

Date: 21 January 2016

Item: New Routemasters

This paper will be considered in public

## 1 Summary

<b>ST-PJ366 30 New Routemasters</b>					
	Existing Financial Authority	Estimated Final Cost	Existing Project Authority	Additional Authority Requested	Total Project Authority
Project	£290.8m	£300.6m	£290.8m	£9.8m	£300.6m
Operation	£13.3m	£15.0m	n/a	n/a	n/a
<b>Total</b>	<b>£304.1m</b>	<b>£315.6m</b>			

### Authority Approval:

The Committee is asked to recommend that the Board approves additional unbudgeted Financial, Project and Procurement Authority for the purchase of 30 additional New Routemaster (NRM) buses for passenger service by September 2016, taking the NRM fleet size to 835. This is an increase to the current project scope. Authority is also sought for iBus and ticketing equipment, and normal mid-life refurbishment and related matters necessary for the operation of these 30 NRMs.

### Outputs and Schedule:

The EFC figures are in the paper on Part 2 of the agenda. Negotiations with Wrightbus are continuing and the paper to the Board will be updated to reflect the latest position.

- 1.1 The purchase of 30 NRMs will move London a step closer towards the aspiration outlined in the Mayor's 2020 Vision, which looks to raise the current proposed 805 vehicles to 2,000 by the end of this decade<sup>1</sup>. It is closely aligned to the Mayor's Transport Strategy 2010, which seeks to improve the quality of life of all Londoners through the introduction of cleaner low carbon vehicles. The NRMs will improve the journey experience of passengers.
- 1.2 A paper is included on Part 2 of the agenda, which contains exempt supplemental information. The information is exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information

<sup>1</sup> Page 17 of the Mayor's 2020 Vision

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:**

- (a) note the paper and the related paper on Part 2 of the agenda;**
- (b) recommend that the Board :**
  - (i) approves Project Authority for the purchase of 30 additional New Routemasters up to the maximum figure set out in the paper on Part 2 of the agenda; and**
  - (ii) approves unbudgeted Financial and Procurement Authority for the 30 New Routemasters, iBus and ticketing equipment, mid-life refurbishment and related matters, at the figure set out in the paper on Part 2 of the agenda;**
  - (iii) authorises the TfL Officers and the Subsidiaries (as described in paragraph 2.2 below) to:**
    - i. finalise the timing of the order for new buses and the number of buses per order; and**
    - ii. finalise the terms on which the New Routemasters and ancillary requirements are to be supplied;**
  - (iv) 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 order for buses made pursuant to the approval given in paragraph 2.1(b) above (the Order) and any of the matters referred to in them (including, without limitation, all agreements, deeds, guarantees, indemnities, announcements, notices, contracts, certificates, variations, letters or other documents); and**
  - (v) authorise TfL Officers and Subsidiaries to do all such other things as they consider necessary or desirable to facilitate the execution and implementation of the Order and the matters referred to in them.**

### **2.2 The following Officers and Subsidiaries shall have delegated authority:**

- (a) TfL Officers: the Commissioner, Managing Director Finance, Managing Director Surface Transport, General Counsel; and**
- (b) 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 that company.**

### **3 Background**

- 3.1 Wrightbus Limited (Wrightbus) was awarded a contract to supply up to 1,000 New Routemaster (NRMs) vehicles (including initial prototypes) on 23 December 2009, following a competitive process.
- 3.2 Following the introduction of eight trial NRMs into service in 2012, in September 2012 the Board agreed to purchase 600 NRMs, with the final bus due to be delivered by March 2016.
- 3.3 On 5 November 2014, the Board granted additional Project and Procurement Authorities to purchase an additional 200 NRMs, to take the cumulative total to 808 NRMs by mid 2016, although this was subsequently reduced to 805 in line with the contract provisions to match the forecasted route allocation. The production of these vehicles is almost complete and Wrightbus is due to start closing down the production lines.

### **4 Proposal**

#### **Preferred Option**

- 4.1 The proposal is to agree an order for an additional 30 NRM vehicles, to take the cumulative total to 835 vehicles.
- 4.2 The rationale for this proposal is that placing an order now will enable Wrightbus to maintain the operation of one of the two current production lines, which keeps open a more cost effective option for purchasing additional vehicles, if TfL chooses to do so. If both production lines were to close, it would increase the cost of any subsequent order due to the need to remobilise production. The paper included in Part 2 of the agenda sets out further details.
- 4.3 Wrightbus has confirmed that it has the capacity to deliver the 30 additional NRMs by September 2016.
- 4.4 The 30 additional buses would include adjustments made to the original design, including upper and lower deck opening windows to improve ventilation and alterations to the rear door (modifications to the mechanism, voice warning and markings to improve safety). Buses would also include Microvast batteries, with improved operational performance over the original types.
- 4.5 The NRM is a unique bus designed and intended to be used in London for its full economic life. Therefore under any third party ownership and funding model they would be required to be recorded as a finance lease in TfL's accounts, affecting TfL's ability to invest in other projects. The most cost effective approach is for TfL to purchase and retain ownership of the buses directly, taking advantage of its preferential cost of capital. This treatment of assets

does not apply to conventional buses, as they can be acquired from a number of different suppliers and can be deployed anywhere in an operator's national fleet after use in London. The uniqueness of NRM will also disfavour the financial deal that operating companies can obtain with the leasing companies.

- 4.6 Therefore, the recommended option (as with the previous 805 NRMs already ordered) is for TfL to purchase the buses directly and to supply them to the bus operating companies at a notional rate, rather than for the current model of the bus companies having beneficial ownership of the vehicles. The leases enable TfL to move the NRMs between operators during their life as route contracts change and include clauses to ensure the buses are maintained to the required standard for them to be moved between operators without issue, and to maintain the value of TfL's investment.
- 4.7 The standard model, whereby the operators or lease companies finance and take the ownership risks of the vehicles, is still considered the best model for the majority of the bus fleet, as they are better placed to manage the full economic life of the more generic vehicles during and after their time in London.

### **Benefits (and Value)**

- 4.8 NRMs are becoming a globally recognisable replacement for their iconic predecessor and have been used to promote UK technology, manufacturing and design excellence abroad.
- 4.9 NRMs are helping to improve customer satisfaction. In 2014, customer satisfaction for passengers on NRMs was on average three points higher than for standard buses (87 compared to 84), including a three point improvement in both 'vehicle average' and 'journey average'.
- 4.10 While no final decision has yet been taken on which additional route will be converted to NRM, three potential routes have been identified. Introduction of vehicles will be through negotiation with the current operator.
- 4.11 The route will run entirely as One Person Operated (OPO). As a result there would be no additional safety and security benefits or disbenefits compared to a standard double deck bus.
- 4.12 Environmentally, independent testing shows that NRMs emit 27 per cent less carbon dioxide when compared to the counterfactual of a conventional Euro VI hybrid bus. Following the introduction of ultra low emission Euro VI vehicles, emissions of local air pollutants from all double deck buses are similar.
- 4.13 The reduction in the Bus operating contract's budget for the net of ownership savings and other bus costs is included in the supplementary information on Part 2 of the agenda.
- 4.14 Any further expansion of the fleet beyond this additional 30 will be subject to approval of the Board, and will include a refresh of the business case.

**List of appendices to this paper:**

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

**List of Background Papers:**

Mayor's 2020 Vision

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