Statement to Parliament: Hexagon agreement: notification of a contingent liability

I have today (11 June 2018) laid before Parliament a departmental minute describing 3 contingent liabilities relating to a tripartite deal between Heathrow Airport Limited (HAL), First Greater Western Limited (FGW) and the Department for Transport.

Unfortunately, due to the urgent need to finalise the deal and the confidential commercial nature of the negotiations it was not possible to notify Parliament of the particulars of the liability and allow the required 14 days' notice prior to the liabilities going live. A delay would have resulted in higher HS2 costs and an increased scheduling risk impacting on the December 2026 opening date for Phase One.

The main element of the deal is a service agreement between FGW, HAL and Heathrow Airport Operating Company (HEOC) for the continuation of non-stop rail services between Paddington and Heathrow Airport. Under this agreement FGW will assume operation of Heathrow Express services. Although this is an agreement between private sector companies, there are significant benefits to the department, in particular, savings generated from not building a replacement depot for Heathrow Express rolling stock at Langley (the land on which the current depot is situated at Old Oak Common is needed by HS2 for the construction of the high speed railway).

In order to conclude the deal, and secure departmental/HS2 benefits, the department needed to offer indemnities in relation to 3 risks that the parties were unwilling or unable to assume or manage. The financial exposure is not high – a conservative estimate is c£12 million. But they are unusual and outside the department's normal course of business.

The 3 contingent liabilities are:

First, indemnifying FGW against the cost of any delay to delivery of new rolling stock required to operate Heathrow Express services. The department's exposure is estimated to be £2.25 million.

Second, indemnifying FGW against the cost of any redundancies following the transfer of staff, mainly drivers, from HAL to FGW. The cost is estimated to be c£3.2 million.

Third, an indemnity against contagion from a wider industrial relations dispute – nationwide or franchise wide. The exposure is estimated to be £6.8 million.

The Treasury approved these liabilities before they were activated. However, if any Member of Parliament has concerns, he/she may write to me within the next 14 parliamentary sitting days. I will be happy to examine their concerns and provide a response.

- Departmental minute: Hexagon agreement contingent liabilities (DOC, 15KB)