

**Board**

**Date: 20 September 2012**

**Item 8: New Bus for London Roll Out**

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**This paper will be considered in public**

**1 Summary**

- 1.1 This paper outlines proposals to purchase 600 New Bus for London (NBfL) buses to be delivered into passenger service by the end of April 2016. The total fleet size will be 608 taking into account the eight initial buses already in service.
- 1.2 The current model of ownership, with buses in London owned or leased by the bus operating companies, is not the most advantageous in the case of NBfL. Due to its uniqueness there is currently no market for an off balance sheet leasing structure for NBfL buses, they will therefore be considered on balance sheet initially reducing TfL's borrowing capacity and cash. The most cost effective approach is for TfL to purchase and own these buses direct taking advantage of its preferential cost of capital in this case.
- 1.3 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 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 Board is requested to:**
  - (a) **note the paper;**
  - (b) **approve the procurement of up to 600 buses to the New Bus for London design as described in this paper provided that the cost of such vehicles does not exceed the maximum sum stated in the paper included on Part 2 of the agenda on this matter;**
  - (c) **delegate to the TfL Officers and the Subsidiaries (as described in paragraph 2.2 below) authority to:**
    - (i) **settle the timing of any orders for new buses and the number of buses per order;**

- (ii) **settle the model of ownership of any buses acquired pursuant to the approval given in paragraph 2.1(b) above, whether by direct ownership, leasehold or by operator acquisition, according to which offers best value for money to Transport for London; and**
- (iii) **finalise the price of the buses to be acquired, subject to the maximum cost given in paragraph 2.1 (b) above;**
- (d) **authorise 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 orders for buses made pursuant to the approval given in paragraph 2.1(b) above (the Orders) 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**
- (e) **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 Orders 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 The contract for the initial prototypes, with provision for the first 1,000 vehicles, was awarded to Wrightbus Limited on 23 December 2009, following a competitive process.
- 3.2 Following his re-election in May 2012, the Mayor has asked TfL to progress delivering 600 NBfLs by April 2016.
- 3.3 The first of an initial tranche of buses entered passenger service on 27 February 2012 on route 38 operated by Arriva. All eight buses are now in service, the last having been delivered on 11 July 2012. A number of technical improvements to the buses have already been identified and implemented, including to the battery management and upper deck passenger saloon air cooling systems.

## **4 Deployment and Operation**

- 4.1 The deployment plan assumes a total fleet size of 608 buses (of which 600 are the subject of this paper) delivered by the end of April 2016. A single variant type is to be ordered, capable of operating either with or without a conductor. With an order placed by the end of September 2012, it is anticipated that the first route in central London, requiring approximately 30 vehicles, could be converted by the end of April 2013, and the second route by the end of August 2013, with a total of 93 vehicles being delivered by the end of that year. The rate of production would achieve approximately 208 vehicles delivered in calendar year 2014, 247 in 2015 and 52 in 2016.
- 4.2 While no decision has yet been taken on which routes will be converted to NBfL, it is expected that the buses will be either introduced at the point of contract renewal for a route or, where a route is not at a contract renewal point, through negotiation with the current operators, thus reducing the requirement for new conventional buses.
- 4.3 The service specification for the operation of NBfL (for example frequency of operation and hours of service) will be determined by TfL and be based on the characteristics of each route. In addition, TfL will specify to the operators the hours of operation with a conductor in open platform mode and the mix of conductor and driver-only operation as appropriate to a particular route.
- 4.4 The employment and training of the conductors will be the responsibility of the bus operators, although the costs will be borne by TfL through the route contracts.

## **5 Model of Ownership**

- 5.1 NBfL is a unique vehicle, which, at the proposed volume of vehicles, may be purchased only from Wrightbus and is intended to be used in London for its full economic life. Because of these factors, the value of the NBfL fleet will have to be included as an asset on TfL's balance sheet regardless of whether it is purchased by operating companies or TfL. As such it will score against TfL's borrowing capacity under either option. 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 on an operator's national fleet. The uniqueness of NBfL will also disfavour the financial deal that operating companies can obtain with the leasing companies.
- 5.2 Therefore, the recommended option is for TfL to purchase the buses directly and to supply them to the bus operating companies at a notional lease, rather than for the current model of the bus companies having beneficial ownership of the vehicles. The leases would enable TfL to move the buses between operators during their life as route contracts change and would include clauses to ensure the buses are maintained to the required standard for them to be moved between operators without issue. Maintenance of the buses will be the responsibility of the relevant operator but it is expected to be sub-contracted by them to Wrightbus; the contract with Wrightbus provides for this to ensure cost certainty to TfL.

## **6 Commercial**

- 6.1 In order to meet the production timescale of April 2016 for the delivery of 600 buses, Wrightbus has indicated that a commitment must be placed no later than the end of September 2012. This paper seeks authority for a maximum figure which allows the final procurement price to be resolved and an order or orders to be placed.
- 6.2 Preliminary commercial discussions with Wrightbus have commenced, with particular regard to the production timescales, economies of scale and the establishment of the supply chain. TfL's discussions with Wrightbus will ensure that the most economically advantageous outcome is obtained and the size of any initial order will maximise these financial benefits.
- 6.3 TfL will continue to monitor the in-service performance of the initial fleet and this feedback will inform its discussions with Wrightbus regarding the roll out order. TfL has set up a package of rigorous acceptance criteria which will form part of the overall technical evaluation of the initial fleet and anticipate a formal review of this to be concluded by September 2012, although modifications and enhancements will continue into 2013.
- 6.4 An 'open book' approach to supply chain and labour and materials costs has been accepted by Wrightbus and TfL will be analysing these as part of the process.
- 6.5 The decision on the strategy for the placement of any orders will depend on the outcome of the detailed discussions.

### **List of appendices to this report:**

A paper on Part 2 of the agenda contains exempt supplemental information.

### **List of Background Papers:**

None

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