

Date: 17 June 2015

Item: Procurement of New Rolling Stock for London Overground

This paper will be considered in public

1 Summary

- 1.1 The purpose of this paper is to update the Committee on TfL's progress in the evaluation of tenders for new Overground Rolling Stock (the LOTRAIN Project) and to approve contract award and Project and Procurement Authority.
- 1.2 This paper seeks to demonstrate that TfL is following:
- (a) a procurement process that has been designed to deliver a best value outcome; and
 - (b) a procurement process which has a strong focus on technical competence to ensure that the appointed contractors are those who are best placed to undertake this scope of work.
- 1.3 Under Standing Orders, the authority sought in this paper is reserved to the Board. On 26 March 2015, the Board delegated to the Finance and Policy Committee authority to approve any matter reserved to the Board from 27 March to 30 June 2015. The Board paper referenced the need for the Committee to grant Project and Procurement Authority for the LOTRAIN Project to maintain the programme for delivery of all of the trains. As part of the programme, the contract execution has to be undertaken by 1 July 2015.
- 1.4 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 Recommendations

- 2.1 **The Committee is requested to note the paper and the supplemental information on Part 2 of the agenda, and to exercise authority delegated by the Board to:**
- (a) **approve entering into contracts with bidder codenamed 'Paddington', for a Manufacturing and Supply Agreement (MSA) and a Train Services Agreement (TSA) in relation to new rolling stock for London Overground as described in this paper (the Agreements);**

- (b) approve Project Authority for the sum set out in the paper on Part 2 of the agenda, which comprises the capital cost tendered by 'Paddington' together with the TSA and a provision for potential future design / scope changes and subsequent maintenance obligations;**
- (c) approve Procurement Authority for the MSA and TSA for the sums set out in the paper on Part 2 of the agenda;**
- (d) subject to Financial Authority being in place, authorise the Managing Director, Finance to approve:**
 - (i) any increases to the Project Authority and Procurement Authority for the MSA and TSA that may be required to reflect any movement in exchange rates applicable to capital expenditure under the MSA between the date of this paper;**
 - (ii) the execution of any agreement reflecting changes resulting from indexation through the life of the TSA; and**
 - (iii) the draw down of any contingency sums approved within the Project Authority referred to in paragraph 2.1(b);**
- (e) note that the TfL Business Plan does not have sufficient provision for the operating element of the TSA up to 2023/24 as set out in the paper on part 2 of the agenda and approve unbudgeted Financial Authority for the sums set out in the paper on Part 2 of the agenda provided that appropriate action is taken to reduce these sums and that a further paper will be provided to the Board in due course on the outcome of such action to enable the Board to consider any consequential changes that may be needed to the TfL Business Plan;**
- (f) note that the TSA has a duration beyond the end of the current Business Plan and future Business Plans will need to provide for the remaining years of operation up to 2051/52;**
- (g) authorise the TfL Officers and the Subsidiaries (as described in paragraph 2.2 below) to finalise the terms of the Agreements described in this paper; and**
- (h) authorise the agreement and execution (whether by deed or otherwise on behalf of TfL or any Subsidiary (as appropriate)) any documentation to be entered into in connection with the completion and implementation of the Agreements and any of the matters referred to in it (including without limitation, all agreements, deeds, guarantees, indemnities, announcements, notices, contracts, certificates, letters or other documents);**
- (i) authorise TfL Officers and Subsidiaries to do all such other things as they consider necessary or desirable to facilitate the execution and implementation of the Agreements and the matters referred to in them;**

2.2 The following Officers and Subsidiaries shall have delegated authority:

- (i) TfL Officers: the Commissioner, Managing Director Finance, Managing Director Rail and Underground and General Counsel; and**
- (ii) 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 the company.**

3 Background

3.1 As London Overground expands with increasing demand and a larger network, replacement of rolling stock nearing life expiry on West Anglia is required, plus replacement of diesel trains and additional stock to increase capacity on existing Overground routes.

3.2 The LOTRAIN Project comprises the design, manufacturing, commissioning, entry into service (covered by the Manufacturing and Supply Agreement (MSA)) and ongoing all-inclusive maintenance of 45 new electric multiple units (covered by the Train Services Agreement (TSA)) to support the following London Overground Programmes:

- (a) Gospel Oak – Barking Capacity Increase following electrification of the line by Network Rail (NR) in mid 2017 (eight, four car trains);
- (b) West Anglia Route (Devolution) Programme including Romford-Upminster, which transfers the contracting of train services between Liverpool Street – Chingford/Cheshunt/Enfield Town from the Department for Transport (DfT) to TfL from 31 May 2015 (31 x four car trains); and
- (c) London Overground Frequency Increase Programme, which enhances the current eight trains per hour (tph) on the North London Line (NLL) to 10 tph and increased service resilience on the East London Line (ELL) (six, four car trains)

3.3 Priced options are included in the MSA for up to 249 cars for train lengthening to five car and/or additional trains for possible future schemes including;

- (a) Barking Riverside;
- (b) Stratford – Angel Road; and
- (c) four tph Euston – Watford, five tph Gospel Oak – Barking.

Options may be exercised by TfL at any time up to November 2019.

3.4 On 31 May 2015, TfL will take over the responsibility for contracting services to operate on the West Anglia routes between Liverpool Street – Chingford/Cheshunt/Enfield Town as well as the Romford – Upminster branch. These routes will form part of the London Overground network and will initially be operated by London Overground Rail Operations Limited (LOROL), the current London Overground operator. As part of TfL's aspiration to upgrade the quality of

services provided on these routes, in line with the high standards offered on the rest of the London Overground network, it is the intention to replace the current 30 year old rolling stock (Class 315/317) as soon as the new trains are delivered in 2018. Further authority will be sought if exercise of any of the options is proposed.

- 3.5 NR is committed to electrifying the Gospel Oak – Barking route, which is a route currently operated by two car Class 172 diesel trains. The successful LOTRAIN bidder will be responsible for maintaining the diesel trains until the new electric trains are delivered for this route in Quarter 1 2018. NR's declared programme for completion of the electrification is June 2017.
- 3.6 By putting new trains on the Euston – Watford line the existing Class 378 trains on that route can, in five car formation, be cascaded onto the NLL and ELL to provide a larger and homogenous Class 378 5 car fleet to deliver the planned tph increases.

Strategic Context

- 3.7 The Mayor strongly supported the case for electrification of the Gospel Oak – Barking lines from an environmental and economic perspective and TfL is part funding the scheme alongside the Government. The route will be electrified by mid-2017 and TfL's reputation could be damaged if diesel trains continue to operate on this route for any significant length of time after electrification. In addition, as extra capacity is needed on the route, purchase of four car electric trains will provide much needed capacity compared with the existing two car diesels.
- 3.8 The Mayor's Rail Vision of February 2012 set out the case for devolution of rail services in London. Part of the justification was to upgrade services from the current poor quality rolling stock seen on some franchised services. As the West Anglia services will be branded as TfL services, it is important that they are of suitable quality, with modern high quality rolling stock to avoid devaluing the TfL brand and undermining the case for further devolution.

4 The Procurement Process

- 4.1 Key LOTRAIN procurement milestones are:

Milestone	Target Date
Committee Approval	17 June 2015
Contracts executed	1 July 2015
First unit delivered	4 December 2017
Last unit delivered	26 October 2018

- 4.2 There were four bidders who pre-qualified for the rolling stock procurement: Bombardier, Construcciones y Auxiliar de Ferrocarriles (CAF), Hitachi and Siemens. For the purposes of approval, they are identified by codenames in the paper on Part 2 of the agenda.

Tender Evaluation

- 4.3 The tender evaluation criteria and requirements were clearly set out in the Information for Tenderers (IFT). The most economically advantageous tender is that which passes the highest 'Total Commercial Score' (Stage 3), having first passed the mandatory requirements test (Stage 1), and obtained at least the threshold scores for the robustness of their technical proposal and delivery plans (Stage 2).
- 4.4 A summary of the requirements of each stage of the evaluation can be found in Appendix 1.

5 Assurance

- 5.1 A Contract Award Integrated Assurance Review (IAR) has been undertaken by Project Assurance and the Independent Investment Programme Assurance Group.
- 5.2 The IAR review concluded that there are were no critical issues that might result in a significant financial or reputational risk to TfL at this stage. A management response to the recommendations has been provided.

List of appendices to this paper:

Appendix 1: Evaluation Stages

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

List of background papers:

LOTRAIN procurement strategy and Invitation for Tenderers
IIPAG and PMO Reports, with management responses

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Evaluation Stages

Stage 1: General review and mandatory requirements (pass/ fail)

The IFT described the following general requirements which must be met by bidders in order to progress to stage 2 of the evaluation:

- (i) Completeness and compliance: to ensure that tenders reflect the full scope of work and submission requirements;
- (ii) Qualifications: to ensure the number and materiality of any qualifications to the MSA and TSA are not, in principle, unacceptable to TfL;
- (iii) Mandatory Requirements: to ensure that key technical, commercial and delivery programme requirements have been complied with by bidders
- (iv) Mandatory Requirements: to ensure that key technical, commercial and delivery programme requirements have been complied with by bidders.

Stage 2: Technical and deliverability evaluation (threshold pass/ fail)

The technical and deliverability criteria evaluated included bidders':

- (i) technical proposals for the trains against TfL's performance specification ('Train Works – Technical');
- (ii) their design, manufacturing, testing, technical assurance and commissioning plans ('Train Works – Deliverability') ;
- (iii) train maintenance regimes ('Services'); and
- (iv) Health and Safety, Environmental and Responsible Procurement proposals.

Bidders were required to meet minimum threshold scores for each criterion before passing to stage 3 of the evaluation.

Stage 3: Commercial evaluation and negotiations (scored)

The final ranking of Bidders is based on the 'most economically advantageous tender' and this is defined as being the bid with the highest Total Commercial Score.

The Total Commercial Score comprises two weighted elements:

- (i) contractual compliance (35 per cent weighted); and
- (ii) Net Present Value score (NPV) (65 per cent weighted).

Contractual compliance evaluation translates bidder mark ups to the draft Agreements into a numerical score using clear evaluation criteria in the ITN.

The lower the materiality of mark-ups, the higher the contractual compliance score.

NPV is calculated from the amount and timing of the capital Milestone Payments in the MSA and the annual fleet operational costs including:

- (i) train maintenance and associated services over the 35 year maximum duration of the TSA, plus
- (ii) adjustments for, inter alia, traction power usage and track access costs (based on the technical characteristics of the bidder's train proposal) that will be paid by TfL, thus evaluating true whole life costs.

The lower the NPV, the higher the NPV score (the bidder with the lowest NPV scoring 100 out of 100 before applying the weighting).