Finance Committee

Date: 19 August 2024

Item: Docklands Light Railway Operations and Maintenance Procurement

This paper will be considered in public

1 Summary

1.1 The purpose of this paper is to update the Committee on the process being undertaken by Docklands Light Railway Limited (DLRL) for the procurement of a new provider of passenger operations and maintenance of the Docklands Light Railway (DLR) and to seek approvals for the associated contract (the Franchise Agreement).

1.2 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 paper and the exempt supplementary information on Part 2 of the agenda and to:**

(a) approve Procurement Authority in the amount set out in the exempt supplementary paper on Part 2 of the agenda for entry into the Franchise Agreement and ancillary agreements; and

(b) note that matters for which Procurement Authority is sought above extend beyond the current TfL Business Plan and Budget and provision will, therefore, need to be made in future Business Plans and Budgets.

3 Background

3.1 Under an agreement entered into on 17 July 2014 (the Current Agreement) all aspects of train and passenger service operations and maintenance of rolling stock and infrastructure on the DLR network are undertaken by Keolis Amey Docklands Limited (KAD). The Current Agreement will expire on 1 April 2025.

3.2 While operations and maintenance responsibilities sit with KAD, DLRL owns the entire infrastructure estate, including those sections of the railway that have returned to DLRL ownership following the expiry of legacy Private Finance

Initiative contracts in 2021. KAD's responsibilities under the Current Agreement are also influenced by the unique nature of the DLR as a railway, being wholly separated from other railway interfaces (including National Rail) and deploying light-rail technology.

3.3 Most of the rolling stock fleet is owned by DLRL, but 24 of the existing vehicles are owned by the Royal Bank of Scotland and leased under a lease signed in April 2005. DLRL has procured and is taking delivery of a new fleet of 54 trains, of which 33 new trains will replace DLRL owned fleet, which are the oldest trains on the network (not the leased vehicles which are newer) and 21 new trains will provide additional capacity by supporting additional services on the network. These new trains will be introduced from 2024.

3.4 Under the Current Agreement, KAD is remunerated for meeting a target level of service performance metrics with a package of incentives for increased performance and abatements for below target performance.

3.5 DLRL retains the revenue and passenger demand risk on the DLR network as well as the right to specify services. DLRL is also responsible for capital projects in relation to DLRL infrastructure. TfL centrally manages advertising, marketing, and commercial development activities on the network.

3.6 The Current Agreement has delivered consistent high levels of operating performance (98.8 per cent of scheduled departures achieved to date) and the second highest rail mode (first is the Elizabeth line) customer satisfaction (scoring 78 out of 100 in the latest quarterly survey results).

3.7 In August 2023, after an early market engagement exercise, DLRL issued a notice to the market to commence a procurement process to appoint a supplier to provide operations and maintenance services on the DLR network for a period of eight years (with an option exercisable by DLRL to extend for up to a further two years and seven periods) (the New Agreement).

4 The Scope of the New Agreement

4.1 DLRL has reviewed the Current Agreement in light of lessons learnt throughout its term, updated strategic priorities across TfL and best practice drawn from other similar arrangements in TfL.

4.2 As a result of this review, certain amendments have been included in the New Agreement. These are summarised below for various key areas. The overall aim is to support DLRL in achieving the following strategic outcomes:

(a) drive demand recovery and growth by offering a great service to customers;

(b) run an efficient and reliable railway;

(c) achieve excellence in safety and security across all aspects of DLR;

(d) support TfL in delivering its goals to reduce greenhouse gas emissions and improve air quality;

(e) provide good working conditions for colleagues employed in delivery of DLR services; and

(f) exploit opportunities from enhancements, particularly the new trains.

Maintenance and Asset Management

4.3 The supplier under the New Agreement will be responsible for daily delivery of asset performance and asset stewardship, while ensuring that the assets are maintained to allow DLRL to deliver a safe and performing railway for the whole life of the assets.

4.4 The New Agreement contains additional requirements that will enable DLRL to monitor and influence some input measures, in addition to the output-based performance regimes. This will enable DLRL to improve decision making regarding capital investment projects and develop a long-term asset management and renewal strategy which will remain the responsibility of DLRL across multiple contract terms.

Capital Projects

4.5 The New Agreement will continue to provide that capital investment projects will be managed, funded and procured by DLRL. DLRL is best placed to manage capital investment as infrastructure owner, taking account of asset condition requirements over the whole life of the assets. The New Agreement will commit DLRL to spending a minimum budget on capital investment projects.

4.6 The New Agreement contains requirements for the supplier to deliver a small selection of project-based work, where they are best placed to deliver those works due to the close interaction and synergy with their maintenance responsibilities.

4.7 The New Agreement requires the supplier to play a key role in facilitating the delivery, testing and introduction of the new rolling stock.

Safety and Security

4.8 Under the New Agreement, the supplier will be required to comply with all applicable safety management requirements which include, inter alia, the Health and Safety at Work etc. Act (1974) and the Railways and Other Guided Transport Systems (Safety) Regulations 2006. In addition, DLRL will require the supplier to comply with a number of specific requirements, such as adhering to DLRL-specified business critical processes, establishing and maintaining safety management systems that are suitable and sufficient to support safe (and reliable) operations, participate in wider safety governance arrangements with key stakeholders and monitor and manage certain safety related metrics across the railway.

4.9 The supplier will also retain responsibility for the security of the DLR network. This will include management of physical security and ensuring cyber security risks are minimised and mitigated.

Environment, Sustainability and Innovation

4.10 Under the New Agreement, the supplier will be required to contribute to TfL's goal to be the strong green heartbeat for London. This will entail a focus on reducing the environmental impacts of the DLR that the supplier can control (for example relating to energy use and carbon emissions, waste and noise), and ensuring climate risk adaptation is considered in the planning and implementation of the supplier's activities.

4.11 The supplier will be actively encouraged to collaborate with DLRL on innovation and the New Agreement requires the supplier to actively participate in identifying options and proposals to deliver improved and more efficient operational and maintenance services.

Operational Performance, Payment Mechanism and Performance Regime

4.12 The New Agreement specifies timetable improvements from the current service. Once sufficient new trains have been delivered into service, the supplier will operate new service patterns that see higher frequencies and longer trains on many routes.

4.13 The supplier will be remunerated under the New Agreement through a payment mechanism that comprises a fixed fee payable based on achieving certain predetermined performance targets with a package of incentives for increased performance and abatements for below target performance.

4.14 These include targets for amount of service operated, Customer Satisfaction, and the appearance and availability of customer-facing assets. The supplier will also be remunerated against a new Journey Time metric; this is part of TfL's overall Journey Time Metric, and better reflects the customer experience of delays and disruption.

4.15 The supplier will be incentivised to protect TfL's revenue and new incentives have been put in place to give additional focus to reducing levels of fare evasion.

5 Qualification, Invitation to Tender and Evaluation

5.1 In January 2024, following a selection process, three bidders were invited to submit bids in response to an Invitation to Tender (ITT) and in April 2024, all three bidders submitted bids.

5.2 The key principle of the evaluation methodology was to ensure that the New Agreement would be awarded to the most economically advantageous bid allowing for a balance between technical, commercial and financial factors. The bids were evaluated for technical, commercial and financial components according to the following weightings:

Component	Weighting
Technical	40%
Price	50%
Commercial	10%

5.3 The evaluation methodology takes account of the commercial structure of the New Agreement with bidders required to submit bids against the performance regime and other related matters as specified by DLRL.

Technical

5.4 Bidders provided written responses to the following eight “Delivery Plans”.

Delivery Plan	Sub-Weighting
Delivery Plan 1 (Mobilisation, Business Management, and Working with TfL)	**10%**
Delivery Plan 2 (Health and Safety and Security) Delivery Plan 2A (Health and Safety) Delivery Plan 2B (Security)	**18%**
Delivery Plan 3 (Asset Management) Delivery Plan 3A (Policy and Strategy) Delivery Plan 3B (Delivering Asset Management) Delivery Plan 3C (Resources) Delivery Plan 3D (Cyber Security)	**13%**
Delivery Plan 4 (Service Delivery) Delivery Plan 4A (Railway Operational Planning) Delivery Plan 4B (Railway Operational Delivery) Delivery Plan 4C (Railway Performance Review and Management)	**21%**
Delivery Plan 5 (Customer) Delivery Plan 5A (Customer Satisfaction) Delivery Plan 5B (Customer Information, Assistance and Marketing)	**15%**
Delivery Plan 6 (Revenue Protection) Delivery Plan 6A (Draft Annual Revenue Protection Plan) Delivery Plan 6B (Revenue Protection Requirements)	**6%**
Delivery Plan 7 (Social Value) Delivery Plan 7A (Environment) Delivery Plan 7B (Responsible Procurement) Delivery Plan 7C (Working with Local Communities)	**15%**
Delivery Plan 8 (Working with other Stakeholders)	**2%**

5.5 Each Delivery Plan response was evaluated for the bidder’s understanding of DLRL’s requirements and DLRL’s confidence that these plans would deliver the relevant sections of the New Agreement.

5.6 Bidders were scored using a six-point scale, within which scores of 0, 20, 40, 60, 80 and 100 could be awarded. This scoring methodology represented characteristics of the bid ranging from “Major Concerns” to “Excellent”. Bidders were required to score a minimum of 20 (“Concerns”) in most of the Delivery Plans.

Financial

5.7 Bidders were required to provide a financial model, record of assumptions and other supporting documentation to support the financial submission. The evaluation of the Price component was comprised of scoring the net present value of total payment amounts identified in the ITT.

5.8 The bidder with the lowest weighted Price was awarded full marks for the financial component and other bidders were assigned a score in inverse proportion.

5.9 The weighting applied to the financial component is set out in the table below:

Component	Sub-Weighting
Financial	100%

Commercial

5.10 The commercial component comprised the proposed amendments to the New Agreement, the financial documentation and financial validity, to which the following weightings were applied.

Component	Sub-weighting
New Agreement Mark-Up	100%
Financial Documentation	Pass/Fail
Financial Validity	Pass/Fail

5.11 Bidders were required to provide a mark-up of the draft New Agreement. This was evaluated for the extent to which the proposed mark-up transferred risk, obligations or had any other adverse impact on DLRL.

5.12 Bidders were restricted from amending various key components of the New Agreement; in particular the base service plans, fare setting, performance regime, asset maintenance requirements and safety requirements.

5.13 Bidders were also scored using a six-point linear scoring scale ranging from 0 (“Major Concerns”) to 100 (“Excellent”).

5.14 In addition, bidders’ financial documentation was assessed on a pass/fail basis by reference to compliance with the requirements for financial documentation in the Invitation to Tender instructions.

5.15 The financial model, record of assumptions and other supporting documents were assessed on a pass/fail to determine the overall financial validity of each bid, including the robustness of underlying pricing assumptions and the risk of financial default.

List of appendices to this report:

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

List of Background Papers:

None

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