

Date: 20 August 2014

Item 4: Northern Line Extension to Battersea

This paper will be considered in public

1 Summary

ID/UIP2033		Northern Line Extension		
Financial Authority	Estimated Final Cost	Existing Project Authority	Additional Authority Requested	Total Authority
£ 1,044m	£ 1,044m	£ 1,044m	£ none	£ 1,044m

Authority Approval:

This paper requests that the Committee approve the award of a contract and grant procurement authority for the Northern Line Extension main works design and build contract.

Outputs and Schedule:

To award a contract for the main works design and build for the Northern Line Extension. The works include the design, construction and commissioning of running tunnels, track, stations, power supply, station systems and passenger relief works at Kennington station.

The target date for the award of contract is 2 September 2014.

The commencement date for the extended service to Battersea is 31 December 2019.

- 1.1 On 27 March 2013, the Board approved the submission of a draft Transport and Works Act Order (TWAO), seeking the necessary permissions to construct and operate an extension of the Northern line (NLE) from Kennington to a new station at Battersea Power Station (BPS) together with an intermediate station in south Lambeth.
- 1.2 On 6 November 2013, the Board approved project authority of £1,044m to deliver the NLE subject to the TWAO being granted. Additionally the Board approved the early acquisition of land required to implement the NLE scheme; authorised TfL officers and subsidiaries to negotiate third party agreements; and authorised the implementation of the NLE funding strategy.
- 1.3 Under Standing Orders, the authority sought in this paper is reserved to the Board. On 26 March 2014, the Board delegated to the Finance and Policy Committee authority to approve any matter reserved to the Board from 4 July to 23 September 2014. Authority is requested ahead of the meeting of the Board on 24 September 2014 to enable the contract to be awarded on 2 September 2014.

- 1.4 A paper is included on Part 2 of the agenda, which contains exempt supplementary 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 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 the paper and the supplemental paper on Part 2 of the agenda and, in accordance with the authority delegated from the Board, to:**

- (a) grant Procurement Authority as detailed in the supplemental paper on Part 2 of the agenda;**
- (b) approve entering into the main works design and build contract (“the Contract”); and**
- (c) subject to the Committee granting the approvals described in paragraph 2.1(a) and (b) above:**
 - (i) delegate to the TfL Officers and the Subsidiaries (as described in paragraph 2.2 below) the authority to agree and finalise the terms of the Contract;**
 - (ii) authorise the agreement and execution (whether by deed or otherwise on behalf of TfL or any Subsidiary (as appropriate)) of any documentation to be entered into in connection with the completion and implementation of the Contract and any of the matters referred to therein (including, without limitation, all agreements, deeds, guarantees, indemnities, property or other licences, announcements, notices, contracts, certificates, letters or other documents); and**
 - (iii) authorise TfL Officers and Subsidiaries to do all such other things as they consider necessary or desirable to facilitate the execution and implementation of the Contract and the matters referred to therein.**

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

- (a) TfL Officers: the Commissioner, Managing Director Finance, Managing Director Rail and Underground 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 Programme Status

- 3.1 The draft TWAO application was submitted on 30 April 2013 and a public inquiry took place during November and December 2013 to consider the proposals. The

Secretary of State for Transport's decision on whether to grant the order is expected by autumn 2014.

- 3.2 A commercial agreement with Battersea Power Station Development Company (BPSDC) as to the funding and delivery of the NLE, and with the GLA and the impacted London boroughs, was reached earlier this year. Following receipt by BPSDC of bank consent to the commercial agreement with TfL (including a Funding and Delivery Agreement (FDA), Land and Works Agreement and Long Stop Payment Deed), that agreement became legally binding.
- 3.3 TfL's legal obligation to deliver rests on certain conditions precedent having been met, including a positive TWAO decision, a funding package being in place to meet the cost of the NLE (including the Enterprise Zone regulations having been laid), and BPSDC making a minimum level of progress in relation to funding and delivering the redevelopment of the BPS. If the conditions are not met by a longstop date of 31 March 2015 then the BPSDC agreement is terminated. Therefore, as mitigation for non-fulfilment, the main works design and build contract contains a break clause prior to the commencement of the main works.
- 3.4 The TWAO decision will be given after the design and build contract is awarded. The award of the contract on 2 September 2014 is designed to ensure that the 31 December 2019 in-service date for the NLE is achieved and to meet a commercially critical Stage 2 handover to BPSDC at BPS to facilitate the commencement of the over site development (both of which milestone dates are legal obligations of TfL under the arrangements with BPSDC).
- 3.5 The key milestones for the NLE programme are indicated below; a map of the scheme is shown in Appendix 1.

Key Milestones	Date
Contract award main works design and build	2 September 2014
TWAO decision by Secretary of State announced	Autumn 2014
Satisfaction of conditions precedent under the FDA; main works commenced on site	Spring 2015
Contracts for rolling stock and signalling awarded	Autumn 2016
Service to Battersea commences	31 December 2019
Financial close of the Programme (realisation of over site development receipts and expiry of authority)	30 June 2021

- 3.6 The NLE will be publicly financed but externally funded. In other words, the public sector will raise up to £1bn debt to pay for the up-front costs of construction, while the costs of servicing that debt will be paid by the private sector, in the form of (a) a tariff on development paid by developers (at the BPS site and across the opportunity area) to the London Boroughs of Wandsworth and Lambeth under the Section 106 and Community Infrastructure Levy regimes; and (b) incremental

business rates generated in a new enterprise zone and retained by the Mayor for at least 25 years.

- 3.7 A procurement notice was placed in March 2013, in the Official Journal of the European Union inviting expressions of interest to design and build the NLE main works. The following four consortia were selected to tender:
- (a) Bam Nuttall / Balfour Beatty Joint Venture;
 - (b) Bechtel / Strabag Joint Venture;
 - (c) Costain / Dragados / Sir Robert McAlpine Joint Venture; and
 - (d) Ferrovial Agroman / Laing O'Rourke Joint Venture.
- 3.8 An invitation to tender (ITT) was issued on the 9 December 2013 and four tenders were received on 17 March 2014. Following evaluation, two preferred tenderers (Ferrovial Agroman / Laing O'Rourke and Bam Nuttall / Balfour Beatty) were selected on 9 May 2014 and progressed through to a negotiation stage.
- 3.9 The identification of the preferred tenderer and negotiation stage was completed by 25 July 2014. A notification of contract award is scheduled for 21 August 2014. Contract signature is targeted for 2 September 2014.

4 Main Works Design and Build Contract Procurement

Procurement Strategy

- 4.1 The procurement strategy for the main works delivery is to package the civils, tunnelling, stations, track and power works into a main works design and build contract. This is in the form of a single-stage NEC3 Option C contract, under a target price with a 50:50 pain/gain share mechanism.
- 4.2 The contract includes a step down provision on contract fees that limits additional contractor payments when cost variations are agreed. When the target cost is exceeded, no fee is paid. London Underground has successfully employed this incentive approach for the Northern line upgrade works.
- 4.3 For assets not included in the design and build contract, (the NLE systems including signalling, additional rolling stock and train-station radio), direct contracts will be placed either as variations to existing contracts, new contracts with existing framework suppliers or as completely new procurements, but the main works design and build contractor will be responsible for co-ordination of the NLE works.
- 4.4 The key opportunities and risks related to the proposed procurement approach are indicated in the table below together with their effect, impact and available mitigations.

Description	Effect and Impact	Mitigation or Alternative
Opportunity – place contract before TWAO award and before conditions precedent to BPSDC agreements are met, with TfL at risk on	Provides the advantages described in 5.2 below.	Wait until the TWAO is awarded and/or conditions precedent are met or provision in contract for a break clause.

Description	Effect and Impact	Mitigation or Alternative
costs.		
Risk – The TWAO award embodies extensive and unexpected conditions.	Potential scope, cost and time impacts.	Break clause in the contract, TfL will bear cost of abortive work if it chooses not to proceed.
Risk – The TWAO decision is delayed and/or conditions precedent satisfaction is delayed beyond long stop date.	Re-work and programme delays with possible unwillingness of TfL to proceed at risk. Most likely delay two months with cost impact of £800k.	Set potential date for project stand down. Break clause in the contract.
Risk – There are changes to the BPSDC plans at Battersea resulting in revised designs and revised planning applications.	Possible change includes, layout of station alters, entrance point changes, need for revised structural support to the over site development.	Detailed discussions with BPSDC to agree any revised designs – TfL consent is required where changes represent a departure from the agreed position with BPSDC and this would be subject to the obligation on BPSDC to reimburse costs. A detailed change process will be agreed with BPSDC

4.5 Awarding the main works design and build contract in advance of the TWAO decision (and before the conditions precedent to BPSDC funding are met) will help to mitigate schedule risk relating to both the handover to BPSDC of the Battersea station structure and the NLE in-service date. It will also assist the project in securing access to essential design, tunnelling and construction skills in what is an increasingly competitive global market.

4.6 The public inquiry in support of the TWAO submission elicited much support for the NLE scheme. However, there remains a risk that onerous conditions may be attached to any Order given by either the Inquiry Inspector or the Secretary of State, which could impact on the timing, scope of works or costs of the infrastructure design and build contract. The main mitigation against this risk is the inclusion in the main works design and build contract of a break clause intended to facilitate renegotiation should major scope or timing changes emerge.

List of appendices to this paper:

Appendix 1: NLE Route Map

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

List of background papers:

Board papers on 27 March and 6 November 2013.

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NLE Route Map

Proposed route and key sites



1 2 New stations at Battersea and Nine Elms, providing step-free access from street to train

3 4 Permanent shafts at Kennington Green and Kennington Park are needed to allow air in and out of the underground tunnels, help cool the Tube and enable emergency access to and from the tunnels if necessary

View and download further information about each of the sites and other details about the scheme at tfl.gov.uk/nle