

Date: 24 June 2020

Title: East London Line – Housing Infrastructure Fund

This paper will be published with the next agenda

1 Summary

- 1.1 This paper sets out the request for the Financial Authority required for TfL to enter into a funding agreement with the Greater London Authority (GLA) and the Ministry of Housing, Communities and Local Government (MHCLG). This follows a successful bid by TfL and the GLA to the Housing Infrastructure Fund (HIF) for a programme of works on and along the East London Line (ELL).
- 1.2 This paper also sets out the request for Programme and Project Authority for the next stages of design of the scope, which comprises infrastructure upgrades to the London Overground and London Bus networks.
- 1.3 The focus of this paper is to:
 - (a) present an overview of the business case, scope and delivery strategy;
 - (b) highlight the implications of COVID-19 on the programme of works and the current and future measures to mitigate any impacts; and
 - (c) provide details of the financial implications and funding agreement, including the key risks and opportunities to TfL of entering into this agreement.
- 1.4 TfL does not benefit from the changes to local authority meeting arrangements in the Coronavirus Act 2020. The decision on this item, therefore, will be taken by the Chair, under the Chair's Actions provisions in Standing Order 114.
- 1.5 The use of Chair's Action by the Chair of the Programmes and Investment Committee is considered appropriate as the request is to enter into a multi-party funding agreement which has a fixed expenditure deadline. This will enable all parties to enter into the funding agreement in July 2020, and specifically it will enable TfL to immediately instruct the start of the design works to commence the programme. It is crucial that TfL is able to do this as soon as possible, as the £80.84m has a fixed expenditure deadline of March 2024.
- 1.6 The members of the Committee are asked to consider the proposal and provide Greg Clark, as Chair, with their views on or before 12noon on 29 June 2020. The contents of this paper and the exercise of Chair's Action will be reported to the next meeting of the Committee.
- 1.7 The Part 2 paper contains exempt supplementary information. The information is exempt by virtue of paragraph 3 and paragraph 5 of Schedule 12A of the Local

Government Act 1972 in that it contains information relating to the business affairs of TfL and legally privileged advice.

East London Line – Housing Infrastructure Fund					
	Existing Financial Authority	Estimated Final Cost (EFC)	Existing Programme and Project Authority	Additional Authority Requested	Total Authority
Gross	£0m	£80.84m	£0m	£8.53m	£8.53m
Income	£0m	£80.84m	£0m	£8.53m	£8.53m
Net	£0m	£0m	£0m	£0m	£0m

Note: there is a further £10.00m contribution to TfL for this programme of works which has been secured via a Section 106 agreement. Its implications on the HIF requests are set out in this paper and the Part 2 paper.

2 Recommendation

2.1 **The Chair of the Programmes and Investment Committee, in consultation with Members, is asked to note the paper and the Part 2 paper and:**

- (a) approve unbudgeted Financial Authority of £80.84m for the receipt of Housing Infrastructure Fund monies and its subsequent expenditure on infrastructure upgrades to the London Overground and London Bus networks;**
- (b) approve TfL entering into the grant determination agreement with the Greater London Authority and the Ministry of Housing, Communities and Local Government (together with related ancillary documentation) as described in this paper;**
- (c) approve Programme and Project Authority of £8.53m for the design of infrastructure upgrades to the London Overground and London Bus networks;**
- (d) note that Programme and Project Authority will be sought separately for later stages of the infrastructure upgrade works described in this paper; and**
- (e) note that Procurement Authority for the design of infrastructure upgrades to the London Overground and London Bus networks will be sought at officer level in accordance with Standing Orders.**

3 Background

3.1 In August 2019, MHCLG approved an £80.84m bid by TfL and the GLA to the HIF for a programme of works on and along the East London Line. The infrastructure upgrades (the ELL Scope) will unlock approximately 14,000 new homes. This is the second successful TfL and GLA bid to the HIF. In October 2018, MHCLG approved £290.70m for a programme of works on and along the Docklands Light Railway to unlock approximately 16,800 new homes.

- 3.2 Our negotiations with the GLA and MHCLG on the ELL HIF “Grant Determination Agreement” (GDA) are now concluding. Pending approval of the requests set out in this paper, we will be able to enter into the GDA with the GLA and MHCLG and begin the design of the ELL Scope.
- 3.3 We are also confirming the terms of a “Side Letter” to the GDA. This Side Letter will be entered into between TfL, the GLA, and MHCLG at the same time as the GDA itself. The purpose of the Side Letter is for the parties to agree certain confirmations in respect of, and clarifications to, the terms of the GDA.
- 3.4 We have established a “Memorandum of Understanding” (MoU) for TfL and the GLA to enter into to set out the key principles of how we will work together to facilitate the delivery of the ELL Scope. Some aspects of the MoU relating to the allocation of cost risk are legally binding (see paragraphs 7.3 and 7.4).
- 3.5 Separately, an agreement has been signed with British Land for their “Section 106” planning contribution. This agreement includes a £10.00m contribution that will supplement the HIF funding to provide total funding of £90.84m for the ELL Scope. This £10.00m contribution provides the funding profile required for final delivery of the ELL Scope in 2024/25, which will help us to achieve the current contractual condition of the GDA that the £80.84m HIF funding must be spent by 31 March 2024.
- 3.6 To ensure the ELL Scope can be delivered within the current HIF funding constraint of 31 March 2024, and to provide greater cost certainty for the request set out in this paper, we mobilised a programme team to begin the procurement exercise for the next design stages. Bids have been received and the preferred bidder is ready to be appointed

4 COVID-19 Implications

- 4.1 COVID-19 has impacted the programme team; a number of whom have been placed on the Government’s Coronavirus Job Retention Scheme (referred to as “furlough”). This has not affected either the GDA negotiations or the procurement exercise. We will recall the impacted programme team members from furlough upon entering into the GDA to support the design of the ELL Scope.
- 4.2 We have ensured that there are provisions within the GDA that reflect the on-going uncertainty of COVID-19, and we also continue, with the GLA, to lobby MHCLG to extend the HIF expenditure deadline beyond 31 March 2024.
- 4.3 We submitted our ELL HIF bid and associated business cases prior to the emergence of COVID-19, and we acknowledge that the growth assumptions may be subject to change as a result of the pandemic. We believe it is too early to confidently assess the longer-term impact on London’s housing growth, nor how long or severe the drop in passenger demand will be into the future. We will keep our business cases under review as it becomes clearer how London’s economy is recovering following COVID-19.

- 4.4 We have also therefore ensured that the GDA is clear that:
- (a) TfL is not contractually liable in the event that the new infrastructure of the ELL Scope unlocks a reduced total number of homes (or the same total at a slower build-out rate) compared to our original bid, provided in each case that TfL discharges its obligations to use reasonable endeavours to procure that the housing targets are achieved by the relevant target dates; and
 - (b) while the ELL Scope provides infrastructure to enable a future service uplift to 20 trains per hour (tph) on the ELL, there are no contractual milestones directly associated with this timetable change. This means that we can implement this change once greater certainty emerges on demand trends.
- 4.5 Notwithstanding the current uncertainties, the ELL Scope investment, the associated development and the regeneration it catalyses is likely to be ever more important to assist London's recovery and restore confidence in the economy. The ELL Scope will improve public transport connectivity in south-east London and unlock three strategic developments.
- 4.6 An assessment of the impact of COVID-19 on the supply chain is included in the Part 2 paper.

5 Business Case

- 5.1 Delivery of the ELL Scope directly supports two key themes of the Mayor's Transport Strategy (MTS). It will help deliver the "New Homes and Jobs" theme of the MTS by unlocking approximately 14,000 new homes; and it will also make a strong contribution to the "Good Public Transport Experience" theme by enabling a future higher frequency train service on overcrowded routes.

New homes and jobs

- 5.2 By improving connectivity and increasing capacity, the ELL Scope is designed to unlock approximately 5,000 homes in the London Borough of Southwark and 9,000 homes in the London Borough of Lewisham. This includes three strategic developments: the British Land development near Canada Water and Surrey Quays, the New Bermondsey development by Surrey Canal Road, and the Convoys Wharf development. These schemes will make significant contributions to borough housing targets as well as London's overall level of housing delivery. They will also provide tens of thousands of jobs, which will now form part of the post-COVID-19 economic recovery.

Good public transport experience

- 5.3 The delivery of a second entrance at Surrey Quays station will provide additional capacity, improving the access to this station from the surrounding area and the new British Land development. Increasing capacity at Canada Water bus station will provide the infrastructure for additional routes to connect the new Convoys Wharf development to the public transport network, as well as meeting increased demand from the British Land development and other local developments.
- 5.4 We will also improve the accessibility of the London Overground network by providing step-free access at Surrey Quays station and delivering a new accessible station at Surrey Canal Road; an area which currently has relatively

poor connectivity to the orbital rail network and which will support the new New Bermondsey development.

- 5.5 As well as station works, the ELL Scope will provide infrastructure to enable a future higher frequency train service on the ELL between Dalston Junction and Surrey Quays (the ELL Core) of up to 20tph. This will ensure that there is sufficient train capacity to meet new demand from the housing developments. Crowding levels have historically been very high on the ELL, leading to reliability issues and an increase in customer complaints in recent years. In light of recent social distancing measures, we anticipate there will be less tolerance towards overcrowding on trains in the future, potentially leading to further increases in customer complaints if there is no increase in service frequency.

Benefits and value

- 5.6 Table 1 presents the business case assessment for the ELL Scope, including the wider outcome of a future higher frequency train service. Although the service change from 16tph to 20tph on the ELL appears to offer low value for money, the additional line capacity is vital for the operation of Surrey Canal Road and Surrey Quays stations. Without additional train capacity, these stations would not be able to process the forecast passenger loads effectively during much of the peak period, adversely affecting the ability of the ELL Scope to unlock the housing.

Table 1 – Summary of Business Cases

	Surrey Quays New Station Entrance	Surrey Canal Road New Station	ELL 20tph Service (from 16tph)	Overall ELL Scope
Benefit to Cost Ratio (BCR)	4.71	3.65	1.26	1.88
Value for Money Measure	Very High	High	Low	Medium

Note: The appraisal period is 60 years for the station works and 35 years for the ELL 20tph service. These calculations are subject to the note in paragraph 4.3.

6 Scope Overview

Table 2 – ELL Scope Overview and Estimated Final Cost (EFC)

Project	Overview	EFC £m
Surrey Quays New Station Entrance	A second entrance to the existing London Overground station at Surrey Quays, including: <ul style="list-style-type: none"> • Ticket hall and passenger footbridge • Two customer lifts (one to each platform) • Platform extensions 	27.87
Surrey Canal Road New Station	A new station between Surrey Quays and Queens Road Peckham, including: <ul style="list-style-type: none"> • Ticket hall • Two customer lifts (one to each platform) • Platforms suitable for five-car trains 	21.18
ELL New Stabling & Power Upgrade	A new stabling and train preparation facility to house additional trains for a future 20tph service A traction power upgrade and resilience work on the ELL as an enabler for a future 20tph service	37.12
ELL Signalling Upgrade	A contribution to upgrade signalling to improve performance on the ELL and enable a future 20tph service. We have already completed the detailed design for these works.	1.75
Bus Station Upgrade	A capacity upgrade at Canada Water Bus station to serve new demand from nearby developments	2.92
Total EFC		90.84
Total HIF Funding		80.84
Total Section 106 Funding		10.00

7 Delivery Strategy

- 7.1 The contractual milestones for the ELL Scope are presented in the Part 2 paper, which also contains detail on the contractual provision for Milestone Extension Events and the implications of missing milestone dates. There are no contractual milestones in the GDA directly associated with the housing outputs, as noted in paragraph 4.4(a). There are also no contractual milestones directly associated with implementing a future higher frequency train service on the ELL, as noted in paragraph 4.4(b), as this will be subject to emerging demand trends.
- 7.2 The procurement routes for the ELL Scope are included in the Part 2 paper.

Key risks and considerations

- 7.3 The total risk provision is £32.30m, which represents 40 per cent of the total HIF funding of £80.84m. The GLA has agreed to hold cost risk up to the total value of £8.53m (the value of the request for Programme and Project Authority set out in this paper) in the event that the programme does not proceed past the Preliminary Cost phase and MHCLG seeks to recover spent funds (see paragraphs 8.5 and 8.6).

- 7.4 There are a number of other measures we have negotiated to mitigate the risks to TfL, including:
- (a) the GLA has agreed to hold the cost overrun risk for the new station at Surrey Canal Road until the project is completed;
 - (b) the GDA allows for risk to be managed at a programme level to enable flexibility to move funding between project elements; and
 - (c) we have agreed the provision of a contractual “break right” exercisable by TfL (see paragraph 8.6)
- 7.5 While the future higher frequency train service on the ELL is not an express contractual obligation, the timetable change will support housing development and the effective operation of the rest of the rail elements of the ELL Scope. The risks to delivery of the future timetable change on the ELL are presented in Appendix 1. The Part 2 paper contains additional contractual considerations for TfL entering into the GDA.

8 Financial Implications

- 8.1 Table 3 contains the financial overview, including both the £80.84m HIF funding and the £10.00m Section 106 agreement contribution (profiled in 2024/25).

Table 3 – Financial Overview (all figures in £m)

Costs and Funding	20/21	21/22	22/23	23/24	24/25	Total
Costs (Outturn)						
Surrey Quays	1.48	2.50	7.04	13.35	3.50	27.87
Surrey Canal Road	1.36	2.22	4.89	9.71	3.00	21.18
Stabling & Power	1.88	4.67	9.07	18.00	3.50	37.12
ELL Signalling	-	-	-	1.75	-	1.75
Bus Station	0.28	0.91	1.70	0.03	-	2.92
EFC	5.00	10.30	22.70	42.84	10.00	90.84
Investment Funding						
Financial Authority	-	-	-	-	-	0
Third Party Funding	(5.00)	(10.30)	(22.70)	(42.84)	(10.00)	(90.84)
Surplus / (Shortfall)	(5.00)	(10.30)	(22.70)	(42.84)	(10.00)	(90.84)
Current Authority	-	-	-	-	-	0
This Request	5.00	3.53	-	-	-	8.53
Future Requests	-	6.77	22.70	42.84	10.00	82.31

- 8.2 The Part 2 paper includes information on a GDA obligation on TfL in regard to reporting and reinvestment arrangements for associated net operating revenue.

Cashflow impact

- 8.3 We will receive the HIF funding on a quarterly basis for completed works (except for the fourth quarter, where HIF funding is provided in advance). There is also scope in the GDA to claim the HIF funding on a monthly, rather than quarterly, frequency should this be required. The next stage of works is for design, and the largest design contract is for the concept design of the Surrey Quays new station

entrance. This will be negotiated to align cash outflow for contractual deliverables with receipt of HIF income.

HIF indexation

- 8.4 MHCLG awarded the ELL HIF bid at 2018/19 prices rather than outturn, which presented an initial cost pressure on the ELL Scope of £6.00m. We have identified ways to manage this such that no cost pressure is now forecast. This included a value engineering exercise that has secured a saving of £3.80m by removing stair-widening works at Surrey Quays existing station entrance.

Preliminary costs

- 8.5 The first £8.53m of the total £80.84m HIF funding (and the value of the request for Programme and Project Authority set out in this paper) is classed in the GDA as Preliminary Costs. This is the funding amount required across the ELL Scope to take all projects to completion of concept design and planning approval, which is planned for October 2021. Initiating and developing the ELL Scope as Preliminary Costs enables us to commence utilisation of the HIF funding prior to completion of specific GDA conditions (such as achieving planning consent).
- 8.6 Furthermore, if certain conditions outside of the control of TfL (representing significant challenges to the viability of delivering the ELL Scope) are not met by specified deadlines, we have certain rights to “break” from the GDA, generally without spent Preliminary Costs being repayable. Where these are repayable, and MHCLG request this, the GLA will pay these up to the total value of £8.53m.
- 8.7 Following a Fundamental Default or General Default (subject to certain remediation provisions) all costs (including Preliminary Costs) would be recoverable by MHCLG.
- 8.8 The Part 2 paper contains further detail on contractual considerations.

Section 106 agreement with British Land

- 8.9 The Section 106 agreement was signed on 26 May 2020 and it is not the subject of this paper. However, due to the interaction with the ELL Scope, there are dependencies and risks associated with the Section 106 agreement which are presented in Table 4.
- 8.10 A further note on the Section 106 agreement is contained within the Part 2 paper.

Table 4 – HIF Funding and Section 106 Funding

HIF Dependency on Section 106	Section 106 Dependency on HIF
The Section 106 agreement contribution of £10.00m will supplement the HIF funding to provide the total funding of £90.84m required for the ELL Scope.	£10.00m is not sufficient to deliver the optimal transport capacity improvements at Surrey Quays station (the new station entrance as set out in this paper). In the event of no HIF funding, we would need to investigate lower cost mitigations and/or other funding sources during the British Land development build-out. Modelling associated with the Section 106 application indicates that the latest TfL would need to complete all mitigations to ease the projected congestion is not until 2028.

9 Assurance and Governance

- 9.1 The TfL Project Assurance team conducted an assurance review of the Programme in April 2020. This review was supported by members of the Independent Investment Programme Advisory Group (IIPAG). The review identified no critical issues and made four recommendations. We accept all four recommendations and we are developing a plan to address these. The output of this assurance review is covered in the background papers to this submission.
- 9.2 In February 2020, the ELL Enhancements programme (which covers the rail elements of the ELL Scope) passed Pathway Stage Gate A. A second assurance review is planned for October 2020 when each constituent project is planned to have completed Pathway Stage 2 (single option selection). Our Pathway Stage and assurance review strategy is summarised in Appendix 2.
- 9.3 The ELL Scope will report into the Public Transport Programme for the rail elements, and the Surface Assets Programme for the bus station. Risk drawdowns and other change requests (such as re-allocating funding from one project to another) up to individual values of £2.00m will be governed through TfL. Any request to reallocate funding from one project to another that exceeds £2.00m will require review and approval from MHCLG.
- 9.4 MHCLG will conduct their own assurance of the design and delivery of the ELL Scope via provisions set out in the HIF “Assurance Framework”. We consider our obligations under this Assurance Framework manageable, as a number of these will already be satisfied via established processes in TfL, such as periodic reporting.

10 Equalities Implications

- 10.1 The ELL Scope will improve accessibility on the ELL via the delivery of a new step-free entrance at Surrey Quays station and a new step-free station at Surrey Canal Road. Equality Impact Assessments will be completed during the concept design stages for each project in accordance with TfL’s obligations under the public sector equality duty in the Equality Act 2010.

List of Appendices

Appendix 1: Risks to Delivery of a Future 20tph Peak ELL Service

Appendix 2: Pathway Stage and Assurance Review Strategy

A paper containing exempt supplemental information is included on Part 2 of the agenda.

List of Background Papers

Project Assurance Report

Management Response to the Project Assurance Report

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Appendix 1 – Risks to Delivery of a Future 20tph Peak ELL Service

While the future higher frequency train service on the ELL is not an express contractual obligation, the timetable change will support housing development and the effective operation of the rest of the rail elements of the ELL Scope. The risks to delivery of the future timetable change on the ELL are presented in Table 5.

Table 5 – Top Risks to Achieving a 20tph ELL Core Peak Train Service

Title	Risk Description	Mitigation
Performance risk mitigations are required to reliably operate a 20tph service.	There is a risk that additional infrastructure may be required beyond the ELL Scope to ensure that service performance can be managed with a future higher train frequency.	Continue to utilise our multi-disciplinary ELL 20tph Working Group to investigate operational workarounds to obviate the need for additional infrastructure requirements. Undertake early design studies to understand the implications and benefits of any additional infrastructure interventions; ensuring that the output is available to inform TfL decision-making while we are still in the Preliminary Cost phase of the ELL Scope.
Additional trains cannot run into Clapham Junction station.	There is a risk that due to existing congestion on the line, the preferred option of running additional train services into Clapham Junction station may not be feasible.	Continue a timetabling workstream in collaboration with the Department for Transport and Network Rail. In the event that Clapham Junction station is not feasible, utilise Battersea Park station as an alternative service destination.
Further train units are required to reliably operate a 20tph service beyond the six trains that have been ordered as part of LOTRAIN.	There is a risk that a further train unit is required. While this unit can be resourced from within the existing fleet, this could reduce operational resilience, thereby increasing the risk of cancellations.	Continue to review the calculations for the additional train unit. Continue to explore operational mitigations through the ELL 20tph Working Group.
The timetable change cannot be integrated with other services.	There is a risk that our 20tph service cannot be integrated with the services of other operators on the shared sections of the line.	Continue a timetabling workstream in collaboration with the Department for Transport and Network Rail.

Appendix 2 – Pathway Stage and Assurance Review Strategy

Table 6 summarises the planned Pathway Stage Gates at programme and project level for the rail elements of the ELL Scope (referred to as the ELL Enhancements programme). Highlighted dates indicate upcoming assurance reviews led by the TfL Project Assurance team.

Table 6 – Summary of Pathway and Assurance Points

Planned Pathway Programme Gates are as follows:

Programme	Stage A	Stage B1	Stage B2	Stage C	Stage D
ELL Enhancements Programme	Feb -20	Oct-20	Oct-21	Mar-25	Jun-25

Planned Pathway Project Gates are as follows:

Project	Stage 1	Stage 2	Stage 3	Stage 4	Stage 5	Stage 6
Surrey Quays New Station Entrance	Aug-19	Aug-19	Jul-21	Feb-23	Jan-25	Feb-25
Surrey Canal Road New Station	Feb -20	Oct-20	Sep-21	Mar-23	Feb-25	Mar-25
ELL New Stabling & Power Upgrade	Feb -20	Oct-20	Sep-21	Nov-22	Dec-24	Jan-25

Blue shading indicates the timing of the next planned assurance review.