

Board

Date: 26 March 2015

Item 13: Bank Station Capacity Upgrade

This paper will be considered in public

1 Summary

- 1.1 The purpose of this paper is to ask the Board to approve an increase in Project Authority for Bank Station Capacity Upgrade (BSCU) Stage 1 of £76.8m (thereby increasing the BSCU Stage 1 Project Authority from £177.5m to £254.3m), to be funded by bringing forward of the same amount (i.e. £76.8m) from the budget for Stage 2 BSCU works.
- 1.2 This proposed re-phasing of BSCU spend (and increase in Stage 1 project authority) is to cover:
 - (a) an increase in the costs of Stage 1 activities (£8.3m);
 - (b) a bring forward into Stage 1 of activities previously assumed to be delivered in Stage 2 (£51.3m); and
 - (c) a corresponding adjustment of risk and inflation allowances between Stage 1 and Stage 2 (£17.2m).
- 1.3 The re-phasing will be funded through a re-allocation of budget from Stage 2 into Stage 1 and does not impact the existing Procurement Authority. The overall BSCU upgrade Estimated Final Cost (EFC) remains unchanged at £562.9m but will be subject to further review in due course.
- 1.4 On 11 March 2015, the Finance and Policy Committee endorsed the recommendations in this paper. The Committee discussed the extent of the dialogue with landowners, businesses and other stakeholders likely to be affected by the work and the EFC.
- 1.5 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.

2 Recommendation

- 2.1 **The Board is asked to:**
 - (a) **note the paper and the supplemental information on Part 2 of the agenda; and**
 - (b) **approve an increase in Project Authority for Bank Station Capacity Upgrade (BSCU) Stage 1 of £76.8m, thereby increasing the BCSU Stage 1 Project Authority from £177.5m to £254.3m.**

3 Background

3.1 Delivery of BSCU has been split into two stages as follows:

- (a) Stage 1 includes design development and works up to and including the approval of the Transport and Works Act Order (TWAO), including some advanced property purchase; and
- (b) Stage 2 includes all subsequent work including final property compensation, enabling works to establish worksite and the main implementation works.

When complete the BSCU will ensure the effective operation of Bank station which is critical to maintaining access to the City of London and to the wider functioning of the London Underground (LU) and Docklands Light Railway (DLR) network.

3.2 In July 2013, the Board approved Project Authority of £177.5m for BCSU Stage 1 and procurement authority for the award of the BSCU main works design and build contract to Dragados (SA) UK. Under the terms of the Dragados contract, LU has the right not to proceed to Stage 2 and the current project authority relates only to Stage 1 (through to the end of financial year 2015/16). It is anticipated that the project will seek funding for Stage 2 later in financial year 2015/16 following the completion of the TWAO public inquiry.

4 Current Status

4.1 In July 2014, the Board approved the submission of an application for a TWAO which was submitted on target on 9 September 2014. The statutory objection period of 42 days passed with a total of 37 objections deposited. It is anticipated that there will be a public inquiry held in April 2015 and powers could be granted by the Secretary of State towards the latter part of 2015.

4.2 The proposed new station entrance and main construction works will utilise a site (the "Whole Block") currently occupied by properties whose purchase was approved by the Board in November 2012. Significant progress has been made on purchasing a majority of the freehold and other property interests on the Whole Block; however, this has been against a backdrop of higher costs associated with property market conditions in the City of London.

4.3 This paper proposes to bring forward budget of £76.8m from Stage 2 into Stage 1 in order to cover the following:

- (a) an £8.3m increase in the costs, primarily property related, for planned Stage 1 activities;
- (b) a bring forward into Stage 1 of budget for activities previously assumed to be delivered in Stage 2 (£51.3m); and
- (c) an adjustment of risk and inflation allowances between Stage 1 and Stage 2 commensurate with (a) and (b) above (amounting to a bring forward into Stage 1 of £17.2m).

5 Project Estimated Final Cost

- 5.1 The net effect of the proposal detailed in this paper will not in itself increase the current EFC. Stage 1 authority will increase from £177.5m to £254.3m, while the forecast authority required for Stage 2 will reduce accordingly. The £76.8m increase in Stage 1 project authority will be drawn from Stage 2 budget. £49m will come from the Stage 2 risk provision, of which £33.4m was already allocated against items being brought forward into Stage 1 under the terms of this proposal.
- 5.2 At award of contract the project had £40m of unallocated risk to reflect the unproven nature of the Innovative Contractor Engagement process and uncertainty about obligations which may be placed on TfL through the TWAO process, including uncertainties about the property market. The remaining £15.6m of risk drawdown will be taken from this unallocated risk and will be allocated against non-property (£5.7m) and property (£9.9m) items.
- 5.3 Assuming the budget re-phasing proposed in this paper is approved, then the remaining Stage 2 risk provision would be £68.9m. This represents 22 per cent of the forecast Stage 2 costs, which is comparable with equivalent station upgrade projects (Victoria, Bond Street and Tottenham Court Road station upgrades) at award of powers. Relative to these projects, BSCU has the additional assurance from ongoing engagement with the delivery contractors including their earlier and continued development and understanding of the Stage 2 work phase.
- 5.4 The project risk management process has been subject to independent review. This review found the risk management at Bank to be very robust and follows what is currently industry good practice. Furthermore the review found that there will be significant opportunities to act proactively and to minimise schedule impact as well as unforeseen costs. It is such proactive, early mitigation activity that this re-phasing proposal will enable.
- 5.5 A further independent review of risk management will be conducted in May this year to assess progress and provide further assurance that the Stage 2 risk provision is sufficient.
- 5.6 The view of the project delivery team is that there is therefore no requirement to adjust the overall project EFC at this juncture, and that approval of the re-phasing proposed in this paper should result in increased confidence in the EFC (and may indeed enable future savings against it). However, the EFC will of course be kept under close review as the project proceeds towards TWAO and Stage 2 authorisation.

6 Benefits

- 6.1 The additional authority requested in this paper brings a number of benefits, primarily to do with the mitigation of risk and programme delay. These include the following:
 - (a) by seeking to enter into negotiated compensation agreements, an opportunity exists to reduce statutory payments associated with business extinguishment rights;
 - (b) early agreement of the purchase of property interests mitigates future rises in the property market, which could in due course impact the project EFC; and

- (c) bringing forward authority to enter into agreements with land owners and lease holders as soon as powers are granted will enable the project to proceed smoothly from Stage 1 to Stage 2.

6.2 The scheme has an overall Benefit Cost Ratio (BCR) of 4:1 as assessed prior to the TWAO submission. The overall Business Case and BCR remain unchanged by this request.

7 Programme

7.1 The project completion date of July 2021 remains unchanged from the Board approval in July 2013.

8 Financial Implications

8.1 As explained above, there is no change in project EFC at this stage. The acquisition of property pre-TWAO is considered low risk if the project is deferred, stopped or if the TWAO is not secured, as TfL will retain the value of the freehold to re-sell or rent.

8.2 The revised spend profile is summarised in the table below. This is reflected in the Quarter 3 forecast and the re-phasing has been accommodated within the Business Plan.

		FINANCIAL YEAR (£m)									TOTAL	
		Prior Years	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	
Previous forecast (Q2)	93.6	45.6	38.0	95.5	52.9	56.1	52.0	172.9	-43.8	0.1	562.9	
This Proposal	93.6	62.0	55.4	67.6	60.8	60.6	49.0	156.7	-42.8	0.1	563.0	
Variance		16.4	17.4	-27.9	7.9	4.5	-3.0	-16.2	1	0.0	0	

9 Assurance

9.1 A TfL Programme Management Office and Independent Investment Programme Advisory Group Assurance Review has been undertaken. No critical issues were identified and the recommendations made are being addressed by the project team.

10 Views of the Finance and Policy Committee

10.1 On 11 March 2015, the Finance and Policy Committee endorsed the recommendations in this paper.

10.2 Members were assured that there was an extensive programme of continuing dialogue with landowners, businesses and other stakeholders likely to be affected by the work. TfL would follow up the individual case of an organisation that said it was not fully aware of the proposals and check that there were no others in a similar situation.

10.3 The current EFC was considered sufficient to deliver the programme but this would be kept under review and the Committee given early warning of any cost pressures. It was noted that the remaining Project and Procurement Authority

will be sought at the same time as seeking Board approval for the proposed Transport and Works Order application.

List of appendices to this report:

Exempt supplemental information is included in a paper on Part 2 of the agenda.

List of Background Papers:

Reports from the TfL Programme Management Office and the Independent Investment Programme Advisory Group, and the management response to those reports.

Paper submitted to the Finance and Policy Committee 11 March 2015.

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