

Date: 8 March 2023

Item: London Overground Class 378 Fleet Leases

This paper will be considered in public

1 Summary

- 1.1 This paper describes the financial risks associated with the lease arrangements for London Overground Class 378 fleet and options for the mitigation of these risks. Detail of these risks and mitigations are set out the related paper on Part 2 of the agenda.
- 1.2 A paper is included on Part 2 of the agenda, which contains exempt supplemental information and documentation. 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 financial affairs of TfL or of a sensitive nature to the counterparty and its shareholders. 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 exempt supplementary paper on Part 2 of the agenda and to:**
 - (a) **approve unbudgeted Financial Authority at the sum set out in the paper on Part 2 of the agenda for Rail for London Limited (RfL) terminating the existing 2007 lease and the 2013 lease relating to the Class 378 fleet;**
 - (b) **approve unbudgeted Financial Authority and Procurement Authority at the sum set out in the paper on Part 2 of the agenda for the lease termination and purchase of the Class 378 fleet as described in this paper and the related paper on Part 2 of the agenda; and**
 - (c) **note that any new borrowing and existing hedging arrangements associated with the termination of the leases and the purchase of the Class 378 fleet will be authorised in accordance with the TfL Treasury Management Policy.**

3 Background

- 3.1 Rail for London (RfL) entered into a contract with Alstom (previously Bombardier Transportation) for the manufacture and maintenance of 45 four-car Class 378 train units, in 2006, for the provision of services on the London Overground. In 2013, options in the manufacturing contract were exercised for the manufacture of a fifth car, to be added to each of the 45 train units in the fleet, and associated maintenance. These fifth cars were carriages (with no cabs) and so could not be operated independently of the existing four-car units.

- 3.2 While the four-car units were originally procured and funded directly by Transport for London (TfL), in 2007 the original four-car units were refinanced into an operating lease agreement between RfL and QW Rail Leasing Limited (QWRL) (the 2007 lease). The fifth cars were also leased with QWRL in 2013 (the 2013 lease). QWRL is lessor under the terms of these agreements (the lessor), with RfL committed to lease the trains for a minimum period and pay lease rentals. These rental obligations are underpinned by a guarantee from TfL. The fleet is then sub-leased to Arriva Rail London Limited for operation on the London Overground network. Both of these lease agreements are structured with an initial committed term, which in both cases expire in June 2027, with various options to purchase or hand back the fleet at that point.
- 3.3 TfL is exposed to various financial risks: including interest rate and refinancing risks in relation to these lease agreements. Implications of these risks and options to mitigate are set out and considered in the related paper on Part 2 of the agenda.

4 Operations and Fleet Strategy

- 4.1 As set out above, the Class 378 fleet was built for the provision of services on London Overground and specifically, the section of the London Overground infrastructure owned and operated by RfL (the upgraded East London Line infrastructure) and is currently the only fleet providing operational service across this part of the London Overground network. This section of infrastructure includes narrow single bore tunnels, for which the Class 378 fleet has the required narrow nose end door detrainment mechanism to operate through. There is no other existing fleet that could operate on this section of infrastructure.
- 4.2 Due to the specific requirements of this section of the London Overground infrastructure, RfL will need to retain use of the Class 378 fleet or procure a new fleet in the future to ensure continued operation of services across this route.
- 4.3 The Class 378 fleet was specifically designed for London Overground operations including high intensity services operating along designated commuter routes with specific operational and infrastructure requirements.
- 4.4 Current demand on the London Overground is at 87 per cent of pre-pandemic levels and is predicted to grow over the Business Plan period. The Class 378 fleet is a key part of servicing this demand. The operational and fleet strategy is to retain the Class 378 fleet in operations on the London Overground until life expired in 2044. This approach is also assumed in TfL's Capital Strategy as approved by the Board in December 2021, and subsequent updates which were noted by the Board in December 2022.

List of appendices to this report:

Exempt supplementary information is included in the paper on Part 2 of the agenda.

List of background papers:

None

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