



Derby City Council

COUNCIL CABINET
7 December 2016

ITEM 11

Report of the Cabinet Member for Communities
and City Centre Regeneration

Cycle Hire Scheme

SUMMARY

- 1.1 In February 2016 a study was carried out into potential cycle hire scheme models that would be suitable for Derby. The report highlighted the benefits of providing such cycle schemes when linked to other cycling activities.
- 1.2 The Council has secured £480,000 capital grant from the Local Enterprise Partnership to support the development of a cycle hire scheme. This LEP funding forms part of the £4.35m Infinity Park Derby (IPD) Sustainable Transport Programme. The University of Derby (UoD) has indicated they will provide financial support towards the revenue and operational costs of a cycle hire scheme.
- 1.3 The Council hosted consultation workshops with local organisations to assess the level of interest in a cycle hire scheme. The feedback has been very positive with several major organisations having already considered the options / benefits of implementing bike share at their sites. In addition, a recent survey has shown that 63% of the general public are supportive of the scheme.
- 1.4 Whilst it was found that such a scheme was likely to be popular, it was identified that there are risks that need to be accepted by the Council. These risks will be managed as part of the contract for operation of the scheme with defined distribution of roles and responsibilities between the Council and a private operator.

RECOMMENDATION

- 2.1 To approve a public cycle hire scheme and the preferred delivery model (4.11) for a public cycle hire scheme for Derby.
- 2.2 To accept the risks identified in the report (4.12) and approve the advancement of the project to procurement and delivery.
- 2.3 To delegate to the Strategic Director of Communities and Place, following consultation with the Cabinet Member for Communities and City Centre Regeneration and, as appropriate, the Director of Finance and Director of Governance to enter into such contracts and ancillary documentation to allow the delivery of a cycle hire scheme for Derby.

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| REASONS FOR RECOMMENDATION |
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- 3.1 To make members aware of the options identified for the delivery of a city-wide cycle hire scheme.
- 3.2 To ensure the Council are aware of the risks associated with the scheme and that a cycle hire scheme be procured and implemented as soon as possible.



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Report of the Strategic Director, Communities and Place

SUPPORTING INFORMATION

- 4.1 A proposal for a cycle hire scheme was included in the IPD Sustainable Transport Programme that has received £4.35m from the Local Growth Fund (LGF). These ring-fenced capital funds look to deliver a range of sustainable transport schemes, including the development of a cycle hire scheme in Derby, building on the LSTF legacy.
- 4.2 The University of Derby has indicated its willingness to contribute a fixed sum over a three year period, to be used in the management and revenue costs of the scheme. As an investor and key partner, the UoD has outlined 6 locations (tutorial and commercial) which would enable short journeys between sites. The UoD wish to offer preferential pricing structures and membership options for both staff and students as part of the scheme. The UoD will commit staff resource to support the procurement process and can offer guidance and limited staff resources to the marketing and promotion of the scheme within the University. The scheme is in line with one of the UoD strategic objectives, to implement a cycling scheme to encourage students and staff to access the city more easily and to create a link route through the city to access all campuses.
- 4.3 Consultants recommended that for best return on investment, Derby should consider a scheme with 30 docking stations and 225 bikes. However, the exact scale, coverage, density and design would be determined as part of the procurement progress. Based on the available funding we would expect an initial scheme with around 15 docking stations and 115 bikes but this could be expanded over time. The city centre, rail station, University sites and key employer locations would be amongst the locations where stations would initially be created but much of this would be determined during the procurement process.
- 4.4 The capital costs of the scheme could vary significantly, depending on a number of factors, including the scale of the scheme and its specification. For instance, standard hire bikes cost up to around £3,500 per bike (including the cost of the bike, the bike stations, control centre and any other costs). However, e-bikes can cost four times as much as standard hire bikes.
- 4.5 Following consultation with key partners and experts in the field, the cycle hire scheme must support the key objectives of (1) improving air quality whilst mitigating the impact of growing levels of congestion, and (2) providing an alternative travel solution for longer distance journeys across the City (improved connectivity).

4.6 There are many benefits of cycle hire schemes, including:

- A) Raising the profile of cycling, attracting new markets to cycling and helping to catalyse a cycling culture in the city.
- B) Serving a variety of markets including residents, students, workers and visitors. E-bike cycle hire schemes are very popular with hard to reach audiences, in particular females, students and the elderly.
- C) Helping to mitigate the impacts of poor air quality and growing levels of congestion in these areas. Schemes are generally situated in areas with major employment and education attractors, significant residential density and areas of high public amenity and vitality.
- D) Bike share schemes can integrate with car clubs and public transport, to increase people's mobility and access within the city.

4.7 **Cycle Hire Models and Associated Risks**

There are three different models for management of the cycle hire scheme that determine who takes responsibility for the income, costs and the associated risks:

100% public - Local authority has full control of all income and pays for all costs and owns the equipment, operator usually receives fixed fee for operating scheme, assuming activity isn't delivered in-house.

100% private (commercial company or social enterprise) - Operator takes on all financial risks, sets tariff, engages commercial partners

Public Private Partnership (PPP) - A combination of the two above approaches with some ongoing subsidy from local authority to support scheme, operator may be responsible for commercial income with profit share.

The three categories of contracts can be differentiated in the following way:

4.8 100% Public: purchase of equipment and service contract

Some cities are opting to keep full control of revenue and financial risk and pay a fixed fee to buy in a package of operational services. The city is taking on all the risks and responsibility for subsidy /sponsorship. Title for equipment is transferred to the purchaser (city or public transport agency) who will also benefit from all project revenues. Some services, especially bicycle maintenance, customer service and fare collection, will be contracted to an operator at a fixed service fee.

Advantages:

- Operations can be retendered more flexibly as assets remain in the city
- Ability to have strong control over branding and integration into wider transport system

Disadvantages:

- Public authorities have limited experience of delivery
- Potential conflict between the supplier of equipment and operator as intellectual property must be shared between potential competitors
- Requires substantial on-going revenue funding

Examples of 100% publicly managed schemes:

- London
- Belfast

4.9 100% Privately owned and operated

Some cities decide to pass all the responsibility and risk to the suppliers and limit their role to ensuring service standards are met and supporting marketing and expansion. The operator sets the tariffs and takes full responsibility for commercial success. The operator leads on developing commercial partners, will receive all project revenues including advertisement / sponsorship. The authority will set a moderate level of service requirements. The equipment remains in the possession of the operator. No public subsidies are involved to cover operational or investment costs.

Advantages:

- No public subsidies involved
- Cost-efficient system for the public sector

Disadvantages:

- Low feasibility in cities without good sponsorship/ advertisement potential
- Relies on the operator's skills to secure funding
- Relatively low control of government

Examples of 100% private schemes:

- Brighton and Hove
- Milton Keynes

4.10 Public Private Partnership: Operational contract

As a compromise many opt for a partnership approach. The purchaser of services (usually a city authority or a public transport authority) contributes to the capital costs of the scheme while the operator receives all other project revenues to cover the costs. However, there may be a profit share arrangement if the commercial income begins to cover costs. The local authority can retain the ownership of the assets and lease them back to the operator for a peppercorn rent so the bikes can then be retained by the city and even managed by another operator.

Advantages:

- Government has control to specify service levels and requirements
- Operator will aim to reduce revenue required to be competitive in the tender process
- Well balanced risk bearing between public and private stakeholders

Disadvantages:

- Assets sometimes can't be used for operations after contract termination and being 100% depreciated.

Examples of Public Private Partnerships:

- Reading
- Lincoln
- Bath
- Glasgow

Preferred Option

- 4.11 The 'Public Private Partnership' model with the UoD as a key partner in the scheme would support the objectives and conditions of the available funding. The Council may wish to maintain ownership of the capital assets (bikes, hubs, etc) and negotiate a percentage of any profit with the Operator. This will be determined as part of the procurement process along with the specifics of the scheme, such as density, locations, types of bikes, operations, etc.

This model would minimise the risks on the Council whose role in the scheme would be limited to ownership of the capital assets (which would be leased back to the operator to run) and management of the contract. Also, in the unlikely event that the Operator went into administration then capital assets could either be sold or transferred to another Operator to run the scheme.

Risks

- 4.12 In all three models identified above there are minimal risks to the actual procurement of the scheme. However, there are two long term delivery risks that the Council needs to be cognisant of:

- 1) The Council incurring ongoing revenue costs after the initial funding period.

The contract would ensure that the Operator is fully responsible for the on-going operational costs including maintenance, redistribution, marketing and back office management. The Council's role would be limited to managing the contracts, supervising and offering support. However, in the event that the scheme incurs ongoing losses, there may be cause on the Council to offer a financial subsidy.

- 2) The Operator is unable to continue to deliver the scheme before or after the initial funding period.

This would be very unlikely as the operator will have been asked to provide a sustainable scheme as part of the procurement process and it would be in their commercial interest for the scheme to succeed. In addition, the public bike hire market has now matured with many operators only requiring an initial start-up period. The Council would set KPIs for a number of years and share any revenue risks between the stakeholders as part of the contract.

In addition, the marketing and promotion of the scheme will be the responsibility of the Operator and key partners. The UoD have expressed a desire to lead on the marketing and promotion of the scheme. Hence, the scheme would be promoted as a partnership scheme led by the UoD with support from the Council.

- 4.13 All identified risks will be mitigated through the contract and will be monitored in the Transport division's risk register.
- 4.14 The UoD have expressed an interest in sponsorship of the scheme for their open learning programme. This would be negotiated directly between the operator and the UoD.

OTHER OPTIONS CONSIDERED

- 5.1 A further option is not to pursue a cycle hire scheme, however this would result in the need for alternative interventions to be explored which would meet the funding objective of getting more people active and travelling sustainably through cycling. In addition, we would need to report underspend to the LEP and all Growth Deal grant funding would be clawed back.

This report has been approved by the following officers:

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| Legal officer Financial officer Human Resources officer Estates/Property officer Service Director(s) Other(s) | Emily Feenan, Principal Lawyer Amanda Fletcher, Head of Finance - Communities and Place David Gartside, Acting Director of Strategic Partnerships, Planning and Transportation |
| For more information contact: Background papers: List of appendices: | Adam Sendall 01332 642017 adam.sendall@derby.gov.uk None Appendix 1 - Implications |

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| IMPLICATIONS |
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Financial and Value for Money

- 1.1 The capital costs of the scheme will be funded in full from Local Enterprise Partnership grant funding that is already contained within the current capital programme. The preferred model involves purchasing and leasing the assets (on a peppercorn basis) to an operator who would be appointed following a procurement exercise. It is envisaged that the operator would fund all project revenue costs through available income streams. The University of Derby has indicated a willingness to contribute a fixed sum to support the revenue costs of the scheme for the first three year; how they will choose to do this is not currently known. The contract management costs would be managed within existing Council revenue budgets
- 1.2 Leasing of assets purchased using the grant requires the approval of the LEP, which is expected to be secured shortly. If we are unable to lease the assets or the envisaged delivery mechanism cannot be secured following the procurement exercise a further report will be brought to Cabinet. As part of the procurement exercise it is expected to look into opportunities for profit sharing, whilst the operator would take responsibility for any losses.
- 1.3 Should the operator fail consideration would be given to procuring another operator to take over the scheme, using the same operating model. If the scheme itself failed during the monitoring period of the grant funding (to March 2021) then there is a risk of grant clawback.

Legal

- 2.1 Legal and Procurement Officers will advise on the delivery of the scheme. Based on current scheme information, the Operator would be procured on the basis of a Service Concession in line with the Concession Contracts Regulation 2016. Capital works will either be delivered in house or using an existing framework agreement. Capital assets (bikes and docking stations) will be purchased in line with contract procedure rules and in consultation with the Operator.

Personnel

- 3.1 None arising from this report

IT

- 4.1 None arising from this report

Equalities Impact

- 5.1 None arising from this report

Health and Safety

- 6.1 Appropriate safety protocols, indemnities and safety equipment will be considered as part of the hire scheme.

Environmental Sustainability

- 7.1 A bike hire scheme would support sustainable transport choices.

Property and Asset Management

- 8.1 Any equipment purchased would be added to the departmental asset register.

Risk Management and Safeguarding

- 9.1 There remains a risk that the scheme would not be self-financing. The Council would work with the operator and partners to minimise the risk of failure and consider other supporting income streams such as sponsorship to mitigate this risk.

Corporate objectives and priorities for change

- 10.1 The public cycle hire scheme supports 'A Different Council' Our Council Plan 2016-19 meeting the priority outcome:
- Promoting health and well-being