

Date: 2 December 2015

Item: Procurement of New Rolling Stock for London Overground
– Lease Financing

This paper will be considered in public

1 Summary

- 1.1 On 17 June 2015, the Committee, under authority delegated from the Board, approved the award of contracts for the supply and maintenance of a new fleet of trains for the London Overground (the LOTRAIN Project) together with the requisite Project and Procurement Authorities. The two contracts – the Manufacture and Supply Agreement (MSA) and the Train Supply Agreement (TSA) – were awarded by Rail for London Limited (RfL) to Bombardier Transportation UK Limited (Bombardier) with an effective date of 15 July 2015.
- 1.2 As previously advised, the LOTRAIN Business Plan assumes that the new trains will be lease financed, pursuant to a separate financing competition that commenced after the contracts had been awarded to Bombardier. The purpose of this paper is to inform the Committee of the progress of that competition and to recommend that the Board gives approval to enter into a leasing arrangement with the successful bidder.
- 1.3 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 asked to note the paper and the supplemental information in the paper on Part 2 of the agenda and to recommend that the Board:**
- (a) **approves entering into lease financing arrangements for the new fleet of trains for London Overground with the financier with the highest score (in accordance with the evaluation criteria) and as described in this paper and the related paper on Part 2 of the agenda (the Transaction);**
 - (b) **authorises the TfL Officers and the Subsidiaries (as described in paragraph 2.2 below) to finalise the terms of the operating lease agreement and related documentation required to implement the Transaction (the Transaction Documents);**

- (c) authorises 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 Transaction Documents and any of the matters referred to within them (including without limitation, all agreements, deeds, guarantees, indemnities, announcements, notices, contracts, certificates, letters or other documents);**
- (d) authorises TfL Officers and Subsidiaries to do all such other things as they consider necessary or desirable to facilitate the execution and implementation of the Transaction Documents and the matters referred to in them;**
- (e) notes that options for additional vehicles or other equipment under the Manufacture and Supply Agreement will not be exercised without further authority from the Board; and**
- (f) gives, in accordance with authority delegated to Transport for London by the Mayor and to the extent that the Transaction could be construed as a disposal of property under paragraph 12(1) of Schedule 11 of the Greater London Authority Act 1999, the Mayor's opinion that such property is not required by TfL for the purposes of the discharge by TfL of any of its functions, in accordance with the delegation of the Mayor's opinion concerning the disposal of property.**

2.2 The following Officers and Subsidiaries shall have delegated authority:

- (i) TfL Officers: the Commissioner, the Managing Director Finance, the 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 Under the MSA, a fleet of 45 four-car electric multiple units will be delivered for use on the London Overground, with scheduled deliveries taking place over a period of approximately 12 months starting in late 2017. In addition, the MSA contains options to purchase additional rolling stock units and/or to convert existing units from four-car to five-car, subject to the necessary approvals at the time any option is exercised.**
- 3.2 After an initial period of market engagement, an Invitation to Tender (ITT) for the provision of finance for the rolling stock fleet was issued to ten organisations at the end of August 2015, and bids were received from six separate bidders on 21 September 2015.**

- 3.3 The lease financing competition envisaged a lease of the new fleet of trains for a minimum period of 15 years from the scheduled date of delivery of the first unit (late 2017), but encouraged bidders to offer additional flexibility to RfL in the form of options either to acquire the fleet at the end of the lease or to enter into a subsequent lease on pre-agreed terms.
- 3.4 The financing bids have been evaluated and ranked and a reduced number of bidders have been taken forward to undertake detailed due diligence on the transaction documents, prior to selection of the preferred financier. Subject to the necessary approvals and completion of the documentation, it is expected that the leasing arrangement will be concluded in late December 2015 or in January 2016.
- 3.5 Upon completion of the lease, various rights and obligations of RfL under the MSA will be transferred to the lessor, and the lessor will reimburse RfL for payments already made to Bombardier under the MSA. The lessor will then take title to the new trains as they are delivered and lease them to RfL. RfL will sub-lease them to the operator of the London Overground.
- 3.6 It is anticipated that the transaction will be accounted for as an operating lease and the views of TfL's Auditor will be sought to confirm this. TfL will guarantee RfL's payment obligations under the lease and related documentation

List of appendices to this report:

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

List of Background Papers:

Finance and Policy Committee 17 June 2015 paper on Procurement of New Rolling Stock for London Overground

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