

PART 2 – CONFIDENTIAL FACTS AND ADVICE

MD2388

**Title: Housing Infrastructure Fund – Forward Funding Business Case Submission
(December 2018)**

Information may have to be disclosed in the event of a request under the Freedom of Information Act 2000. In the event of a request for confidential facts and advice, please consult the Information Governance team for advice.

This information is not suitable for publication until the stated date because:

This is commercially sensitive detail relating to proposed bids for MHCLG funding and scheme viability and deliverability.

Date at which Part 2 will cease to be sensitive or when this information should be reviewed with a view to publication: **31 March 2023**

Legal adviser recommendation on the grounds for not publishing information at this time:

Under section 43 of the Freedom of Information Act 2000, information is exempt from publication if its disclosure would, or would be likely to, prejudice the commercial interests of any person (including the GLA). This is a qualified exemption, meaning that information captured under section 43 can only be withheld if the public interest in withholding it outweighs the public interest in releasing it.

The information below contains details of the proposed MHCLG funding and confidential advice on scheme viability and deliverability. This is commercially sensitive information, the disclosure of which would, or would be likely to, prejudice the commercial interests of the GLA, TfL and the London Boroughs of Newham and Enfield. Whilst there is a public interest in understanding the circumstances in which public money is provided to other bodies, it is considered that in these circumstances the public interest lies in maintaining the exemption and withholding the information.

If this information is considered for release pursuant to the provisions of the Environmental Information Regulations 2004, this information should be considered exempt information under regulation 12(5)(e) – where disclosure would adversely affect the confidentiality of commercial or industrial information where such confidentiality is provided by law to protect a legitimate economic interest.

Legal Adviser - I make the above recommendations that this information is not suitable for publication at this time.

Name: TfL Legal

Date: 15 November 2018

Once this form is fully authorised, it should be circulated with Part 1.

Decision and/or advice:

1. The GLA submitted expressions of interest for 11 Housing Infrastructure Fund Forward Funding (HIF FF) schemes to MHCLG in September 2017. Feedback from MHCLG in March indicated that 8

schemes would be progressed through the co-development stage to culminate in the submission of business cases at full bid stage.

2. MHCLG has set three deadlines for the submission of business cases. Submission dates for each of the schemes are set out in the table below together with details of which boroughs would benefit from additional homes unlocked by the infrastructure investment.

Project Name	Boroughs	Submission Date
Docklands Light Railway – Accelerated Growth Programme (HIF/FF/430)	Tower Hamlets, Newham.	10 Sept 2018
Old Oak Common (HIF/FF/356)	Hammersmith and Fulham, Ealing, Brent	10 Sept 2018
East London Line – Growth Capacity (HIF/FF/229)	Lewisham, Southwark.	3 Dec 2018
Meridian Water Infrastructure (HIF/FF/211)	Enfield	3 Dec 2018*
Royal Docks Infrastructure (HIF/FF/244)	Newham	3 Dec 2018
Thamesmead Infrastructure (HIF/FF/251)	Greenwich, Bexley	1 March 2019
Transforming London Riverside (HIF/FF/512)	Barking and Dagenham, Havering	1 March 2019
Tottenham Town Centre (HIF/FF/259)	Haringey	Withdrawn

*deferred from 10 September 2018

3. Further to MD2355, two business cases were submitted to MHCLG on 10 September 2018. On 29 October, a funding allocation of £290.7m was announced for the DLR Accelerated Growth Programme as part of the Autumn Budget Statement. Old Oak Common is subject to further due diligence.
4. The terms and conditions for the grant funding awarded for the Docklands Light Railway bid are still to be confirmed. It should be noted that as part of the Chief Finance Officer sign off required within the bid it was noted that risk allocation for delivery of the Poplar Enabling Works element of the project (£145 million cost, £20 million HIF grant) had not been allocated at present but would be reviewed with a development partner at an appropriate stage. However, the delivery risk for Thameside West Station element (£23 million cost, £10 million HIF grant) would sit with the GLA.
5. Five other schemes are being progressed through co-development and business cases prepared. Tottenham Town Centre has been withdrawn from the co-development process following decisions by key stakeholders which had a critical impact on the deliverability of the proposed scheme.
6. Further details of the business cases proposed for submission on 3 December 2018 are set out in the table below. The Meridian Water bid was deferred from 10 September following engagement with the Department for Transport (DfT). Additional transport modelling with associated costs and benefits has now been factored into the Benefit Cost Ratio (BCR).

Project Name	Infrastructure	HIF Requested	Homes Unlocked by HIF
East London Line – Growth Capacity (HIF/FF/229)	- Upgrade London Overground services to 20tph - Upgrade Surrey Quays Station - Provide 3 additional Bus Stands at Canada Water Bus Station supporting new route to Convoys Wharf - New London Overground Station at Surrey Canal Road (New Bermondsey)	£82.01M	13,778 (Gross) 10,367 (net)

Meridian Water Infrastructure (HIF/FF/211)	• New spine road (The Causeway) and a secondary link, improving site accessibility and connections to Lea Valley Regional Park • Flood Resilience measures including enhanced drainage, flood storage capacity and remediation on contaminated sites • 4th track on a section of West Anglia Mainline, delivering a minimum 4 train per hour shuttle service between Tottenham Hale and Meridian Water	£156M	10,006 (gross) 7,514 (net)*
Royal Docks Infrastructure (HIF/FF/244)	• Replace and upgrade river walls on the River Thames and River Lea to improve flood defences at Limmo Peninsular and Thameside West • Station upgrade at Pontoon Dock to improve capacity • Land assembly at Canning Town and Custom House to support regeneration proposals • Two pedestrian and cycle bridges over the River Lea to assist in connectivity with LB Tower Hamlets • New electricity sub-station to reinforce capacity and support development.	£133.6M	9,433 and (gross) 6,747 (net)

* Figures are based on total capacity of 13,000 units discounting 3,000 CR2 dependent units and are subject to confirmation through the draft Edmonton Leaside Area Action Plan Enquiry in Public.

7. A series of outstanding issues and risks for each bid have been identified through the co-development process with MHCLG and review by the internal Steering Group. These issues have been subject to detailed discussions between the GLA and its delivery partners, which are ongoing. The final decision on which business cases are ready for submission on 3 December is subject to the satisfactory resolution of these outstanding issues and sign off by the GLA's S127 Officer.

Royal Docks Infrastructure

8. Enterprise Zone Interface: MD2338 approved expenditure of £212.5 million for a five-year Delivery Plan for the Royal Docks Enterprise Zone. This was on the assumption that £98.4 million would be funded from sources other than business rates, including £67.7 million HIF. While the GLA will still need to provide forward funding, the Delivery Plan is ultimately funded from future business rates generated and retained with the Enterprise Zone. Stress testing to assess whether sufficient business rates could be generated to repay any GLA borrowing included a scenario in which the HIF bid was not successful and the impact on the EZ Delivery Plan of not securing any HIF contribution was mitigated. Similarly, if the bid is successful, but there are cost overruns or delivery slippage on the EZ elements of the bid resulting in the need for additional borrowing, this could be funded from the estimated headroom in retained business rates. The HIF business case is now only able to support a bid for FF of £54.7 million. The £13 million shortfall relates to the cost of the Royal Victoria Bridge and will require additional borrowing. This risk is mitigated by the expectation that the funding will be recouped from the developer in a later phase of development work. It is further mitigated from the estimated headroom in retained business rates. This will require close monitoring, particularly estimates of future retained business rates, to ensure that there are the necessary decision points to scale back expenditure if necessary as a further mitigation.
9. Financial Risk Assessment and Mitigation: the bid includes a further £78.95 million HIF for investment outside the Enterprise Zone. Each element of the bid includes optimism bias, but if this is insufficient or delivery slips outside the funding window, this would need to be funded by the

GLA. The project will need to be closely monitored so that there are decision points to amend scope and/or take other mitigating action before commitments are entered into. The cost risk to the GLA is otherwise mitigated as follows:

- a. Land Assembly: this element will be led by LB Newham and the HIF contribution is capped at £35m with the Council taking the remaining cost risk.
- b. DLR Pontoon Dock Station Upgrade: Optimism Bias has been included based on TfL's assessment of the cost risk with an additional contingency included over and above the TfL recommended level providing an overall risk allowance of 40%.
- c. Civils: the core civils works to be undertaken by the GLA are the flood defence works, the utility reinforcement and the new bridges, A contingency allowance of 15% has been applied to these costs.

ELL – Growth Capacity

10. Risk Transfer: as the Mayor's Integrated Transport Authority, TfL will be responsible for overseeing the delivery of all infrastructure included within the scheme. TfL has accepted that it should be the body responsible for managing the majority of these risks and its approach is set out below. For Surrey Canal Road Station, as the business case is based on unlocking homes rather than on any current transport needs, TfL has indicated that it would not be appropriate for it to accept the associated cost overrun risk and it may be more appropriate for this risk to remain with the GLA. The outputs attributed to the Station have a positive effect on the Benefit Cost Ratio for the ELL bid. The s106 for the consented scheme includes a mechanism to deal with cost over-runs through reviewing the developer's contributions to other transport mitigations, in agreement with LB Lewisham. The developer contribution will be determined based on a viability analysis of the proposed new scheme and taking in to consideration other s106 obligations necessary to facilitate the development. Since the original developer contribution was agreed, the specification for the station has changed with a requirement to accommodate 5 car trains. TfL have estimated that the base requirement for a station meeting their current operational requirements at Surrey Canal Road will be £22.7m, including a 60% risk allowance (see paragraph 13e below). TfL has advised that, as the risk increases incrementally by 10%, the additional cost is in the region of £1.4m. Hence, the GLA would need to make available to TfL £5.7m of funding over and above the requested HIF funding to provide sufficient cover for a cost overrun of up to 100%. If costs were estimated to exceed the risk allowance assumed within the bid this would be subject to a further decision. This will need to be kept under review as the project progresses. In view of the 60% risk allowance, the risk of a cost overrun on the station has been assessed as low.
11. Financial Risk Assessment and Mitigation: TfL is seeking to mitigate its financial risks for the majority of the bid through the inclusion of appropriate levels of optimism bias in HIF bid as follows:
 - a) Surrey Quays Station: this has reached GRIP Stage 3 (Single Preferred Option), but a single option has yet to be selected. Based on the TfL estimating tolerance bandwidths, a risk percentage range of 30-40% is appropriate at this stage of the project. However, following further consideration of this project it is proposed that a 60% risk is applied as there is still some scope uncertainty with relation to capacity improvements to the existing station following a pedestrian modelling assessment. Also, there is a heavy dependency on the availability of the British Land Development site both to support the construction of the new entrance and in the long term to access the station for both TfL passengers and TfL maintenance staff. Agreements with British Land are still to be completed and the additional risk allowance will cover any additional land payments which may be required.
 - b) London Overground 20tph - Core Route Signalling Works: the 20tph project uses trains repurposed from the Gospel Oak-Barking line, which themselves are replaced by new trains. GRIP Stage 3 (Single Preferred Option) is currently underway but a single option has not yet been selected. Based on the TfL estimating tolerance

bandwidths, a risk percentage range of between 30-40% would normally be applied at this stage of the project. A TfL Pathway Characterisation assessment has been completed which indicates that a 40% risk allowance is appropriate.

- c) London Overground 20tph – Additional Stabling and Train Preparation Facilities: this has reached GRIP Stage 2 (Feasibility) and based on the TfL estimating tolerance bandwidths, a risk percentage range of between 40-60% would normally be applied at this stage of the project. A TfL Pathway Characterisation assessment has been completed which indicates that a 60% risk allowance is appropriate.
- d) London Overground 20tph – Core Route Traction Power Upgrade: TfL have identified a potential need for an upgrade to the power supply to facilitate ELL 20tph. This has reached GRIP Stage 1 (Outcome Definition). Based on the TfL estimating tolerance bandwidths, a risk percentage range of between 40-60% would normally be applied at this stage of the project. A TfL Pathway Characterisation assessment has been completed which indicates that a 60% risk allowance is appropriate.
- e) Surrey Canal Road station – a concept design for this station was originally produced in 2010. However, design changes are required to make the station compliant with current operational and safety standards. This includes a requirement for 5-car platforms, a ticket gate array and larger lifts. Costs for these have been included in the CAPEX estimate for this project. Based on the TfL estimating tolerance bandwidths, a risk percentage range of between 15-25% would normally be applied at Concept design stage. However, following further consideration of this project it is proposed that a 60% risk is applied due to a significant increase in forecast demand and the need for further assessment to determine how the existing design could be adapted to accommodate the extra demand.
- f) Canada Water Bus Station: a low level of risk has been applied as a feasibility study has been undertaken based on similar historic projects.

12. Benefit Cost Ratio (BCR): changes in TfL's approach to risk pricing have affected overall scheme costs. However, TfL has advised that once the additional risk pricing is factored in, the scheme still offers good value for money. The project team is liaising with MHCLG to confirm that the approach to risk pricing is acceptable.

Meridian Water Infrastructure

13. Risk Transfer: Enfield Council's Executive Director of Resources wrote to the GLA's Group Finance Director on 31 July 2018. The letter anticipates the transfer of risk to Enfield Council via contractual mechanisms included in a grant funding agreement between the GLA and London Borough of Enfield and accepts that all risks associated with cost and time overruns are the responsibility of the Council except where this has arisen due to a default by the GLA which delays the drawdown of grant funding by the Borough. Further information on the Council's arrangements for stress testing and contingency was provided in a follow-up letter from the Council's Director of Finance on 19 November 2018. Feasibility for the rail infrastructure elements of the scheme has been completed to GRIP1 level. Although the rail corridor will form part of the Crossrail 2 (CR2) regional branch north of Tottenham Hale, this initial feasibility was undertaken without input from CR2. There are numerous constraints within this corridor and the CR2 interface poses a significant delivery risk to the HIF scheme (see below). It has not been possible to estimate the number of track possessions that will be required to implement the scheme which poses a further financial risk. The level of Optimism bias included for the rail infrastructure has been increased to 66% as feasibility (GRIP2) has yet to be completed. The non-rail interventions are considered to be standard civil engineering works and a risk allowance of 15% is included together with a specific £5m contingency for contamination which has been assessed as the main risk to the scheme by the borough. Further assurance on the Council's capacity to cover the cost overrun risk has been requested.

14. Operating Costs: Enfield continue to liaise with Abellio who are advising on indicative costs associated with the operation of additional services. Enfield propose to forward fund the delivery of rail operations for the additional trains and these costs will be recouped from developers as housing development comes forward. The contracting model to commit the TOC to deliver these services will involve the DfT and Greater Anglia and will set-out a mechanism to identify level of service, operating costs, increased passenger revenues and the reduction of Enfield's subsidy over time to as the service becomes self-funding.
15. Planning Policy: Meridian Water is included with the draft Edmonton Leaside Area Action Plan (ELAAP) which includes proposals for the consolidation, intensification and designation of additional Strategic Industrial Land (SIL) as well as its release. Although most of the site is not SIL, the eastern section of Meridian Water is SIL and the Mayor, in his letter dated 07 July 2017, stated the extent of the release of the SIL at Harbet Road is not in general conformity with the London Plan. The Hearing Sessions of ELAAP took place in early October, however the Examination remains open. The Inspector could make her assessment based on the information before her or ask Enfield to carry out further work to support its proposals. There is no date for a decision on ELAAP. If the Inspector asks for additional information, a decision could be at least six months away. It should be noted at the Hearing Sessions, officers did not object to the redevelopment of Meridian Water overall and noted that the western part of the site can be delivered. LB Enfield, GLA Planners and Housing and Land colleagues continue to work together towards achieving a compliant solution.
16. Crossrail 2 Interface: there are several issues related to the interface between the proposed rail infrastructure intervention and the future delivery of Crossrail 2 (CR2) in the Upper Lee Valley. These issues have been subject to detailed dialogue between the GLA, London Borough of Enfield and CR2:
 - a) Output Assurance: MHCLG requested further assurance on the overlap between outputs included in the business case for the proposed scheme and outputs identified in the CR2 Business Case. Following detailed discussions, Enfield Council and CR2 have agreed that 3,000 homes are to be attributed to CR2 and 10,000 to the Meridian HIF FF scheme. This assumes gross capacity of 13,000 units which is subject to confirmation by the Planning Inspector. CR2 Outputs have been removed from the gross figure as it is not possible to confirm the CR2 infrastructure costs at this stage and it is likely that this would dilute the BCR.
 - b) Construction interface: since completing the GRIP1 report, Enfield has engaged in detailed discussions with CR2 to review the impact of the scheme on the rail corridor between Tottenham Hale and Meridian Water. Early indications are that it is feasible to deliver a 6tph solution for Meridian Water on the third and fourth track while avoiding the areas of key constraint during CR2 construction. Enfield and CR2 have committed to ongoing engagement to identify a deliverable scheme which is acceptable to both parties. A separate Strategic Outline Business Case is being prepared for the rail scheme which will ensure ongoing engagement with CR2 to specifically address the risks associated with this interface.
 - c) CR2 Independent Affordability Review: TfL and the Department for Transport (DfT) have commissioned an Independent Affordability Review (IAR) to examine ways of making CR2 more affordable and progression of the HIF bid may need to be considered in the context of the review in due course.
 - d) Tottenham Hale: an issue has been identified with Network Rail's new Access for All bridge which is under construction at Tottenham Hale Station. By 2019 the new bridge will not be fit for purpose and DfT has indicated that this could affect the Meridian Water HIF bid. This is a much wider issue which cannot be attributed to proposals for Meridian Water alone and this has been made clear to MHCLG and Homes England. Officers from GLA, TfL, DfT, Network Rail, Haringey and Greater Anglia are meeting to discuss how to resolve the issue, but it will still be a live issue when the bid is submitted on 3 December.