

GREATER LONDON AUTHORITY

REQUEST FOR MAYORAL DECISION – MD2170

Title: Metropolitan Line Extension (MLX) – TfL Funding

Executive Summary:

The MLX (formerly the Croyley Rail Link) was transferred from Hertfordshire County Council (HCC) to Transport for London (TfL) for delivery on 20 November 2015. The project transferred with funding arrangements of £284.4million. In accordance with Mayoral Directions MD1478 (26 March 2015) and MD1570 (4 November 2015), TfL was directed to provide up to £49.23m towards the cost of delivering the MLX and made responsible for any costs above the £284.4m funding package.

Since taking over the MLX project, TfL has worked with the supply chain and Network Rail (NR) to progress the design and obtain market prices for delivery. The outturn cost of the project will be significantly in excess of £284.4m. The increased project costs weaken the MLX business case. The deteriorating business case and loss of its operating grant mean that TfL is no longer able to bear cost risk above the current £284.4m funding package.

Decision:

The Mayor:

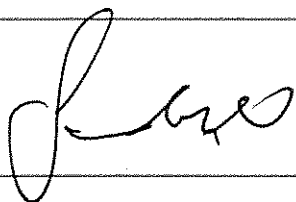
1. Directs TfL to continue to provide up to £49.23m of funding towards the cost of delivering the MLX subject to directions 2 and 3 below;
2. Directs TfL not to take responsibility for any costs above the current £284.4m funding package; and
3. Directs TfL to close out its current activities in respect of the MLX in an orderly fashion and not to commence any new activities, including procurement activities associated with the main works, unless and until arrangements to provide additional funding for the MLX are put in place to address direction 2 above.
4. Mayoral Directions MD1478 (26 March 2015) and MD1570 (4 November 2015) are with immediate effect to be read subject to this MD.

Mayor of London

I confirm that I do not have any disclosable pecuniary interests in the proposed decision, and take the decision in compliance with the Code of Conduct for elected Members of the Authority.

The above request has my approval.

Signature:



Date:

28/9/12

PART I - NON-CONFIDENTIAL FACTS AND ADVICE TO THE MAYOR

Decision required – supporting report

1. Introduction and background

- 1.1 The MLX project involves the diversion and extension of the existing Metropolitan line from just north of Croxley to a new terminus at Watford Junction. The extension would be routed via two new fully accessible stations, to the existing Watford High Street and Watford Junction Stations. The disused rail corridor would be reinstated and passenger services would cease to operate between Croxley and the existing Metropolitan line terminus, Watford station.
- 1.2 Initiated in 2011, MLX is a HCC led scheme which at that time had a Department for Transport (DfT) approved funding package of £116m. HCC were responsible for the overall delivery of the project with TfL being responsible for certain defined elements of scope, such as railway systems. The original funding arrangements envisaged no direct TfL financial contribution.
- 1.3 In 2013, HCC began reporting a steadily worsening position of cost escalation and programme slippage. In 2014 the DfT considered options to close the MLX funding gap and TfL were identified as the preferred delivery agent for the project. DfT led discussions for the transfer of the project to TfL concluded in March 2015 when TfL was directed by the then Mayor to assume full responsibility for delivering the project.
- 1.4 MD1478, issued on 26 March 2015, directed TfL to:
 - a. Take over responsibility for delivering the MLX project.
 - b. Provide up to £46.5m of funding towards the costs for delivering the MLX based on a total project cost of £284.4m (the remaining £238m of costs were to be funded from HCC and DfT, as described in 5.1).
 - c. Be responsible for any overruns above the project estimate of £284.4m.
- 1.5 MD1570, issued on 4 November 2015, directed TfL to provide up to a further £2.73m of funding, in addition to the £46.5m, towards the cost of delivering the MLX as a substitute for HCC land contributions with an assumed value of £2.73m, but with no commercial value to TfL.
- 1.6 On 20 November 2015 the project transferred to TfL with funding arrangements for £284.4m and the two stage main works design and build contract originally let by HCC was novated from HCC to London Underground Limited (Design & Build Contract). At the point of transfer the estimated final cost of the project was £299m.
- 1.7 Prior to the project transferring to TfL, the TfL Board noted at its meeting on 1 July 2015 that TfL had not had the opportunity to fully understand the likely cost and delivery requirements associated with the MLX; a project with a known history of cost increases. It was noted that it was then agreed that any cost increases associated with the scheme should be reported back to the DfT.
- 1.8 Since the transfer of the scheme TfL has undertaken substantial design development and enabling works and completed a thorough review of costs. As work has progressed it has become clear, on the basis of supply chain prices and supplier estimates (including NR), that the outturn cost of the project will be significantly in excess of £284.4m. In June 2017, based on a programme delivery year for completion of 2022, the P50 estimate for delivery of the project was £333m, with a further £24m of cost pressures identified against this total, which TfL cannot afford to finance. The scope of the project has not changed; the

additional cost is a reflection of prices and estimates that TfL has received from the supplier market.

2. Objectives and expected outcomes

- 2.1 The key objectives for the MLX are to provide a catalyst for regeneration and growth in the Watford area and improve sustainable connectivity between South West Hertfordshire and North West London. The MLX must meet these objectives by providing a capacity enhancement to support London's growth and offer the best value for public money.
- 2.2 At the point of transfer the benefit: cost ratio (BCR) for the MLX (calculated in accordance with webTAG guidance) over a 30 year assessment period was 0.4:1 against a cost of £284.4m. The subsequent cost increases further weaken the BCR.

3. Equality comments

- 3.1 Not extending the Metropolitan Line would mean the level of accessibility to public transport would remain as it is today with Watford Met station continuing to operate. The station at Watford Met would continue to serve the catchment of the proposed Cassiobridge station on the extension, however, since Watford Met is not accessible, without the proposed station at Vicarage Road, access to and from the Health Campus by public transport could require alternative additional transport provision to be considered.

4. Other considerations

- 4.1 The effect of this decision is that an alternative source of additional funding will need to be identified to cover the costs above the current funding package of £284.4m. These arrangements will need to be in place to allow TfL to commence the necessary procurement and other activities required for TfL to deliver the MLX.
- 4.2 If the required funding cannot be secured for the scheme to be delivered, reimbursement of sunk project costs is likely to feature in discussions between the funding partners and TfL. The total amount that will have been spent by the time TfL closes-out its activities on the MLX in accordance with this direction (including previous sunk costs prior to the project transferring to TfL) is estimated to be £71.2m. Of this, £32.4m had already been spent prior to the transfer of the scheme to TfL. Of the £38.8m that has been spent post-transfer, £15.5m has been invested in an additional train, which is already in passenger service.
- 4.3 If no additional funding can be identified in a timely manner, the Transport and Works Act Order (TWAO) powers and planning permission granted in respect of the MLX which are to be implemented by August 2018 may lapse. The expiry of the TWAO powers would result in new powers and planning permissions needing to be sought before any construction activity in respect of the MLX could commence.

5. Financial comments

- 5.1 GLA is party to the grant agreement with DfT and is required under the terms of that agreement to transfer the grant to Transport for London. There are otherwise no direct financial implications for the GLA. Below is a breakdown of the funding package for the scheme:

Funding Partner	£m
Department for Transport	109.82
Transport for London (including fare box borrowing)	49.23
Hertfordshire LEP	87.85
HCC & Watford Borough Council	37.5
TOTAL FUNDING	284.40

- 5.2 TfL will continue to provide up to £49.23m of funding towards the cost of delivering the MLX subject to TfL not taking responsibility for any costs above the current £284.4m funding package.
- 5.3 The escalating costs of the MLX (see 1.8) and low forecast passenger numbers have resulted in a deterioration of the business case. The removal of TfL's operating grant requires TfL to operate in a sustainable and more efficient manner and ensure that investment in major projects focuses on projects that provide the biggest capacity enhancements to support London's growth, and offer best value for public money.
- 5.4 TfL borrowing has to be within the Prudential Code and limits set by the Government. It cannot borrow if its expected income is not sufficient to service its debt. TfL is close to the maximum level of debt it can afford at present. The cost rise on MLX does not raise additional revenue so borrowing more is not an option.
- 5.5 These factors mean that TfL is no longer able to bear cost risk above the current £284.4m funding package. TfL could still act as the delivery agent for the MLX if alternative funding arrangements for the project costs above the current £284.4m are made available and subject to the TWAO powers and planning permissions remaining extant.
- 5.6 TfL will close-out its current activities in respect of the MLX, including the completion of the Stage 1 design, in an orderly fashion and will not commence any new activities, including procurement activities associated with the main works, unless and until arrangements to provide additional funding is put in place.

6. Legal comments

- 6.1 The Mayor has duties under section 141 of the Greater London Authority Act 1999 (GLA Act), to develop and implement policies for the promotion and encouragement of safe, integrated, efficient and economic transport facilities and services to, from and within Greater London, and to secure provision of those facilities and services that offer best value for the investment of public money.
- 6.2 Transport for London has power under section 173(1) of the GLA Act to provide or secure the provision of public passenger transport services to, from or within Greater London.
- 6.3 The proposed extension is promoted by HCC and is outside Greater London. There is no development directly dependant on the MLX because there are no Grampian planning conditions affecting regeneration and growth in the Watford area linked to the proposed MLX.

6.4 Under section 155 of the GLA Act the Mayor has the power to direct TfL as to the exercise of its functions.

7. Planned delivery approach and next steps

7.1 TfL's programme for delivering the works will be revised if additional funding for the MLX is committed.

7.2 Unless and until such additional funding for the MLX is committed, TfL will close-out its activities in respect of the project. In particular, the stage 1 design works, being completed through the Design & Build Contract and the Network Rail GRIP3 option selection works will be completed to provide a baseline design for the scheme from which the MLX could be taken forward in the future, subject to the relevant powers and a suitable funding package being made available to secure the delivery of the project.

7.3 Were arrangements to be put in place by DfT and/or local funding partners to provide additional funding for the MLX for costs above the current £284.4m funding package, TfL could consider safeguarding the ability to deliver the scheme beyond the August 2018 deadline. This would involve LUL discharging the pre-commencement planning conditions and exercising compulsory purchase powers (under the TWA0) to enable a discrete package of works to be procured and delivered before that date to demonstrate the scheme had been implemented. However, for TfL to be assured that the programme included a prudent level of contingency to cater for delay (bearing in mind this deadline is absolute), the additional funding would need to be secured by 31 December 2017. This proposal inevitably exposes TfL to an increasing level of risk around delays. Whilst this course of action would not represent the most efficient delivery route for the scheme overall (with regard to both cost and programme), it would afford further time for the necessary additional funding to be secured.

7.4 TfL has considered whether the section of the MLX route between Wiggshall Junction and Watford Junction transferring from Network Rail to TfL would help reduce the capital funding gap. TfL has undertaken analysis and concluded that the potential capital cost savings to the project are estimated to be small, and a fraction of the current cost pressure facing the project. In the longer term, TfL's annual operating and maintenance costs as a consequence of the line being transferred to TfL would increase at a time when the TfL Operating Grant from Government is being phased out. This takes account of an estimated saving not incurring Network Rail track and station access (and other associated) charges. Transfers of this nature can be complex with power, signalling systems and other technical interfaces needing to be resolved.

7.5 Meanwhile the GLA, with support from TfL, will consider whether the project may be suitable for a bid to the Department for Communities and Local Government's Housing Infrastructure Fund. TfL will also explore with the local funding partners the possibility of developer contributions.

Public access to information

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FOI Act) and will be made available on the GLA website within one working day of approval.

If immediate publication risks compromising the implementation of the decision (for example, to complete a procurement process), it can be deferred until a specific date. Deferral periods should be kept to the shortest length strictly necessary. **Note:** This form (Part 1) will either be published within one working day after approval or on the defer date.

Part 1 Deferral:

Is the publication of Part 1 of this approval to be deferred? YES

If YES, for what reason: Defer to align with further comms.

Until what date: 01 November 2017

Part 2 Confidentiality: Only the facts or advice considered to be exempt from disclosure under the FOI Act should be in the separate Part 2 form, together with the legal rationale for non-publication.

Is there a part 2 form – NO

ORIGINATING OFFICER DECLARATION:

Drafting officer to confirm the following (✓)

Drafting officer:

Tim Steer has drafted this report in accordance with GLA procedures and confirms the following:

✓

Sponsoring Director:

Fiona Fletcher-Smith has reviewed the request and is satisfied it is correct and consistent with the Mayor's plans and priorities.

✓

Mayoral Adviser:

Val Shawcross has been consulted about the proposal and agrees the recommendations.

✓

Advice:

The Finance and Legal teams have commented on this proposal.

✓

Corporate Investment Board

This decision was agreed by the Corporate Investment Board on 18 September 2017.

EXECUTIVE DIRECTOR, RESOURCES:

I confirm that financial and legal implications have been appropriately considered in the preparation of this report.

Signature



Date

25.09.17

TOM MIDDLETON ON BEHALF OF MARTIN CLARKE

CHIEF OF STAFF:

I am satisfied that this is an appropriate request to be submitted to the Mayor

Signature



Date

25/9/2017.

MAYOR OF LONDON

Mike Brown MVO

Commissioner of Transport
Transport for London
Windsor House
50 Victoria Street
London SW1H 0TL

Date: 28.9.17

I, SADIQ KHAN, MAYOR OF LONDON, in exercise of the powers conferred on me by section 155(1) (c) of the Greater London Authority Act 1999 (the "Act") hereby direct Transport for London:

1. to continue to provide up to £49.23m of funding towards the cost of delivering the MLX subject to directions 2 and 3 below;
2. not to take responsibility for any costs above the current £284.4m funding package; and
3. to close out its current activities in respect of the MLX in an orderly fashion and not to commence any new activities, including procurement activities associated with the main works, unless and until arrangements to provide additional funding for the MLX are put in place to address direction 2 above.

Dated this day 28th of September 2017.



Sadiq Khan
Mayor of London

