

Finance and Policy Committee

Date: 11 March 2015

Item 13: Elephant & Castle Funding Agreement

This paper will be considered in public

1 Summary

- 1.1 This paper provides a summary of the proposed funding agreements for the Greater London Authority's (GLA) and the London Borough of Southwark's (LBS) £68m contribution towards the £154.1m cost of the Elephant & Castle Northern Roundabout (NR) and Northern Line Ticket Hall (NLTH) projects.
- 1.2 The funding agreements are required to progress both Elephant & Castle schemes.

2 Recommendations

2.1 The Committee will be asked to note the paper and to recommend that the Board:

- (a) approves entering into the funding agreement for the Elephant & Castle schemes between Transport For London (TfL) and the Greater London Authority (GLA) as described in this paper (the Funding Agreement);
- (b) authorises the TfL Officers and the Subsidiaries (as described in paragraph 1.2 below) to finalise the terms of the Funding Agreement;
- (c) authorises 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 Funding Agreement and any of the matters referred to in it (including, without limitation, all agreements, deeds, guarantees, indemnities, property or other licences, announcements, notices, contracts, certificates, letters or other documents); and
- (d) authorises TfL Officers and Subsidiaries to do all such other things as they consider necessary or desirable to facilitate the execution and implementation of the Funding Agreement and the matters referred to in it.

2.2 The following Officers and Subsidiaries shall have delegated authority:

- (e) TfL Officers: the Commissioner, Managing Director Finance, Managing Director Rail and Underground, Managing Director Surface Transport and General Counsel; and
- (f) 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 Background

- 3.1 Elephant & Castle is one of the most significant regeneration opportunities in inner London, creating 5,000 homes and 4,000 jobs with a total investment of more than £3bn. It is identified as one of the 32 Opportunity Areas in the London Plan. The area is undergoing major transformation with significant investment in housing and potential for new retail provision integrated with a more efficient and attractive transport interchange.
- 3.2 Elephant & Castle is already a major interchange hub. This scale of growth will place significant pressure on the existing transport provision in the area, resulting in a need for improvements to the surrounding transport infrastructure. There are two main transport requirements, expansion of the NLTH and improvement of the NR, which collectively form the Project.

Northern Line Ticket Hall scheme

- 3.3 The Elephant & Castle station is a busy, key interchange station between the Bakerloo and Northern lines. Its passenger demand already requires operational control measures, especially during the morning peak time. The planned regeneration will create further pressure on the station.
- 3.4 The expansion of the NLTH forms part of the Elephant & Castle Capacity Upgrade and Step-Free Access (SFA) Projects as part of the Future Stations Programme. The NLTH scheme includes a new ticket hall, integrated with the redevelopment of the adjacent shopping centre, a new over-bridge and connections to the Northern line platforms. The new ticket hall will provide additional vertical capacity to the Northern line platforms via two new banks of three escalators. Full SFA will be provided from street to the Northern line platforms.
- 3.5 Separate discussions are currently underway with the developer of the Elephant & Castle Shopping Centre, Delancey, on the design of an integrated scheme, with a view to entering into a development agreement with Delancey within the next 12 months.
- 3.6 Several options for the layout of the new NLTH have been identified and analysed with two possible options being preferred at this time. Further option analysis is underway now to identify a single preferred and integrated option by May 2015.
- 3.7 The estimated cost is £129.7m and construction is scheduled to start in 2017, with an aim to open the new station in 2020. This estimate includes a 40 per cent allowance for risk.
- 3.8 The NLTH scheme is included in the TfL Business Plan and £70m has been allocated from the TfL Growth Fund. The improvements to the Underground station are considered vital to help open up the growth potential. The project is at the pre-feasibility stage.

Northern Roundabout scheme

- 3.9 The Elephant and Castle Northern Roundabout is a strategic junction on the Inner Ring Road. It has an important role in supporting the efficient movement of people and goods around London, including a large number of bus routes.
- 3.10 This NR scheme will transform the roundabout into a two-way traffic system, creating a new public space peninsular. The scheme improves cycling provision and cycle safety and will help address the high rate of cycling casualties at this location. It will include segregated cycling facilities, creates pedestrian at-grade (surface) crossings and regenerates the urban realm. This scheme is part of the Better Junctions Programme, is the starting point for the North-South Cycle Superhighway (CS N-S) and is cited as a key location in the Mayor's Vision for Cycling in London.
- 3.11 This scheme is linked to the provision of the new London Underground Northern Line Ticket Hall (NLTH) and facilitates the delivery of that scheme.
- 3.12 The estimated cost is £24.4m which includes a P50 allowance for risk, at approximately 13 per cent of the base cost. The construction programme for the NR scheme is scheduled to start in April 2015 and is estimated to be substantially complete by April 2016. The urban realm improvements of the NR scheme will, however, only be completed after construction work on NLTH has finished in 2020. Project Authority for the NR scheme was endorsed by the Committee on 22 January 2015.

Funding of the schemes

- 3.13 In 2012, all parties acknowledged the need for an expanded NLTH to support regeneration, and LBS agreed that it would contribute to the cost of the schemes using the s106 and Community Infrastructure Levy (CIL) receipts generated from the regeneration.
- 3.14 In mid 2013, a funding package for the Project was agreed, and subsequently the amounts were adjusted slightly. TfL would contribute £86.1m (£71.1m for NLTH and £15m for NR), LBS would contribute £63m (from s106 / CIL from within the E&C opportunity area and the rest of the borough) and the GLA would contribute £5m. However, formal agreement remained subject to the terms on which the funding was to be provided. Notably, regarding the certainty of funding streams, who would cover shortfalls where there was a mismatch between spend and funding, and allocation of risks.
- 3.15 In late 2014, the parties agreed in principle on a slightly adjusted funding package and an accompanying set of terms on which funding agreements have been drafted.

4 Funding agreements

- 4.1 It has been agreed in principle that there will be two separate funding agreements:
- (a) an agreement between LBS and the GLA under which LBS will pay a fixed schedule of contributions to the GLA totalling £63m over a 15 year period from March 2015 to March 2030; and
 - (b) an agreement between the GLA and TfL under which the GLA will pay funding contributions to TfL, as described in this section, over the period of

construction of the Project.

- 4.2 The purpose of the GLA's involvement is to provide the shortfall in the timing of the funds between LBS's fixed schedule of payments and the funds required over the period of construction and the GLA's own contribution.

Key terms of the funding agreements

- 4.3 The key terms within the funding agreements are as follows:

Costs

- (a) The agreement is based on the assumption that the Project will cost £154.1m in total (£24.4m for the NR and £129.7m for the NLTH). These costs include an allowance for risk and assume that works will be completed by 2020.

Funding

- (b) LBS will provide a fixed contribution totalling £63.0m to the GLA over a period of 15 years from March 2015 to March 2030 as annual fixed price payments regardless of actual indexation/inflation or the actual sums in s106 and CIL collected by LBS. LBS is taking the risk on the timing of these receipts, and has allocated these amounts within its capital programme.
- (c) The GLA will pay to TfL its £5m contribution and annual amounts equal to the contribution it receives from LBS until TfL receives its full contribution for the Project.
- (d) TfL will be responsible for delivering the Project and will spend contributions as costs actually arise in line with the proportion of total contribution to be made, that being 55 per cent TfL and 45 per cent LBS/GLA.

Funding shortfall

- (e) It is expected that there will be a mismatch between the fixed LBS payment profile and the payments required during construction for their proportion of the funding. When there is a shortfall in funds required from LBS to meet its contribution towards the costs of the Project, the GLA will cover this and accompanying financing costs.
- (f) To partially offset the GLA's financing costs, TfL will make a fixed contribution of £0.9m to the GLA (which is in addition to the £86.1m for the Project) which will be paid by deduction from the sums the GLA is due to pay to TfL.

Sharing of savings or increases in costs

- (g) At the point all the contracts are let for both of the schemes, if the contracted cost is less than the forecast cost of £154.1m, then TfL will get the first £3.5m of any saving and 60 per cent of savings beyond this point. LBS would get the remaining 40 per cent of savings as the GLA will forego its allocation of savings.
- (h) If at the point all the contracts are let for each of the schemes, the contracted cost is greater than the forecast cost of £154.1m, TfL would bear the cost increases, except where the cost increase is the result of a scope change initiated by the GLA or LBS, in which case any variation will be agreed, setting

out the nature and scope of the variation, the additional payments required as a result of the variation and any other relevant or appropriate details the parties may agree. It is recognised by the parties that the starting position for variations will be for the party requesting the change to fund it.

- (i) Post-contract awards, TfL would bear any cost increases and benefit from any cost savings, except where the cost increase is the result of a scope change initiated by the GLA or LBS, as noted above.

NLTH scheme approval

- (j) The funding agreement does not commit TfL to deliver this scheme until the NLTH scheme has received the necessary Board approvals. In the event the NLTH scheme is not approved by TfL, both funding agreements will provide for the funding to be reduced and rephased to reflect the contributions attributable to the NR scheme only.

Longstop completion date

- (k) TfL is under no obligation to carry out either scheme but in the event that the Project has not completed by 31 March 2030, any uncommitted LBS funds will be returned.

4.4 The funding arrangement is illustrated in Appendix 1 and the forecast payment profiles are summarised in Appendix 2.

List of appendices to this report:

Appendix 1: Elephant & Castle Funding Agreements Payments Flow Diagram

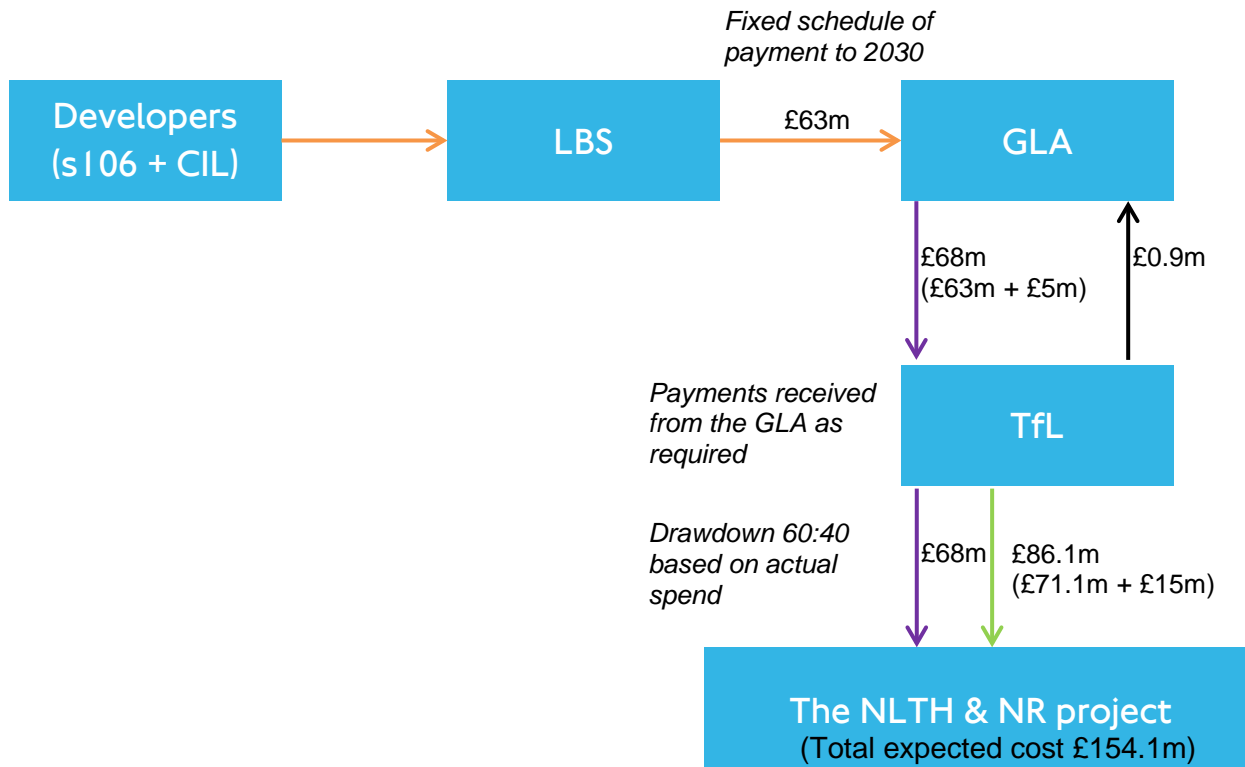
Appendix 2: Elephant & Castle Funding Agreements Forecast Payment Profile

List of background papers:

Elephant & Castle Northern Roundabout paper submitted to the Committee on 22 January 2015.

Contact Officer: Steve Allen; Managing Director Finance
Number: 020 3054 8907
Email: StephenAllen@tfl.gov.uk

Elephant & Castle Funding Agreements Payments Flow Diagram



Elephant & Castle Funding Agreements Forecast Payment Profile

1. Fixed payment profile from LBS to GLA

£m / YE 31 Mar	Total	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
LBS payment	63.0	-	-	4.4	4.7	5.5	7.2	2.2	2.2	16.7	6.5	2.8	2.9	2.9	1.0	1.0	1.0	1.0	1.0

2. GLA / LBS agreement

£m / YE 31 Mar	Total	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Opening BAL		-	-	-	-	-0.7	-0.7	-0.7	-22.8	-31.1	-20.1	-13.6	-10.8	-7.9	-5.0	-4.0	-3.0	-2.0	-1.0
LBS payment	63.0	-	-	4.4	4.7	5.5	7.2	2.2	2.2	16.7	6.5	2.8	2.9	2.9	1.0	1.0	1.0	1.0	1.0
Transfer from GLA to TfL	-31.9	-	-	-4.4	-4.7	-5.5	-7.2	-2.2	-2.2	-5.7	-	-	-	-	-	-	-	-	-
GLA top-up	-31.1	-	-	-	-0.7	-	-	-22.1	-8.4	-	-	-	-	-	-	-	-	-	-
Closing BAL		-	-	-	-0.7	-0.7	-0.7	-22.8	-31.1	-20.1	-13.6	-10.8	-7.9	-5.0	-4.0	-3.0	-2.0	-1.0	0.0

3. TfL / GLA agreement

£m / YE 31 Mar	Total	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Opening BAL		-	-	-	2.7	-	3.4	1.0	-	-	-	-	-	-	-	-	-	-	-
Transfer from GLA to TfL	31.9	-	-	4.4	4.7	5.5	7.2	2.2	2.2	5.7	-	-	-	-	-	-	-	-	-
GLA top-up	31.1	-	-	-	0.7	-	-	22.1	8.4	-	-	-	-	-	-	-	-	-	-
GLA contribution	4.1						4.1												
TfL financing contribution							0.9												
TfL draw down	-68.0	-	-	-1.7	-8.1	-2.1	-14.5	-25.3	-10.6	-5.7									
Closing BAL		-	-	2.7	-	3.4	1.0	-	-	-	-	-	-	-	-	-	-	-	-

4. Projected funding requirement - drawdown on proportional basis (55% TfL: 45% LBS/GLA)

£m / YE 31 Mar	Total	2013	2014	2015	2016	2017	2018	2019	2020	2021
TfL	86.1	0.2	0.5	1.5	10.2	2.7	18.4	32.0	13.4	7.2
LBS (incl GLA top up)	63.0	-	-	1.7	8.1	2.1	9.5	25.3	10.6	5.7
GLA	5.0	-	-	-	-	-	5.0	-	-	-
Total	154.1	0.2	0.5	3.3	18.3	4.8	32.9	57.3	24.0	12.8

5. Projected costs

£m / YE 31 Mar	Total	2013	2014	2015	2016	2017	2018	2019	2020	2021
NLTH cost	129.7	0.2	0.1	1.1	2.8	4.6	32.9	57.3	24.0	6.7
NR cost	24.4	-	0.3	2.2	15.5	0.2	-	-	-	6.1
Total	154.1	0.2	0.5	3.3	18.3	4.8	32.9	57.3	24.0	12.8