

Programmes and Investment Committee



Date: 28 June 2017

Item: TfL Growth Fund

This paper will be considered in public

1 Summary

TfL Growth Fund				
Existing Financial Authority	Estimated Final Cost (EFC)	Existing Programme Authority	Additional Authority Requested	Total Programme Authority
£355m	£555m	£355m	£200m	£555m

- 1.1 This paper presents the strategic case for the Growth Fund programme, the proposed approach for allocating the funds under the additional authority requested, and the proposed governance arrangements.
- 1.2 A paper is included on Part 2 of the agenda, which includes 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:

- (a) note this paper including the strategic case for the Growth Fund programme and proposed governance arrangements;
- (b) note the related paper on Part 2 of the agenda; and
- (c) approve Programme Authority of £200m and Project Authority of £100m for the Growth Fund.

3 Background

- 3.1 In 'A City for all Londoners' (October 2016), the Mayor set out his intent to accommodate London's housing and employment growth. He states that he wants to '*intensify housing development around stations and well-connected town centres so that more people can live in convenient locations.*' With a population of 8.7 million, the city is already larger than it has ever been in the past, and it is forecast to grow to 10.5 million over the next 25 years.
- 3.2 This means an increasing demand for new, affordable homes. However, the supply of housing has not kept pace with demand, resulting in an affordability crisis

and significant challenges, economically and socially. Over the past decade, the rate of homebuilding has only been around half what is required.

- 3.3 A key priority within the Mayor's vision for the Capital is to deliver more housing and regenerate areas across London. The recently published draft Mayor's Transport Strategy reflects this vision too.
- 3.4 Transport is key to supporting growth and unlocking housing potential. A growing population means more travel – whether for work, education, leisure or goods and construction traffic. Six million additional trips are forecast each day by 2041.
- 3.5 While TfL has responsibility to keep London moving and working, it also has responsibility to support its growth and ensure this is sustainable. This is done not only directly through utilising surplus TfL land to help deliver thousands of affordable homes but also through work to integrate transport and land use planning and target transport investment to unlock particular development and regeneration opportunities. This maximises the benefits of transport investment and supports the Mayor's wider objectives for housing and regeneration. The Growth Fund is explicitly aimed at unlocking and accelerating housing delivery in some of London's key growth areas.
- 3.6 The Growth Fund was established in 2012 to fund smaller scale transport schemes which have a more direct impact on unlocking housing and employment growth. Currently circa £355m is allocated to 15 projects which support the delivery of over 55,000 new homes and thousands of new jobs. The list of current projects can be found in Appendix 1 with ten Rail and Underground schemes and five highway schemes. These schemes are at various stages of the project lifecycle.
- 3.7 The range of schemes the Fund currently supports demonstrates the diverse opportunities to unlock and support housing and employment growth through transport. A contribution to the Barking Riverside Overground extension completed the full funding package of the scheme to enable and accelerate the delivery of 10,800 new homes. In Woolwich a £100m deal was struck with Berkeley Homes as part of their 3,500 home development to deliver the station box on the new Crossrail route with the Growth Fund contribution of £24m delivering the fit out of the station.
- 3.8 Other uses of the Fund saw a £13m commitment made to developers at West Ham to provide a secondary entrance to the station. This commitment allowed a strengthened negotiation to take place which in turn resulted in the developer taking on the commitment and the original contribution being returned to the Fund.
- 3.9 The Mayor is committed to continuing investment in transport schemes that support growth and as part of the TfL Business Plan an additional £200m was allocated to allow further targeted schemes to be brought forward. This takes the total Fund to £555m up to 2022.
- 3.10 The Growth Fund target locations where a transport scheme is needed to overcome barriers to new development. It allows us to:
 - (a) support schemes which are less focussed on transport per se that otherwise would be unlikely to be funded through other TfL programmes and budgets;

- (b) negotiate with developers to reach a deal which helps deliver beneficial development that might otherwise not be viable;
- (c) bridge a funding gap in the short term with an agreement that the funding will be paid back by developers following longer term returns on the development; and
- (d) be responsive to opportunities that can emerge quickly and which require early commitment to transport improvements to enable progress to be made.

3.11 However, the reliance on third parties for delivery of the associated homes and development (and sometimes elements of the transport schemes themselves) causes some challenges and delivery risks to projects funded through this Fund. In particular, delivery timescales are an issue and the dependence on developers can lead to slippage. It is important that TfL effectively manages the Fund in order to reduce the programme's exposure to risk and to re-allocate funding to other projects should this become necessary. We are also making a number of changes to the management of the Fund to strengthen oversight and assurance.

3.12 The London Assembly Regeneration Committee undertook an investigation into transport-led regeneration in July 2015, specifically looking at the role of the Growth Fund. The report recognised the important role of the Growth Fund in unlocking regeneration sites across the Capital and concluded:

“There are clear benefits to a Fund that has a different role to the remainder of TfL’s capital budget. A flexible funding stream which gives a higher priority to regeneration in the business case allows TfL to unlock development in places where it may otherwise stall. And although the sums in question are relatively small, they can have a significant impact because they may lever latent funding from other sources such as developer contributions and boroughs.”

3.13 The Committee subsequently made recommendations to TfL which included seeking to renew the Fund through to 2026/27 in the next TfL Business Plan; improving the transparency and formality of the bidding process through the establishment of clear selection criteria; improving engagement models for new infrastructure projects; and examining in detail the proposal to devolve stamp duty.

4 Strategic Case

The Mayor’s Transport Strategy

- 4.1 The Mayor’s new draft Transport Strategy was published for consultation on 21 June and has a strong emphasis on supporting new homes and jobs through ‘Good Growth’. A key aspect of this is new and enhanced connections to support growth areas. New public transport services will be vital in creating the 1.2 million new jobs and more than a million new homes the city needs by 2041, because people want to live and work in places that are well connected and we need to ensure growth is sustainable.
- 4.2 Using new public transport links and better walking and cycling environments to support developing areas is vital to create a future of reduced car-dependency and increased active travel particularly for short trips around new town centres. The

strategy will seek to ensure new developments incorporate the Mayor's principles of 'Good Growth' and transport has a fundamental role in delivering this.

- 4.3 As well as significant investment in the existing system, TfL is developing larger new links and extensions like Crossrail 2, the Bakerloo line to Lewisham and the DLR to Thamesmead. Planning for these schemes has, from the outset, recognised their wider role in supporting housing, new jobs and place-making. Working closely with the GLA, boroughs and other stakeholders to ensure an integrated approach, they are being planned not just as transport schemes but as catalysts for good growth.
- 4.4 Alongside this, the Growth Fund enables smaller scale transport schemes which support growth and development opportunities in particular locations. It provides a ring-fenced fund to support transport-led regeneration and recognises the wider responsibility TfL has as an organisation to help unlock and support growth.
- 4.5 While the importance of transport investment in this agenda is clear, many of the particular schemes in scope would not emerge as priorities under traditional appraisal and business planning channels for a number of reasons, including:
 - (a) with shorter term imperatives around maintenance and reliability and the importance of the 'day job' of TfL in keeping London moving - and in the context of limited funding - priority across much of our investment is often necessarily given to programmes and projects focused on getting the most out of the existing system;
 - (b) the schemes are more focused on 'non-transport' benefits and thus do not score as well under traditional transport appraisal methodologies;
 - (c) for example, calculations of value of time (which usually make up a significant share of benefits) are much lower given that they are catering to new / latent demand rather than existing users. In fact in the case of new stations on existing lines such measures can be negative due to the impact on existing journey times from an extra stop;
 - (d) some of the wider benefits are also harder to quantify e.g. perception and value of a place. An example of this is the reconfiguration of Elephant & Castle junction, which was expected to have a negative effect on traffic flow and has a weaker transport business case as a result, but has had a strong and continuing positive effect on regeneration and growth; and
 - (e) for schemes in less viable locations, there are fewer opportunities to secure other sources of funding but these are often the locations in most need of support and regeneration.

Growth Areas Programme

- 4.6 Working with the GLA, TfL's Growth Areas Programme identifies specific areas of London where growth is currently constrained without or can be catalysed by direct transport intervention. This includes areas designated as Opportunity Areas and Intensification Areas in the London Plan; a number of the GLA designated Housing Zones; and some sites which do not have any official designation but have identified growth potential.

- 4.7 There are currently thirty-two 'Growth Areas' monitored as part of the TfL Growth Areas Programme, which are shown in Figure 1. In addition to these there are more localised 'hotspots' with significant pressures, for example Walthamstow.
- 4.8 In the case of Opportunity Areas, the development and publication of an Opportunity Area Planning Framework (OAPF) creates a formal process and forum through which the specific transport interventions required can be identified. Each OAPF is a comprehensive document that is supported by detailed infrastructure studies and transport assessment and modelling. They are developed in partnership with the GLA, TfL and the boroughs and are subject to local consultation.
- 4.9 For other areas, TfL officers work closely – but more informally - with colleagues at the GLA and boroughs as well as with developers to develop appropriate transport policies and interventions to support growth and assemble funding packages to support their delivery.
- 4.10 The GLA Growth Board has a key role in guiding this work through the regular meetings attended by the Deputy Mayors for Transport; Regeneration, Planning & Skills; Housing, and Environment. This enables priorities to be agreed, trade-offs made, blockages tackled and wider support (e.g. planning policy and complementary measures) to be co-ordinated.

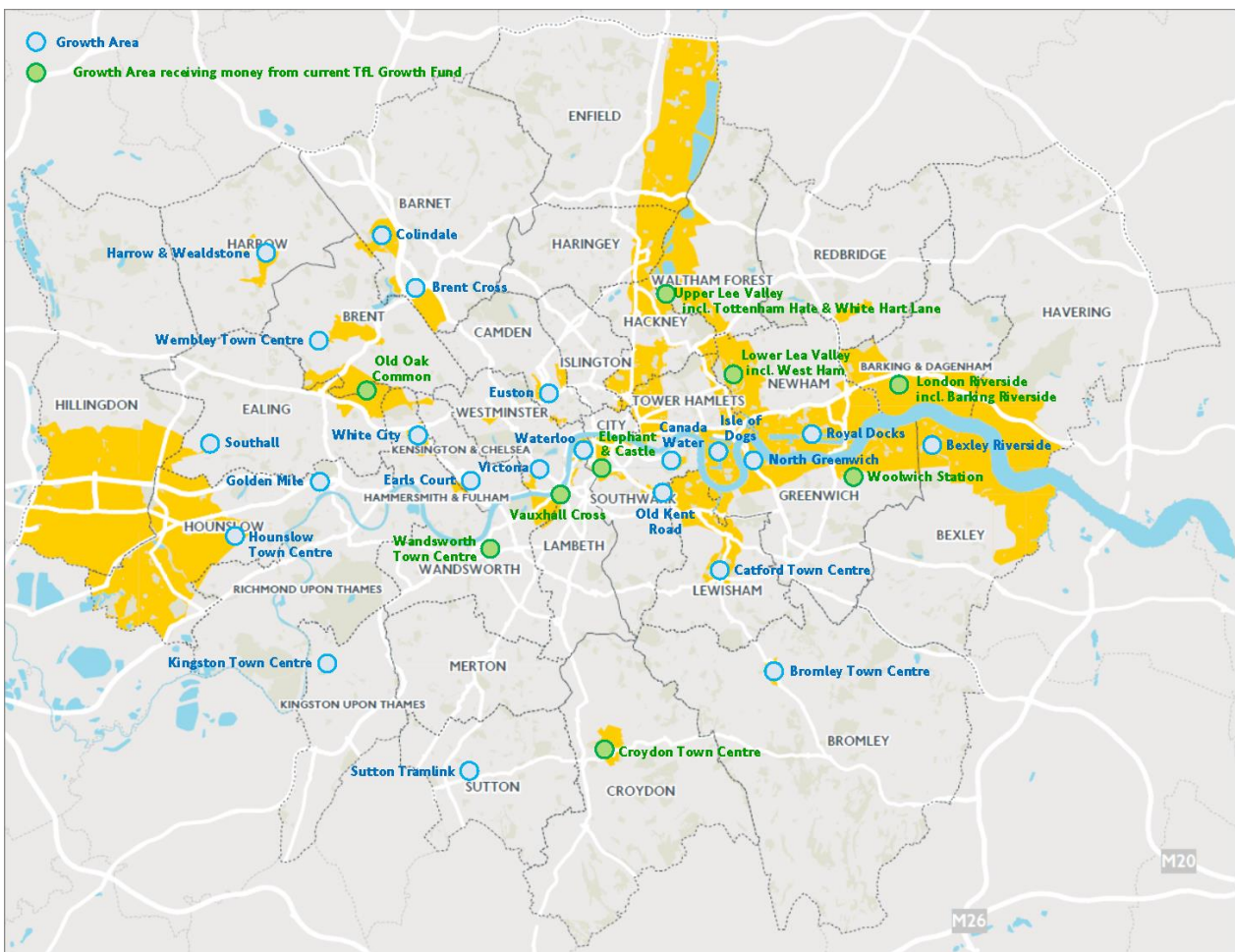


Figure 1: London Growth Areas

5 Proposal

- 5.1 Further to recent discussions with the Mayor, the Deputy Mayor for Transport, and the wider GLA Growth Board, the following proposal for the £200m unallocated funding is made with an indicative spend profile in line with funding availability through the Business Plan (as approved by the Board in December 2016) although this may be reprofiled (subject to agreement) as further work is progressed:

£m	2017/18	2018/19	2019/20	2020/21	2021/22	Total
Shortlisted schemes <i>(see below)</i>	-	2	45	12.4	40.6	100
Sutton Tram Extension	-	-	-	5.6	64.4	70
Rotherhithe to Canary Wharf Crossing	-	-	-	30.0	-	30

Shortlisted schemes

- 5.2 A longlisting exercise has been undertaken across TfL and the GLA to establish a list of potential schemes against agreed criteria. This includes the individual scheme's ability to unlock housing and jobs growth (weighted most); leverage third party funding; and deliverability. Alignment with the draft Mayor's Transport Strategy is also assessed for each scheme to ensure it fits with the Mayor's objectives. 32 schemes are being assessed against the criteria to arrive at a proposed prioritised list of schemes. An outline of the current prioritised list is presented in a Part 2 report given the commercial nature of some of the schemes in relation to new developments. This list will be presented to a future Committee meeting once it has been agreed by the Growth Board later this year.
- 5.3 Further information on the prioritisation approach can be found in paragraph 5.16 below.

Sutton Tram extension

- 5.4 The new Business Plan identifies Sutton Tram extension, as a candidate scheme for a contribution from the Growth Fund which would support the delivery of at least 10,000 new homes and improve public transport accessibility to Sutton town centre and St Helier Hospital. This is subject to an acceptable business case and funding package being reached with the boroughs.
- 5.5 In line with the Mayor's draft Transport Strategy which seeks to work towards extending the tram to Sutton, TfL is proposing to commit monies from the Growth Fund until 2020 during which time the project will work on assembling a full funding package to take it forward and on powers to be progressed. An allocation of £70m is proposed. If by 2020 the project is not progressing this would be reallocated. A further £30m contribution from TfL may be required beyond the current Business Plan if the scheme was delivered.

Rotherhithe to Canary Wharf Crossing

- 5.6 The costs of the Rotherhithe to Canary Wharf Crossing scheme are expected to be met from a combination of funding sources including TfL Healthy Streets funding, third party contributions, and the Growth Fund.
- 5.7 The crossing would link two significant growth areas together – Canada Water and Isle of Dogs – which between them are expected to accommodate over 36,000 new homes and 112,000 new jobs.
- 5.8 This proposal includes a £30m capped contribution from the Growth Fund for this project reflecting the role it has in supporting growth both at Canada Water and on the Isle of Dogs with the remaining funding to be secured from other sources. This level of funding is considered proportionate to the role of the project in supporting growth versus its wider aims and benefits.

Benefits (and Value)

- 5.9 The Growth Fund is an ‘enabler’ programme. It is unique within TfL in how it operates in that it makes financial contributions to projects in other programmes – whether within TfL or sometimes third parties including Network Rail or boroughs - to complete the full funding package in return for securing growth benefits (homes and jobs).
- 5.10 Other benefits supported by the Growth Fund include:
- (a) improved place quality and public transport accessibility through new and upgraded stations, reconfigured parts of the road network in line with the Healthy Streets approach, and new links - enabling higher quality and higher density development and underpinning good growth across the Capital;
 - (b) a range of co-benefits such as step-free access, capacity enhancements, and more active travel;
 - (c) leveraging significant investment from third parties to maximise the impact of TfL’s funding and an appropriate sharing of the costs of transport investment with beneficiaries; and
 - (d) catalyst for wider investment and a capture of some of the increased value created by the transport investment through the use of new mechanisms with the potential for reinvestment back into the Growth Fund to support further opportunities.
- 5.11 Overall, it aims to secure a broad range of discernible benefits, not just for the transport network, but for the places involved and more strategically for London’s future sustainable growth.
- 5.12 A series of measures will be derived to assess the progress of each individual project against. This assessment will be mandatory and form part of an evaluation programme for this Fund. Individual projects will be required to demonstrate how they meet the wider programme objectives and outcomes in order to receive a contribution from the Fund.

5.13 In line with the Assurance Review, TfL will work with the GLA to effectively manage benefits realisation for the Fund, including exploring best practice across other sectors, particularly grant making bodies to inform this.

Growth Fund Programme Governance

5.14 TfL owns and manages the Fund, with the GLA Growth Board playing an important role in providing input and oversight in ensuring progress on the schemes and the associated development. Given the pivotal role of the Board in the wider policy and delivery agenda this should help maximise the benefits of the Fund. Prioritisation of new projects has been undertaken in close collaboration with the Growth Board and GLA senior officers.

5.15 To date, TfL's Executive Committee has provided formal programme governance reflecting the broad and 'bespoke' remit of the Fund. This will continue rather than establishing a separate Programme Board.

Programme Prioritisation and Management

5.16 The prioritisation of unlocking homes and regeneration in the allocation of TfL Growth Fund money allows for the progression of projects which, although highly desirable schemes, tend to produce a less favourable transport case through the typical business case appraisal methodology and would be less likely to receive conventional Business Plan funding.

5.17 The London Assembly's investigation into the Fund in 2015 recommended that TfL establish clear selection criteria for future funding rounds. This was done and agreed by the GLA Growth Board in February 2017. The criteria include:

- (a) The number of homes and jobs likely to be directly unlocked by the transport intervention and alignment with priority growth locations, relative to the expenditure ('bang for buck');
- (b) The role of growth funding in unlocking a wider funding package and leveraging third party funding from developers, boroughs and other sources;
- (c) The securing of the actual delivery of the scheme within a reasonable timescale (with potential support as part of this for detailed design and development work to take the scheme through powers, etc.); and
- (d) General alignment with the Mayor's Transport Strategy and other Mayoral priorities, programmes (e.g. Healthy Streets), and GLA housing / regeneration investment.

5.18 The last criterion ensures that projects that might score highly on other criteria but that do not align with the Mayor's Transport Strategy or his other priorities are not taken forward.

5.19 Schemes proposed for this latest round of funding have been assessed and scored against these four criteria. Further work is being undertaken to examine the short list of schemes to ensure confidence in the anticipated benefits and their delivery.

- 5.20 To ensure the Fund is effective, and there is momentum for delivery, it is proposed that the commitment to funding for individual schemes is not open ended. Rather it is proposed to place reasonable stipulations on any funding contributions made, through a delivery funding agreement which would include an agreement on specific timescales and milestones for each scheme, with the Growth Fund contribution tied to meeting these. In effect the 'guarantee' of funding from the Growth Fund would be time limited and if progress is not forthcoming funding would be reallocated. This seeks to balance the aim of providing early certainty for a project to enable them to e.g. secure their other funding contributions, secure powers etc. versus maintaining pressure on actual delivery and providing an incentive to all parties to act (e.g. progress any necessary CPOs, commit match funding, etc.). Re-negotiation would be possible to reflect unforeseen circumstances. Should the terms not be met or a project aborted, contributions would be returned to the Fund for reallocation to other schemes.
- 5.21 The agreement would also include, wherever appropriate, mechanisms for repayment/clawback where developer or other third party contributions may be repaid at a later point (e.g. following value uplift / future anticipated funding) as well as defining and agreeing the project's expected outcomes, tracking of benefit realisation, and regular reporting.
- 5.22 The Growth Fund has been managed as a single programme by TfL's Planning department since its inception and will continue under TfL City Planning. This enables the monitoring of aggregate benefits. Once a project has the necessary authority and approvals in place, the funding contribution is transferred to the respective delivery business unit and locally managed. Quarterly updates are provided to the programme manager on project progress, spend and risk.

Other sources of funding and completing the funding package

- 5.23 TfL typically seeks as appropriate to maximise funding for new transport schemes from other sources, including development, local authorities, central government and the GLA. Given the requirements on developers (for example stricter affordable housing targets) it has become increasingly difficult to assemble complete funding packages through these sources alone.
- 5.24 The Growth Fund plays a vital role in helping bring deals together and assemble such funding packages to enable projects to proceed. There is usually a need for some committed funding to leverage other contributions, and provide confidence in the area/scheme, otherwise there can be a stand-off with no party willing to bring forward its contribution.
- 5.25 Early funding commitment can help leverage in kind contributions from developers, with e.g. a station box delivered as an integrated part of the development itself as at Woolwich and Elephant & Castle. This can be an extremely cost effective means of delivery but requires funding commitment at a critical early juncture or the one off opportunity is lost.
- 5.26 With increasing requirements for affordable housing (the Mayoral aim for 50 per cent), and viability pressures, developer contributions may be increasingly constrained (at least in the interim before this feeds through to land values).

5.27 With many of the projects being in areas with lower current land values and viabilities (which are most in need of regeneration), other sources of funding may be very difficult to secure – at least upfront. Future repayment/clawback provisions and mechanisms to capture value (outlined below) can be used to avoid future uplifts as a result of the transport investment do not simply accrue to developers and/or others.

Capturing value of new transport schemes

5.28 TfL continues to work with the GLA and HM Treasury to explore other sources of funding that could support transport schemes that unlock growth including Land Value Capture charges. Such a charge could capture a proportion of the premium paid to landowners by new purchasers or tenants of residential property for access to new transport facilities. This would create a mechanism to capture transport-induced value uplift that cannot currently be captured within the existing property tax system.

5.29 Investigations are also ongoing for a development rights auction model (DRAM) as another mechanism to capture land value. This involves an integrated approach to the planning and consenting of land use and density in a defined zone around a major new transport facility, in parallel with the planning of the transport scheme. The introduction of a periodic development rights auction would see development rights over land put forward (voluntarily) by landowners and then auctioned in assembled packages to a competitive field of developers. Gains above a reserve price are shared between the participating landowners and the planning/auctioning authority.

5.30 Other options available to TfL/GLA include tapping into the uplift in values of residential property through taxation mechanisms such as stamp duty. This tax is not currently devolved to local authorities but a case has been made for its devolution to London.

6 Authorities Sought

6.1 The Committee is requested to approved budgeted Programme Authority of £200m comprising:

- (a) £100m of contributions to allocate to a number of prioritised schemes to be agreed;
- (b) £70m contribution to the Sutton tram extension subject to it securing a full funding package for the scheme by 2020;
- (c) £30m (capped) contribution to the Rotherhithe to Canary Wharf crossing scheme.

Financial Authority

6.2 TfL's Business Plan over the five years 2017/18 to 2021/22 provides the Financial Authority needed to deliver the scope of work set out in this paper.

- 6.3 Schemes which benefit from a Growth Fund contribution will be required to seek the necessary full authorities through their established approval boards.

Financial implications

- 6.4 A summary of the Business Plan's allocation for the Growth Fund and spend profile is as follows:

	2017/18	2018/19	2019/20	2020/21	2021/22
£m	1	1	45	48.5	105

Over-programming

- 6.5 In order to improve the efficiency and impact of the Fund, it is proposed to over-programme the Growth Fund by £70m up to 2022. This pre-supposes some slippage in schemes and also anticipates potential recycling of some of the funding and potential further funding in future years. This is believed to better reflect the inevitable lack of certainty over delivery timescales on schemes that are reliant on developers and other third parties.

7 Legal Implications

- 7.1 Each recipient project will be subject to the governance of the Programme in which it sits and matters such as compliance with the Public Sector Equality duty will be addressed on a scheme by scheme basis.

8 Assurance

- 8.1 TfL Project Assurance conducted an Integrated Assurance Review (IAR) on the Growth Fund Programme in May 2017.
- 8.2 The objective of the IAR was to provide the Committee with a report on whether with the sub-programme was sufficiently well managed for the Programme and Investment Committee to award authority (and delegate authority where appropriate) over the next 12 months.
- 8.3 There were no critical issues identified through the IAR. An Integrated Assurance Plan (IAP) will be developed as a required product of the Programme Review setting out Project and Procurement Authority for the following 12 months, agreed by the relevant Directors and Head of Assurance.
- 8.4 TfL Project Assurance will undertake continuous assurance of the sub-programme on a periodic basis and monitor progress.

List of appendices to this report:

Appendix 1 – TfL Growth Fund – List of scheme investment

List of background papers:

A City for All Londoners, GLA, November 2016

Mayor's Transport Strategy - *public draft for consultation*, GLA, June 2017

London Assembly Investigation: Transport-led Regeneration, GLA, December 2015

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Appendix 1: TfL Growth Fund – List of scheme investment

The following fifteen schemes receive a contribution from the TfL Growth Fund.

	Growth Fund contribution	Other TfL contribution	Current Estimated Final Cost	No. of homes unlocked	Estimated no. of jobs
Barking Riverside Extension	£30m	£65m	£263m	10,800	2,200
Tottenham Hale station	£28.1m	-	£32m	5,000	4,000
West Ham station ¹	£0.1m	-	-	2,500	500
Woolwich Crossrail station	£24m	-	£79m	3,500	-
Elephant & Castle Northern Line Ticket Hall	£70m	£2m	£130m	4,000	5,000
Elephant & Castle Northern Roundabout	£15m	-	£25m		
Bromley-by-Bow	£12m	£26.3m	£67m	2,800	3,000
Fiveways	£43m	-	£66m	10,000	7,500
Wandsworth Ram Brewery	£33m	-	£67m	670	300
Vauxhall Cross	£38m	-	£50m	3,500	8,000
White Hart Lane station	£20.7m	-	£24.9m	2,000	-
STAR (North)	£10m	-	£52.4m	9,000	-
Beam Park station	£9m	-	£18m	2,500	-
Metropolitan Line Extension	£16m	£33.23m	£355m	Growth benefits primarily outside Greater London	
Old Oak Overground stations	£3.2m	-	£280m	-	-

¹Original allocation of £13m. Scheme delivery costs now covered by developer

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