

# **London Regional Transport Bill**

[Bill 68 of 1995/96]

**Research Paper 96/37**

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This paper has been prepared for the Second Reading of the London Regional Transport Bill on Wednesday 13 March 1996. This short Bill extends the power of London Regional Transport to enter into agreements under the Government's Private Finance Initiative.

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## **I Background**

### **A. London Regional Transport**

London Regional Transport (LRT) was established in its present form by the *London Regional Transport Act 1984*, hereafter referred to as the 1984 Act. Its remit under the 1984 Act is to plan, provide or procure services to meet the present and future public passenger transport services of Greater London. In doing so LRT has a responsibility to ensure that the operation of its services are safe, economic and make provision for all passengers, including those with disabilities.

In 1994/95 LRT sold its ten remaining bus operating companies into the private sector. These companies, together with other private bus companies, now run bus services under contract to LRT. LRT retains responsibility for running the Underground. LRT works with Railtrack, British Rail, Docklands Light Railway and the private bus companies to plan and co-ordinate London's public transport and to provide integrated ticketing and information for Underground, bus and rail services. Among LRT's other responsibilities are the operation of Victoria Coach Station and the London Transport Museum.

LRT has very limited powers under the 1984 Act to enter into agreements other than ones to provide public transport services. LRT is therefore constrained in its ability to enter into agreements under the Government's Private Finance Initiative (PFI). In particular it could not enter into an agreement which would involve a contractor procuring assets which would be used to provide services both for LRT and for third parties.

The *London Regional Transport Bill [HC]*, Bill 68 of 1995/96, amends the 1984 Act to extend the powers of LRT to enter into agreements with contractors for any activity which LRT does not have power to carry on, subject to certain conditions being met, including the Secretary of State giving his consent.

### **B. Private Finance Initiative Projects**

This Bill has been necessitated by two PFI projects for which pre-qualification documents have been issued and for which LRT does not think its existing powers are sufficient.

London Underground Limited (LUL) announced a competition in the Official Journal of the European Communities on 22 December 1995 for contracts under the PFI:

- 1) to provide a power supply and distribution system with emergency provision for the Underground and
- 2) a combined contract for a ticketing and revenue collection service

The power supply contract would involve the provision, distribution and conversion of electricity supplies through a network of supply points, switchhouses, cables and traction substations around the London Underground system. The contract would include the control, operation, maintenance, finance and renewal of existing assets. LUL's power assets comprise two power stations in Greenwich and Fulham, bulk supply connections to the National Grid and a power distribution network. A provision for partial emergency power supplies is required to meet the statutory and operational requirements. LUL points out in the advertisement that the power stations are nearing the end of their useful lives.

The scheme to provide electricity supply for the Underground was reported to have attracted interest from 70 companies before the advertisement was placed<sup>1</sup>. The contract will be performance related and it is anticipated that a decision to award a contract will be made by the end of 1996.

The second contract involves the provision of a smart-card ticketing system which is known as Prestige. The advertisement specifies the design, supply, installation and financing of ticketing system assets, including enhancement to existing assets and supply of services related to integrated card management, ticket issuing, ticket validation and data processing for both LUL and London Buses and the utilisation of intelligent ticketing media. It has been suggested that the contract could involve the provision of more automatic access barriers at stations and also revolutionising the way tickets are sold, with new outlets such as corner shops selling tickets.

Payments will be made at regular intervals against service level targets and systems availability targets. The decision to award a contract for the ticketing system is also expected to be made by the end of 1996.

LRT has been advised that it needs new legislative powers to enter into an agreement with third parties to provide services such as power and ticketing which are ancillary to the main public transport provision.

There is another project in the planning stage which involves the laying of a fibre optic cable for the Underground. It is thought that this might be sold to a contractor who would contract the use of the cable to other parties and LUL might expect to receive royalty payments. It is not thought that LUL would have the power to enter into this sort of agreement under the 1984 Act.

LRT has already entered into two agreements under the PFI:

- an agreement worth £10 million for Electronic Data Systems to provide and maintain computing services, including hardware, software, maintenance and support, over five years. The contract sets performance targets with penalties for any failure to meet set targets.

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<sup>1</sup> Guardian 28 October 1991, "London hails aid in fight against Victorian legacy"

- an agreement reached between London Underground (LU) and GEC-Alsthom for the supply of Northern Line trains. Under the terms of the agreement GEC-Alsthom will supply and maintain a fleet of 106 trains for the Northern Line. It is also designing and installing trackside equipment, platform Closed Circuit TV, train radio and plant equipment at two depots. The company will finance the entire cost of the trains and their maintenance and will take a substantial share of the risks involved in the project. Under the contract LU will be responsible for operating the trains and drawing up the timetables and GEC Alsthom will provide the number of trains needed to meet the timetable. For this London Underground will pay GEC-Alsthom £40-£45 million a year, over 20 years. However this payment is performance related and GEC-Alsthom bears the risk of deductions if trains are not available in full,working order.

After seeking legal advice LRT considers that its powers are adequate for the Northern Line agreement and that this legislation does not need to be retrospective.

## II The Bill

Clause 1 of the Bill by the addition of a new subsection 2A into section 3 of the 1984 Act empowers LRT, subject to the Secretary of State's consent, to enter into certain agreements with contractors for the carrying on by contractors of activities which LRT does not have the power to carry on. New subsection 2B empowers LRT to enter into agreements, such as finance agreements, with other persons which are required for the main agreement to be effective.

Clause 2 of the Bill by adding subparagraph (1A) to paragraph 14 of Schedule 2 of the 1984 Act makes provision, subject to the Secretary of State's consent, for LRT to acquire land by agreement and also for the carrying on of activities by LRT where a contractor ceases to do so. It also adds a subparagraph to paragraph 24 of Schedule 2 of the Act to empower LRT to do all other things they may consider necessary or expedient to secure the performance of an agreement made under section 3 of the Act.

Clause 3 of the Bill adds subsection 31A to the 1984 Act which enables the Secretary of State by order to allow certain of LRT's statutory functions to be carried out by another person either instead of LRT or together with LRT for the purposes of carrying out agreements under section 3(2) and 2A.

The *London Regional Transport Act 1996* is expected to come into force two months after it receives Royal Assent (Clause 6 of the Bill).

### III Comments

The publication of this Bill has prompted claims that, by enabling unlimited links with the private sector to provide a whole range of LU functions, this Bill marks a step towards the privatisation of the Underground<sup>2</sup>. There has been speculation that there will be a commitment to privatise LUL in the next Conservative Party Manifesto<sup>3</sup>. There are also reported to be fears of large job losses among the LUL unions caused by the Northern Line deal, the smart card system for ticketing and the planned sale of LUL's two power stations<sup>4</sup>.

The explanatory memorandum to the Bill states that "the number of LRT employees will decline to the extent that more staff are transferred to contractors under Private Finance Initiative agreements." The first of these will be LUL staff at the maintenance depots, Golders Green and Morden, who will transfer to GEC-Alstom on the acceptance of the first new Northern Line trains. The new trains will require less maintenance than the existing stock and some maintenance jobs are expected to be lost<sup>5</sup>. The OJ notice states that the activities involving the provision of power for the Underground are performed by some 400 staff.

LUL is said to see the PFI as a way out of its funding problems given its need to modernise much of the Underground network<sup>6</sup>.

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<sup>2</sup> Evening Standard 5.3.96, *"The tube edges closer to a private sell-off"*.

<sup>3</sup> The Independent 2.2.96, *"Tory plan to sell off tube"*

<sup>4</sup> Evening Standard 5.3.96, *"The Tube edges closer to sell-off"*

<sup>5</sup> Modern Railways February 1995, *"Northern Line-a new era dawns"*

<sup>6</sup> Guardian 28 October 1995 *"London hails in fight against Victorian legacy"*