

Date: 12 December 2017

Item: London Overground Rolling Stock Maintenance Savings

This paper will be considered in public

1 Summary

LR40.010.01	LO Class 378 Train Services Agreement
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Authority Approval: The Committee is requested to approve Procurement Authority to make a binding or contractual commitment with a supplier to cover the Agreement to 2030. TfL expenditure (including the savings generated from removing the break clause) is included within the Business Plan to the extent that the expenditures falls within the years covered by the plan.

Outputs and Schedule: The Class 378 Train Services Agreement requires Bombardier Transportation to provide train maintenance services to the London Overground Class 378 fleet until 2041, but with intermediate contract break points in 2023 and 2030.

- 1.1 A paper is included on Part 2 of the agenda, which contains 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 Recommendation

- 2.1 **The Committee is asked to note the contents of this paper and the related paper on Part 2 of the agenda and:**
- (a) **authorise the removal of the class 378 Train Services Agreement break clause in 2023, and agree to the proposed savings as documented within this paper; and**
 - (b) **authorise an increase in Procurement Authority for the Class 378 Train Services Agreement in the sums set out in the paper on Part 2 of the agenda.**

3 Background

- 3.1 In 2006 TfL signed a Manufacture and Supply Agreement (MSA) and a Train Services Agreement (TSA) with Bombardier Transportation (BT) for the supply and long term maintenance of a fleet of 152 Class 378 cars (formed into 44 trains of mixed three and four car length).

- 3.2 The MSA was a fixed price design, manufacture and supply contract, with options for ordering additional rolling stock. The MSA was subsequently novated to a financier, QW Rail Leasing Limited (QW), whereby the MSA costs were paid to BT by the financier, and TfL obtained use of the fleet under a lease arrangement.
- 3.3 The TSA remains with TfL and requires BT to carry out for TfL:
- (a) TSA Standard Services;
 - (b) TSA Additional Services; and
 - (c) Depot Asset Management and Maintenance.
- 3.4 The TSA cost is variable, because the total payments over the TSA term depend on, inter alia, train fleet size, fleet mileage, fleet reliability, quantum of Additional Services and inflation, but that cost is determined from fixed prices for individual elements of the overall services. Additionally, the TSA contains contract variation provisions for negotiating changes to, for example, the number of trains to be prepared each day for the operator to support biannual timetable changes and to carry out modifications or enhancements to the train fleet (for which BT remain the design Authority).
- 3.5 Although the TSA can run to 2041 (the 30th anniversary of delivery of the last train under the MSA), there are preceding break points in 2023 and 2030 when TfL may terminate the TSA for convenience. TfL's current contractual commitment to ongoing TSA service payments is therefore limited to 2023 (and hence the current Procurement Authority only covers the expected cost of the TSA up to this point).
- 3.6 In 2007, additional Procurement Authority was granted to convert the existing three-car Class 378 trains to four-car length, and to purchase more four-car Class 378 trains to provide for the planned increase in London Overground services. This resulted in an expansion of the Class 378 fleet from 152 to 228 cars, formed into 57 x four-car trains. An increase to the MSA Procurement Authority for rolling stock purchase from BT was granted by the Board in June 2007.
- 3.7 In February 2013, additional Procurement Authority was granted to further increase the size of the Class 378 fleet by lengthening all 57 trains from four-car to five-car length as part of the London Overground Capacity Improvement Programme (LOCIP).
- 3.8 The culmination of Overground expansion since the original rolling stock contracts were let in 2006 has been an increase in fleet size to 285 cars formed into 57 trains of five-car length.
- 3.9 In March 2017, a revised Procurement Authority was granted by the Committee for the TSA costs for the enlarged 285-car fleet up to the break point in 2023. Included within that value is a payment for Standard Services up to 2023, however the revised date of 2030 was not discussed as part of the previous Procurement Authority.
- 3.10 The following costs need to be added to the Standard Services costs to calculate the full cost of the TSA up to 2030. Further details are included in the supplemental paper on Part 2 of the agenda.

- (a) Additional Services;
- (b) Depot Asset Maintenance and Overhaul; and
- (c) TSA Contract Variations to date.

4 Proposal:

Preferred Option – Realisation of TSA Savings / Removal of 2023 break point

- 4.1 In November 2016, TfL requested BT to identify savings to the TSA. In return, BT requested TfL to remove the TSA break option in 2023. The Standard Service TSA costs for the 285 car fleet have been re-calculated from 2023 to 2030 and 2041 using the relevant contractual maintenance pricing model in the TSA, together with the variation proposal from BT to capture the potential savings to the TSA to 2030 and beyond.
- 4.2 As part of this proposed variation with BT, additional Procurement Authority is being sought to cover the cost of the TSA for the period to 2030. It must be noted that TfL, in line with the current contractual arrangements of the TSA are not entitled to any savings generated by the contract.
- 4.3 Where savings have been identified, they will have minimal risk to the TfL business because, under the TSA, BT remains responsible for delivering the services; from the safety, operational, commercial and maintenance perspective should they be accepted. The savings can be identified as follows:
 - (a) Willesden Train Maintenance Depot Access;
 - (b) Additional Bogies;
 - (c) Outstations; and
 - (d) Maintenance and Overhauls.

5 Benefits and Value

- 5.1 The current TSA brings stability to the maintenance regime, as well as streamlining the operation for the future. It also allows TfL's operator to maintain a stable relationship with the BT team from a day-to-day perspective.
- 5.2 The overall business case for the Class 378 TSA has been set out in previous authority request papers submitted to the TfL Board and this Committee, as set out in Section 3, so is not covered further in this paper. These benefits are further enhanced by the savings identified as part of the variation process, and thus reduce the standard service payment until 2041.
- 5.3 The TfL savings that can be achieved as part of the removal of BT's break point at 2023 and the consequent continuation to 2030 (as a minimum) are provided in the supplemental paper on Part 2 of the agenda.
- 5.4 The savings identified by BT have allowed a larger up front saving from 2018 to 2023 due to the deferral of the heavy maintenance from 2024 to 2027.

6 Alternative Options Analysis

- 6.1 As an alternative to the preferred option described above, further options have been considered, as listed below. All alternative options would generate a cost pressure against TfL's Business Plan as the savings generated from removing the break-clause have been assumed.
- 6.2 **Do nothing and continue the current contractual relationship until 2023:** The collaborative relationship would continue, with optimisation of some of the maintenance aspects and tasks being completed. TfL would however not receive the benefits of the savings in the short term, and would be exposed on a number of items such as train preparation at Outstations going forwards, until the 2023 break point when other options could be considered. **Not recommended.**
- 6.3 **Bring the maintenance of the Class 378 fleet in house:** Currently TfL would not benefit from any of the savings identified as part of this paper if we were to bring this activity in house. In the short term however, there would be an increased risk and cost in providing an alternative maintenance solution. **Not recommended.**
- 6.4 It is recommended that neither of the above alternative options should be taken forward, due to the high level of risk from a safety, commercial and operational perspective which the Class 378 Operations would be exposed to at the current time, and the inability to benefit from any savings and cost avoidance prior the break point in 2023.
- 6.5 The preferred option will allow TfL to take advantage of the favourable terms and arrangements currently in place with BT, along with tapping into the identified savings which could not be realised should we take either of the other two options. Not only does implementing this option minimise TfL's risk, it also provides stability to the product and BT teams which continue to maintain the units currently.
- 6.6 Subject to the agreement of the Committee, the savings identified can be taken immediately and will be reflected in invoices received from January 2018.

7 Financial Implications

- 7.1 The financial position is described in the Part 2 paper.

List of appendices to this paper:

A paper on Part 2 of the agenda contains exempt supplementary information.

List of background papers:

None

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