) after a process whereby TfL and the GLA would first exhaust all other available funding options. The Government were not willing to accept this provision, and in light of

the fact that Crossrail Limited estimate that the £1,071m contains around £500m of risk provision, TfL and the GLA are content to proceed with £825m of funding at this stage. It should also be noted that, in the new National Infrastructure Strategy issued by the Government as part of the 2020 Spending Review, the Government has committed to “financing the completion of Crossrail”.

- 4.7 Following approval by all parties to the proposed Heads of Terms described in this paper, appropriate stock market and media announcements will be made.

## **5 Funding Implications**

- 5.1 The main source of funding for the additional funding shortfall remains to be MCIL and BRS revenues, with the former expected to be used solely for the purposes of servicing Crossrail debt until 2043, with the ability to extend to 2045 with agreement if necessary. This has an impact of other large scale planned infrastructure schemes, such as Crossrail 2 and Bakerloo Line Extension, which were relying on these funding sources being available. Unless alternative funding sources are found, these schemes will be significantly delayed.
- 5.2 TfL will be committing to find further efficiencies in running the project and is incentivised to minimise the total funding shortfall as much as possible, while ensuring a safe opening of Elizabeth line services. The transfer of the project’s governance to TfL is a welcome step that puts us in the best position to keep costs under control.

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

None

### **List of Background Papers:**

None

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