

**Board**



**Date: 4 November 2015**

**Item: Metropolitan Line Extension (Croxley Rail Link)**

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**This paper will be considered in public**

## **1 Summary**

<b>ID/UIP2028</b>	<b>Metropolitan Line Extension</b>			
Financial Authority P80	EFC P50	Existing Project Authority	Additional Project Authority Requested	Total Project Authority P50
£ 304.68m	£ 298.5m	£ 284.4m	nil	£ 284.4m

- 1.1 Mayoral Decision No: 1478 (MD1478) dated 26 March 2015 (copy attached at Appendix A) directed the transfer of delivery responsibility for the Metropolitan Line Extension (MLE), previously known as the Croxley Rail Link) from Hertfordshire County Council (HCC) to TfL and a £46.5m TfL contribution to a Department for Transport (DfT) agreed funding package of £284.4m. The TfL contribution comprised an HM Treasury agreed uplift of £30.5m in the TfL prudential borrowing limit (with TfL retaining net farebox revenue) and a £16m contribution from the TfL Growth Fund. Alongside the £46.5m TfL contribution, the funding package included £128.08m of local funding contributions, with the balance coming from the DfT. Additionally, MD1478 further directed TfL to take on delivery cost risk in excess of the DfT agreed funding package of £284.4m.
- 1.2 At its meeting on 1 July 2015, the Board granted the financial and project authorities necessary to give effect to MD1478, and approved the transfer of the delivery obligations (including Transport and Works Act Order obligations) from HCC to TfL. The Board also authorised officers to enter into relevant agreements with HCC to facilitate the transfer of the project.
- 1.3 Formal negotiations for the transfer of the project from HCC to TfL have been in progress since April 2015. A suite of agreements (including a Funding Agreement) for the transfer have been agreed in principle but immediately prior to the planned agreement execution date (30 September 2015), HCC indicated that a land valuation of £2.73m, as opposed to cash, formed part of the local contribution, thus reducing the effective local monetary contribution to £125.35m.
- 1.4 HCC assert that the assumption of a £2.73m land valuation in lieu of cash had been included in the proposed funding arrangements since 2011, when the scheme was first sanctioned by HM Government. This aspect of local funding was not, however, transparent to TfL, nor included in the DfT funding letters which set out the £284.4m funding package on which MD1478 was based.

- 1.5 HCC maintain that there are no further local funds available to make good the resultant £2.73m cash funding gap. The land in question comprises two parcels, but neither is of any commercial value to TfL.
- 1.6 Ahead of the meeting of the Board, it is anticipated that a further Mayoral Decision will be issued, which will instruct TfL to proceed with the transfer of the project and contribute a further £2.73m of funding (in addition to the £46.5m directed under MD1478). A copy of the MD will be provided to Members as soon as it is issued.
- 1.7 Since the Board's 1 July meeting, the forecast outturn cost of this project has risen from £284.4m (the estimate on which the DfT funding package was based) to £298.5m, largely due to the level of the sunk cost already incurred by HCC being substantially higher than had been anticipated by TfL (or forecast by HCC). This cost escalation risk sits with TfL.
- 1.8 This paper does not seek an uplift in Project Authority to reflect the increased forecast delivery costs, as the intent is to carry out a further detailed review of project costs post transfer. This will then inform a separate submission requesting revised Financial and Project Authority (if required). Procurement Authority for the construction of the main infrastructure works will also be sought via separate submission (expected in the New Year).
- 1.9 The recommendations in this paper have not been reviewed by the Finance and Policy Committee as detailed officer level discussions to resolve the funding issue were still ongoing at the time of the last meeting of the Committee.

## **2 Recommendations**

- 2.1 **The Board is asked to note the paper and, subject to a further Mayoral Decision being issued shortly in the terms set out in this paper:**
  - (a) **support the transfer of Metropolitan Line Extension (MLE) delivery and associated Transport and Works Act Order obligations from Hertfordshire County Council (HCC) to TfL in line with:**
    - (i) **the direction issued by the Mayor on 26 March 2015; and**
    - (ii) **the further direction to be issued by the Mayor which directs TfL to proceed in accordance with the direction issued on 26 March 2015 but on the basis that the HCC led local consortium nominal funding contribution of £128.08m includes land contributions which while valued by HCC at £2.73m are of no commercial value to TfL and therefore for TfL to provide up to a further £2.73m of funding in addition to the £46.5m TfL was directed to fund on 26 March 2015;**
  - (b) **reapprove the requirement to enter into appropriate agreements with HCC to facilitate the transfer and delivery of MLE in line with the above directions and subject to due diligence, in particular to cover its funding, its delivery and associated matters and approve the entering into of such agreements with third parties as may also be necessary or desirable to implement the transfer and facilitate delivery;**

- (c) reapprove the requirement to enter into a regulated track access agreement and connection agreement with Network Rail (NR) and station access agreements with the facility owners of Watford High Street station and Watford Junction station (currently London Midland) served by the MLE and any further agreements necessary or desirable for the operation of services over the MLE;**
- (d) reauthorize the acquisition of land owned by NR, Watford Borough Council and other third parties as may be required for the construction and operation of the MLE in line with the above directions and subject to carrying out due diligence, authorise TfL Officers and Subsidiaries (defined in paragraph 2.2 below) the ability to agree and execute (whether by deed or otherwise) on behalf of TfL or a Subsidiary (as appropriate) any documentation to be entered into in connection with such acquisitions and commitments and to do such other things as they consider necessary or desirable to facilitate the proposed acquisitions and commitments;**
- (e) note that the Financial and Project Authorities granted by the Board on 1 July of respectively £304.68 and £284.40m to deliver the MLE remain for the time-being the same, but that a further submission seeking an uplift in these authorities may follow subject to the outcome of a planned post transfer cost review;**
- (f) note that Procurement Authority for the construction of the infrastructure works, acquisition of rolling stock and systems works is expected to be sought from the Finance and Policy Committee in the New Year.**

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

- (a) TfL Officers: the Commissioner, Managing Director Finance, Managing Director Planning, Managing Director Rail and Underground and General Counsel; and**
- (b) Subsidiaries: all subsidiary companies of TfL including Transport Trading Limited and any other subsidiary of Transport Trading Limited (whether existing presently or to be formed): any of the directors shall be authorised to act for or on behalf of any such subsidiary.**

### **3 Background**

**3.1** HCC's aspirations for the MLE scheme are long held. The scheme was formally initiated in late 2011, when DfT Ministers gave provisional approval to a £76.2m maximum HM Government contribution towards the then total MLE estimated scheme cost of £116m, against a forecast delivery into service date of May 2016. The balance was to be funded by HCC through a combination of Section 106 contributions, borrowing (against future net incremental revenue) and other local government sources, with the cost escalation risk also sitting with HCC. Similarly, the overall delivery structure was to be HCC led, with London Underground (LU) being responsible only for the delivery of certain defined elements of scope (railway systems scope, design assurance and railway systems integration) on a

cost reimbursable basis. The then funding arrangements envisaged no direct TfL financial contribution.

- 3.2 Since 2011, and in particular from late 2013 onwards, HCC began reporting a steadily worsening position in terms of cost escalation and programme slippage. In mid 2014, the DfT began considering a number of options to address the emerging funding gap, but in doing so made clear its view that overall delivery responsibility for scheme should be transferred from HCC to LU.
- 3.3 In response to this, in January 2015, TfL commissioned an external expert (AECOM) to undertake a due diligence exercise of the current status of the project. The external expert concluded that the outturn costs for the full MLE scheme should be £284.40m, including risk at a P50 level. It is this AECOM estimate which formed the basis of the funding package agreed in March 2015 by the Mayor, HM Government and local funding partners (primarily HCC).
- 3.4 On 26 March 2015, the Mayor directed TfL to assume full responsibility for delivering the entire project including civil engineering works, systems and the procurement of additional rolling stock. This represents a transfer of full delivery responsibility from HCC to TfL. The Mayor also directed that TfL contribute a total of £46.5m to the overall funding package agreed with HM Government of £284.40m, and take cost risk over and above this level.
- 3.5 At its 1 July meeting, the Board gave effect to the direction given by the Mayor by granting the required Board approvals in line with normal processes under Standing Orders.

## **4 Funding Shortfall**

- 4.1 Detailed transition planning to secure the smooth handover of delivery responsibility from HCC to LU has been underway since the original MD was issued in March 2015. An LU delivery team has been mobilised and transition had been expected to take place on 30 September 2015.
- 4.2 Formal negotiations for transfer of delivery obligations from HCC to TfL have been in progress from April 2015. In line with the DfT agreed funding package, these negotiations assumed a local funding contribution of £128.08m to the total funding of £284.40m, comprising:
  - (a) DfT grant to local consortia of £70.70m;
  - (b) Growth deal funds of £17.15m; and
  - (c) HCC and Watford Borough Council (WBC) contribution of £40.23m.
- 4.3 At end-September 2015, HCC stated that £2.73m of the HCC and WBC £40.23m contribution took the form of a land valuation for two parcels of land, in lieu of cash. The land in question comprises two parcels, neither of which is of any commercial value to TfL:
  - (a) A plot earmarked for use as a future station car park, to which HCC has ascribed a notional value of £900k, and the ownership of which will be retained by HCC (i.e. it will not transfer to TfL at any point); and

- (b) Existing NR land (a disused railway) that is being transferred to TfL and to which HCC has ascribed a notional value of £1.8m, although in reality it has been acquired by HCC from NR at a cost of £1.

## 5 Revised Funding Arrangements

- 5.1 The revised funding package for the MLE, as expected to be modified by a further MD ahead of the meeting of the Board, is summarised in the table below:

<b>Funding Partner</b>	<b>March DfT Letters Amount £m</b>	<b>With MDxxxx Amount £m</b>
DfT	<b>109.82</b>	<b>109.82</b>
<b>TfL</b>		
TfL Prudential Borrowing	30.50	30.50
Transport for London Growth Fund	16.00	16.00
MD to TfL		2.73
<b>TfL Total</b>	<b>46.50</b>	<b>49.23</b>
<b>Third Party Funding</b>		
Hertfordshire Local Enterprise Partnership (LEP)	87.85	87.85
HCC and WBC	40.23	37.50
<b>Third Party Total</b>	<b>128.08</b>	<b>125.35</b>
<b>Total Funding</b>	<b>284.40</b>	<b>284.40</b>

- 5.2 The revised TfL contribution to the MLE is £49.23m, of which the additional £2.73m is unbudgeted.

5.3 The phasing of the overall scheme funding is set out in the table below.

<b>Funding Profile</b>	<b>15/16</b>	<b>16/17</b>	<b>17/18</b>	<b>18/19</b>	<b>19/20</b>	<b>20/21</b>	<b>Totals</b>
<b>Local Funding</b>							
DfT Grant to Local Partners £70.70m	28.00	16.50	16.20	10.00			70.70
Growth Deal Funds £17.15m	1.75	4.00	3.83	2.00	5.50	0.07	17.15
HCC & WBC £37.50m	1.93		18.27	10.30	5.00	2.00	37.50
sub-total Local Funding	<b>31.68</b>	<b>20.50</b>	<b>38.30</b>	<b>22.30</b>	<b>10.50</b>	<b>2.07</b>	<b>125.35</b>
<b>Central Funding</b>							
DfT £109.82m	55.20	31.00	13.62	10.00			109.82
TfL Prudential Borrowing £30.50m		30.50					30.50
TfL Growth Fund £16m				16.00			16.00
MD October 2015						2.73	2.73
sub-total Central Funding	<b>55.20</b>	<b>61.50</b>	<b>13.62</b>	<b>26.00</b>		<b>2.73</b>	<b>159.05</b>
<b>Budget Funding</b>	<b>86.88</b>	<b>82.00</b>	<b>51.92</b>	<b>48.30</b>	<b>10.50</b>	<b>4.80</b>	<b>284.40</b>

5.4 The above phasing of the local funding has been agreed by HCC and will form part of the Funding Agreement between TfL and HCC.

## 6 Transfer Agreements

6.1 The suite of transfer agreements jointly developed with HCC and additionally with the contractor Taylor Woodrow for contract novation are:

- (a) Transfer of the Transport and Works Order;
- (b) Transfer Agreement;
- (c) Funding Agreement;
- (d) Property Agreement; and the
- (e) Contract Novation.

6.2 The agreements have been developed in conjunction with TfL Legal and subject to changes required to the Funding Agreement as a result of the revised funding arrangements are ready for execution. The agreements are to be executed simultaneously as a set of inter-dependent obligations and commitments.

**List of appendices to this report:**

Appendix 1: Mayoral Decision MD1478 26 March 2015

**List of Background Papers:**

None

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