

John Biggs AM, Chairman of the Budget and Performance Committee

Appendix 2

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Dear Margaret,

Transport for London: termination of signalling contract with Bombardier

Last week we discussed Transport for London's decision to terminate its contract with Bombardier for work to replace the signalling equipment on the sub-surface lines of the London Underground. I am writing today to confirm that, as Chair of the London Assembly's Budget and Performance Committee, I am happy for the Public Accounts Committee to examine this issue.

As I know you are aware, it is the role of the London Assembly to hold the Mayor to account, and this includes the scrutiny of bodies such as Transport for London (TfL), which forms part of the Greater London Authority Group. In this case, however, the Public Accounts Committee has greater resources at its disposal, and stronger powers to obtain information, compared with the Assembly. Therefore, we feel that the interests of taxpayers and farepayers would be best served if your Committee were to examine this issue in detail. Below, I set out some relevant background information and the key questions that our initial work on this has identified.

Background

In June 2011, TfL entered into a contract with Bombardier to upgrade the signalling on the sub-surface Circle, District, Hammersmith & City and Metropolitan lines. The work should have resulted in the modernisation of signalling on 40 per cent of the Underground network, enabling more trains to run, more often and with fewer delays. The contract was worth £350 million and was due to complete in 2018. Despite concerns over Bombardier missing certain project milestones (particularly test track demonstrations scheduled for August 2013), the Independent Investment Programme Advisory Group – set up by the Mayor and the Secretary of State for Transport in 2010 to monitor and report on TfL's investment programme – gave no public indication that the project was in trouble.

On 31 December 2013, TfL announced that it was terminating this contract, and issued a new tender notice in the Official Journal of the European Union (OJEU) for a supplier to carry out the work. This notice quoted an estimated cost of £450 million to £600 million, and for the work to be completed to the original 2018 deadline.

When my Committee questioned Sir Peter Hendy, Commissioner of TfL, and Steve Allen, TfL's Managing Director of Finance, on this issue at a meeting on 9 January 2014, they confirmed that TfL had paid approximately £80 million to Bombardier for work carried out so far under the original contract. They also confirmed that they expected the upgrade work to be

completed by the end of 2018, despite the delay to the work caused by the need to retender. They denied that the new contract would necessarily cost TfL over £450 million, despite this being the lower figure quoted in the OJEU notice. Enclosed with this letter is a transcript of that meeting for your information; the discussion regarding Bombardier is on pages 28-33.

Key issues

From our initial work, I would suggest that the following lines of investigation may be of particular interest, should you have the opportunity to take this further:

- In awarding the contract to Bombardier in 2011, did TfL choose an inappropriate signalling system because it was the lowest bid?
- How much has TfL paid Bombardier for the work already carried out, and how much of this will be of lasting value to TfL?
- How effectively did TfL manage its contract with Bombardier, and how did it handle the process to terminate the contract?
- How much extra will TfL have to pay for the work to be completed, compared with the original contract with Bombardier?
- What would any delay to this project mean, in terms of the impact on services for passengers and the potential loss to TfL's fare revenue?
- How will any additional costs be funded and how will this affect TfL's investment plans for the rest of its transport network?
- Why did the Independent Investment Programme Advisory Group (IIPAG) fail to detect and/or report the problems and delays with the Bombardier contract? Is IIPAG fit for purpose?

I hope that we can remain in touch on this issue over the coming months, and that our staff can work together to understand what went wrong with this contract, and what TfL and IIPAG need to learn for the future.

Yours sincerely



John Biggs AM
Chairman of the Budget and Performance Committee

cc Valerie Shawcross AM, Chair of the London Assembly Transport Committee