ENVIRONMENT, TRANSPORT & SUSTAINABILITY COMMITTEE	Agenda Item 49 Brighton & Hove City Council

Subject:		**BTN Bikeshare Procurement Options**		
Date of Meeting:		**24 November 2020**		
Report of:		**Executive Director Economy, Environment & Culture**		
Contact Officer:	**Name:**	**Matthew Thompson**	**Tel:**	**01273 290235**
	Email:	**Matthew.thompson@brighton-hove.gov.uk**		
Ward(s) affected:		**All**		

FOR GENERAL RELEASE

1. PURPOSE OF REPORT AND POLICY CONTEXT

1.1 This report considers the findings of the independent specialist review of the Brighton Bikeshare (BTN Bikeshare) scheme that has been undertaken by Steer (a specialist transport consultancy). The report considers options for the sustainable future of the BTN Bikeshare Scheme in terms of the business case and a preferred procurement model. The report also includes options for expansion to a city-wide scheme and for a scheme that could expand in the future across the Greater Brighton city region.

1.2 The report includes an assessment of different models for the future operation of the BTN bikeshare scheme, including a CIC (Community Interest Company Model) and an in-house option. The conclusion of the report is that the best option for a financially viable and sustainable bike share scheme is to procure an operator under a new concession contract. The costs of establishing a CIC or bringing the scheme in house are higher and the transition much more complex, and as a result the scheme is less able to focus on maximising the benefits to users.

1.3 In terms of the future scope of the scheme the report recommends that the bike share scheme is expanded to a city wide scheme of 780 bikes and 86 hubs that includes 50% electric assist pedal bikes and 50% pedal only bikes, and that officers procure a new operator contract in the form of a concession agreement that will include an option for neighbouring local authorities to join the scheme at a later date. The report also recommends that the Council invests in new bikes and infrastructure with capital raised through borrowing. Officers have adjusted down the figure in the report to £1,170,000 to reflect current and projected surplus reserves to be reinvested in the scheme. A grant funding route is also considered as there may be future opportunities to bid for external grant funding as an alternative to borrowing the capital.

2. RECOMMENDATIONS:

That the Environment, Transport & Sustainability Committee:

2.1 Agree to procure a single supplier concession contract which is established as a framework so that neighbouring authorities can enter into call-off contracts with the supplier creating a wider bike network.

2.2 Agree to grant delegated authority to the Executive Director Economy, Environment &Culture and Executive Lead Strategy Governance & Law to take all necessary steps to implement the recommendation at 2.1.

2.3 Approve that any surplus revenue from the bikeshare scheme received by the Council is invested back into servicing the borrowing and / or fleet replacement.

That the Policy & Resources Committee:

2.4 Agrees to invest £1,170,000 of capital borrowing to finance the recommended fleet changes to the Brighton & Hove only scheme, adding e-bikes and replacing some of the pedal bikes at the end of their street life.

3. CONTEXT/ BACKGROUND INFORMATION

3.1 The Bikeshare scheme opened to the public in Sept 2017. Sections 3.1-3.5 of the 17 March 2020 Environment, Transport & Sustainability committee report set out the background to the scheme including the planned withdrawal of the sponsor from 31 March 2020.

3. 2 Between 1 September 2017 and 30 September 2020, the scheme has delivered:

- 144,010 total subscribers.
- 940 stands at 73 Hubs across the city / 3 further hubs funded by Emergency Active Travel fund Tranche 1 pending.
- A fleet of 600 Bikes
- A total of 1,173,025 trips were made.
- A total distance cycled by subscribers of 2,585,849 Miles

3.3 The current scheme has grown more quickly than anticipated. This means the value of the current concession contract has already reached the maximum value allowed under the Concession Contracts Regulations 2016 after 3 years of a potential 7 year term. Any further substantial changes such as adding electric bikes or extending the coverage of the scheme during the life of this contract are not permitted under the regulations.

3.4 The 24 March ETS Urgency Committee report outlined the shortcomings of the original business case at sections 3.9-3.14. The business model eventually adopted for procurement purposes in 2016 varied considerably from the model proposed in the 2014 business case, achieving critical savings. The scheme has since generated a surplus in every full year of operation and will do so again in 2020-21. Further amendments moving this business model to an open book approach were set out in Sections 3.16 and 3.17 of the March report and agreed by that committee. An analysis of what the new business case needed to address was included in Appendix 5 to the 23 June ETS committee report.

3.5 The 23 June 2020 ETS Committee report updated members on the acquisition of the current operator Hourbike on 8 May 2020 by locally based company South Coast Bikes Ltd, previously the main subcontractor to Hourbike.

3.5 The 23 June 2020 ETS Committee agreed in principle to delegating authority to the Executive Director to procure and award a new concession contract to operate a mixed fleet of pedal, e-bikes and e-scooters. The committee also requested that officers prepare a financial model which would detail the extent of council funding required as a subsidy, and requested a further committee report to seek permission to procure and award the concession contract based on that financial modelling. The committee also requested further detail on the in-house and alternative delivery vehicle options, including details of a premises space or spare capacity to deliver aspects of the project in house should this become necessary in the future.

3.6 In order to respond to the requests of the committee, Officers have commissioned an independent specialist report to review and recommend a new business case and plan from Steer aimed at maximising cycling. Steer's report can be found in redacted form at Appendix 1 with further redacted figures in the part 2 committee report.

Recommended Business Model – City wide Scheme

3.7 It is recommended that the city only scheme is expanded to cover the whole geography of Brighton & Hove local authority (an area of 104 sq. kms.). The existing BTN Bikeshare scheme covers 41 sq. km. only. Initial set up costs of £0.100M will be met by reserves built up during the current scheme from the council's share of the revenue surplus over the previous four years. The capital costs of the new expanded Brighton & Hove scheme are estimated to be at 2020 prices in Years 1 and 2 of the scheme relaunch. Steer have estimated that the scheme will operate at a 'surplus' from year 2 of operation. The business model assumes there is no sponsorship support, so any sponsorship deal that is secured will increase revenue and reduce capital costs.

3.8 The financial model produced by Steer assumes that the Council invests in and owns the infrastructure of the bike fleet (renewed every five years), owns docking stations and purchases electric service vehicles which are leased to the provider, renewing them every ten years. It also assumes that this capital investment will be borrowed by the Council and that the Council's share of the predicted operating 'surplus' will be used to part finance the borrowing. The Council will then provide the cost of any gap in the funding needed to repay the borrowing. Sponsorship if secured can also contribute to this cost. Should a surplus exceed borrowing costs for the capital loan, this will be held in reserve to meet future fleet replacement costs (See section 7 for full financial analysis).

3.9 Steer have based the financial modelling on tariffs benchmarked against comparable UK schemes including Milton Keynes, Bournemouth, Glasgow and Lime in London. They recommend a 40% higher tariff for e-bikes compared to pedal only bikes. Under the proposed new tariff, pedal only bikes remain at the current £1 unlock fee plus 3p per minute rate. E-bikes would cost £1.50 unlock fee plus 4p per minute. An average PAYG (Pay as you go) trip lasts 23 minutes, meaning an e-bike would cost £2.42 for this journey, this is less than the cost of a single bus fare of £2.70.

Cost Benefit Ratio

3.10 An economic appraisal of the scheme suggests that the city wide scheme will deliver a benefit to cost ratio of 3.64:1 (High), suggesting the scheme will deliver high value for money (VfM).

3.11 A £2M Joint City Region Scheme with 613 e-bikes, 613 pedal bikes and 146 hubs is calculated to deliver a lower benefit to cost ratio of 2.23:1. This BCR is lower than for the Brighton and Hove-only option because both Lewes and Adur and Worthing have lower individual BCRs than Brighton and Hove. In disaggregated terms, the BCR would be 1.84: 1 (Medium VfM) for Adur and Worthing and 0.67: 1 (Poor VfM) for the Lewes expansion

Timetable

3.12 The current concession contract operator's contract expires on 31 August 2021. This report has been delayed due to the pandemic creating a focus upon other priorities. A further extension could be needed as the current timetable will not allow for a 12 month procurement period to take place if this proves necessary. Once the procurement process is complete and an operator is appointed, a further six months of 'soft testing' would be necessary before new bikes could be deployed for public use.

3.13 The Dept. for Transport is likely to make a decision on the legalisation of e-scooter use on the public highway following the current UK trials by summer 2021. If E-scooter operators are able enter the market in Brighton & Hove without council consent, this will impact on revenue income for the existing scheme. (See also: Sections 4.13-4.15)

4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

Option to expand across the Greater Brighton City Region

4.1 The Steer report has also considered how the bike share scheme could operate across Greater Brighton as a joint city region scheme in partnership with neighbour local authorities. Neighbouring local authorities are interested in having the option of joining the scheme at a future date but may not ready to join the scheme immediately and will need to consult elected members, so at this stage, this city region approach is not recommended. However, it is recommended that the new contract is procured as a framework agreement so that city region partners have the option to join at a later date.

4.2 The Steer report considers how the scheme could work with 146 hub locations spread across the Joint City Region scheme area with 1,226 bikes including 613 standard bikes and 613 e-bikes. This option could have an impact in reducing traffic into the city centre from these areas by connecting their suburban areas with transport hubs connected to Brighton & Hove.

Review of operating models

4.3 The business plan produced by Steer considers the following options:

- Procurement of a specialist bike share operator through a single supplier concession Contract
- Creating an 'arms' length' holding structure in the form of a Community Interest Company (CIC)
- Bringing the service in house

Single Supplier Concession Contract

4.4 If the aim of the reorganisation is to maximise ridership, the recommendation of the Steer review of the business case is that a new specialist operator is procured through a single supplier framework concession contract. The conclusion is that this model provides the best financial position and therefore the most resilient option for the sustainable future of the scheme. A single supplier framework would allow other authorities to use the framework and enter into call-off contracts with the supplier.

4.5 The recommended concession contract can specify community objectives and social value. It suggests that while a CIC could enshrine a social purpose such as improved access to cycling, a concession contract would do more to maximise ridership choosing to cycle because lower 'set up' costs are born by the provider, meaning more can be invested in the scheme infrastructure.

Consideration of a Community Interest Company

4.6 Establishing a Community Interest Company is not recommended as the set up and administration costs are high. The 'set up' set up costs such as Recruitment/ HR, TUPE, Procurement, IT, Legal structures and governance, Finance and Premises under each financial model are compared with the lower cost of procuring on a new concession contract in Appendix 2.

4.7 Arms' Length delivery vehicles such as CICs also tend to offer a less advantageous tax regime. The Council will want to directly award the contract to the CIC without first undertaking procurement. To avoid being in breach of the public procurement regulations it will need to bring the CIC within the Teckal exemption so that the relevant regulations do not apply. To do this, various conditions will need to be met including rules around the degree of control exercised by the council. All the local authorities using the CIC would need to have a decisive influence on it so that the Teckal exemption applies. This would mean that the Council would not be in exclusive control of the company.

4.8 Steer conclude the manged in-house model maximises the liability, financial and operational risks to the council. A Limited company structure such as a CIC may limit the risk in theory, but in practice third parties often require a parent company guarantee. Funding remains uncertain, and if the CIC is at risk of insolvency, there are usually significant pressures not to allow it to fail. There are significant ongoing governance and legal obligations associated with this model

4.9 The concession contract model has the lowest level of associated risks to the council related to operation, revenue and sustainability while deploying the expertise of an experienced external operator. Community objectives can be achieved by making them terms of the contract and managing the contract closely. The contract should include Key Performance Indicators (KPIs) for example.

Consideration of an In-house option

4.10 This option is not recommended due to the costs and complex nature of running such a service in house. If an in-house bike share scheme was making a significant profit, it might become necessary to set up a trading company which would incur considerable costs.

4.11 Delivering the service in-house would require a number of procurements for bikes, software etc., which would otherwise be dealt with by a single procurement for an external operator. Opting to go in-house would allow the Council to be in complete control of the service and employ the staff on BHCC terms & conditions. The Council would need to ensure it can employ staff with sufficient expertise to deliver the service if suitable staff do not transfer into the Council. Wages and Staff pension costs may rise. Recruitment procedures could further prolong the set up process and add a significant HR cost.

E-scooters

4.12 E-scooters have not been considered in the business plan as the outcome of current UK trials is not yet known. The plan calculates a separate council awarded concession contract to an e-scooter operator would impact negatively on bikeshare hires (but not necessarily revenues) by around 9-10%.

4.13 E-scooters may prove unpopular with many residents. Potential issues include sustainability (very short street life/ servicing models), parking (pavement clutter and parking revenue loss), safety (design, visibility, speeds), equality of access (in terms of disability, age and even gender), fewer health benefits from a less active mode and the difficulty of controlling their range (e.g. setting off limits areas like the seafront promenade, pavements and pedestrian only areas, and dual carriageways). Cities involved in the current UK trials have already experienced some of these problems, and it is clear the claims made for the technology to resolve range, parking and speed concerns in particular have not always stacked up.

4.14 For these reasons, it is recommended E-Scooters should be considered as an 'add on' to a future scheme, but not as something for capital investment by the Council. Potential bikeshare operators will be invited to propose an e-scooter element (without council investment) during the market testing phase of the procurement process They will also be asked about their willingness to work with a scooter provider on redistribution and battery swapping.

Sponsorship

4.15 Officers believe securing a sponsor from 2021 is viable. The council has one current live potential sponsor lead and two potential further leads which are more contingent on the pandemic trajectory. A level of sponsorship lower than the previous sponsor's contribution is probably more realistic in current market conditions, but the council's share would not would be sufficient to service the ongoing costs of borrowing on the City-wide scheme without additional council subsidy.

Securing external funding

4.16 The recommendations assume no capital grant funding will be made available via the Coast to Capital Local Enterprise Partnership or from any future direct Department for Transport capital grants yet to be announced such as a further round of 'Transforming Cities' or the promised 'Decarbonisation of Transport' funding . If such grant funding came forward, officers may recommend a joint funding bid and would ask for the support of our neighbouring Highway Authorities, TfSE and the Greater Brighton Economic Board.

5. COMMUNITY ENGAGEMENT & CONSULTATION

5.1 The Steer report sets out a four stage delivery plan. Stage one involves further business case development and the setting up of joint governance structures. The Stage 2 initiation phase would involve engaging with key stakeholders. Engagement will take place through the City's Transport Partnership and also through other meetings and workshops. For an expanded city wide BTN Bikeshare scheme, this would need to include:

- Disability Groups
- Local Cycling and Active Travel organisations including; Bricycles, Pedal People
- Friends of the Earth
- Sustrans
- Living Streets
- Brighton & Hove Buses; StageCoach, Compass, Big Lemon, Bus User Group
- Train Operating Companies (Govia Thameslink)
- Network Rail
- Brighton & Hove CCG
- University of Sussex;
- University of Brighton;
- South Downs National Park – See Appendix 3 for comments to date on the Business case on the Joint City Region approach and the decision not to include Lewes Town in the scheme area.

5.2 Senior Officers at both Adur & Worthing Councils and Lewes District Council have been involved in the commissioning of the consultant's report. They propose bringing reports on a Joint City Region approach to their own members if approval is forthcoming from members in Brighton & Hove. Participation will be subject to funding being identified and agreed by each authority.
A Joint City Region approach would also include the following stakeholder groups:

- Worthing Borough and Adur District Councils - local stakeholders
- Lewes District Council - local stakeholders

- Other relevant Highway Authorities – West and East Sussex County Councils: Both Adur & Worthing and Lewes District Councils have already discussed the potential plans with their respective Highway authorities.
- Greater Brighton Economic Board – GBEB have already indicated they would be keen to see the Bikeshare scheme extended though as support for sustainable travel modes is within the Board's Five Year priorities and have offered letters of support for either option.
- Transport for the Southeast (TfSE) – Letter of support offered for either option for expansion.

5.3 The current consultation taking place over the Draft Local Walking and Cycling Infrastructure Plan (LCWIP) will be taken into account during the initiation stage to ensure all the work done on key trip generators and route priorities is taken into account in revisions and extension of hub coverage.

5.4 Internal stakeholders such as the Council's Transport Policy and Sustainability Teams have provided further comments on the Steer Business case. (See Appendix 3). Further comments will be sought from other internal stakeholders such as Visit Brighton and the City Regeneration Team.

6. CONCLUSION

6.1 The Steer report recommends that the council procure a new single supplier concession agreement for the delivery of a city wide bikeshare scheme with the option of neighbouring authorities joining the scheme to create a City Region scheme with one operator.

6.2 This Committee Report includes an assessment of different models for the future operation of the BTN bikeshare scheme, including a CIC (Community Interest Company Model) and in-house option.

6.3 The bikeshare scheme in Brighton & Hove has been successful in terms of encouraging cycling and is popular with residents and visitors. Steer believe the proposed city wide scheme will make a material positive contribution to improving equality and inclusion by reaching outlying suburban areas of high deprivation on the urban fringe with hilly terrain where (in some areas) between 30 and 40% of residents do not own a car. E-bikes have been shown to encourage cycling for longer distances, increasing cycling amongst all over 55s and females generally. A material positive in terms of Covid-19 response and network resilience is also identified, allowing more residents to travel by a 'private' transport mode, avoiding private car use, locking in congestion reduction and air quality improvement.

6.4 An expanded city scheme with 50% e-bikes is forecast to generate a £163,000 annual surplus which can be used to partly service borrowing costs (depending on the surplus split agreed), but a subsidy will probably still be required even if further sponsorship is secured.

6.5 Over a 20 year appraisal period the scheme is shown to deliver journey time, health and absenteeism benefits to users, with congestion reduction being the biggest benefit to non-users. The Joint city region scheme roughly doubles those benefits, although it does not deliver the strongest benefits to cost ratio.

6.6 Further positive gains will be made in terms of Carbon emissions reduction, Health and Wellbeing and sustainable travel. The City Region Scheme has the potential to boost these outcomes so a single provider procurement framework that our partner authorities can draw down contracts from is desirable.

7. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

7.1 Existing resources for the bikeshare scheme include an estimated built up reserve of £0.170m by March 2021 and a recurrent revenue budget of £0.038m that was agreed at budget council in February 2020.

7.1.2 The recommended proposal will require approximately £0.178m one-off set up costs (including a contingency) based on the Steer analysis, and an estimated £1.170m capital investment in the first 2 years. It is proposed to use the built up reserve to cover the one off costs. The capital investment is proposed to be funded from borrowing with repayments over the lifespan of the assets which is 5 years for bikes (including cargo bikes for distribution), and 10 years for the distribution vehicles

	2021/22	2022/23	2023/24	2024/25	2025/26
Capital Investment	£'000	£'000	£'000	£'000	£'000
Replacement bikes	309	704		215	
Replacement distribution vehicles	158				
Total	467	704	0	215	0

7.1.3 The projected revenue costs are based on existing operational costs and revenues alongside the experience of e bikes elsewhere.

	2021/22	2022/23	2023/24	2024/25	2025/26
Revenue	£'000	£'000	£'000	£'000	£'000
Operational surplus	-66	-163	-163	-163	-163
Financing costs	0	85	234	234	279
Existing budget	-38	-38	-38	-38	-38
Net position	-104	-116	33	33	78
Cumulative position	-104	-220	-187	-154	-76

7.1.4 The table shows a cumulative cash surplus of £0.076m by the end of 2025/26. However the underlying shortfall is £0.078m from 2025/26 onwards as this is the point when the full ongoing replacement costs are reflected in the financing costs and therefore this would move into deficit in future years. The table assumes no profit share with the operator and any proportion of the operating surplus retained by the operator would increase the underlying annual shortfall.

7.1. 5 This revenue position excludes any potential grant funding that could reduce capital borrowing or support revenue costs. It also excludes any sponsorship funding which has been a feature of the existing scheme but at this stage is not certain.

7.1.6 There are inherent financial risks with this operation. The operational costs could vary depending on the approach of any operator and any efficiencies they can bring. Revenue is highly dependent on user take up, number of trips and the fee structure, particularly for e bikes.

Finance Officer Consulted: James Hengeveld Date: 10/11/20

<u>Legal Implications:</u>

7.2.1 The Council could deliver the service in-house but if it was trading i.e. acting for a commercial purpose it would need to set up a trading company.

7.2.2 If the Council decided to deliver the service via a company (a trading company or a CIC) then it would need to comply with the Teckal exemption which is explained in the body of the report.

7.2.3 Concession contracts must be procured in compliance with the Concession Contracts Regulations 2016 and the Council's Contract Standing Orders.

Lawyer Consulted: Alice Rowland Date: 12/11/20

<u>Equalities Implications:</u>

7.3 TUPE considerations for in house or arm's length structure options have been considered. There will be additional recruitment costs for both at senior management level and in support functions such as Legal, Finance, PR & Marketing and Procurement, with additional pension considerations for an in house option. .

7.4 Recent research in the Netherlands suggests that the availability of Electric assist pedal bikes increases distances travelled and participation in cycling by both older cyclists (over 55s) and females generally. Both demographics are currently under represented in UK cycling according to the most recent Sport England Active Lives Survey.

<u>Sustainability Implications:</u>

7.5 See Steer report. Table 6.3. The City wide scheme achieves a minor positive in terms of Carbon reduction, but a Material positive carbon reduction is projected for a Joint City Region Scheme. The 2019 Como UK survey of BTN Bikeshare users across the UK found that just over 18% said they previously travelled by car (driver or passenger) or taxi, suggesting the potential for bike share to reduce congestion and pollution. The Sustainability team have highlighted the need for sustainable electricity sources, circular principles in procurement, service accessibility and opportunities, for skills development, job creation and local business benefits.

Brexit Implications:

7.6 There is the potential for increased costs for importing fleet procured from EU companies.

Any Other Significant Implications:

7.7 None

Crime & Disorder Implications:

7.8 Rates of vandalism in BTN Bikeshare scheme vs other UK schemes are low. Just three bikes have gone permanently missing in the last three years. New branding using local children’s designs which is currently being rolled out emphasises the community ownership of the scheme and this should be retained in future reorganisation.

Risk and Opportunity Management Implications:

7.9 A risk register at the Inception stage will be part of the expanded business case.

Public Health Implications:

7.10 Comments have been sought from the CCG.

Corporate / Citywide Implications:

7.11 Wider local, regional and national policy context as noted in Steer Report

SUPPORTING DOCUMENTATION

Appendices:

1. BTN Bikeshare business plan and case

2. Start-up costs by financial model

3 Initial stakeholder responses

Background Documents:

1. 17 March 2020 ETS Bikeshare report.

2. 23 June 2020 ETS Bikeshare report.