

Subject:	BTN Bikeshare Contract		
Date of Meeting:	17 March 2020		
Report of:	Executive Director, Economy, Environment & Culture		
Contact Officer:	Name:	Matthew Thompson	Tel: 01273 29-0235
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Ward(s) affected:	All		

FOR GENERAL RELEASE**1. PURPOSE OF REPORT AND POLICY CONTEXT**

- 1.1 The purpose of this report is to update the Committee on the current sponsorship arrangements and future procurement needs for the Brighton & Hove Bikeshare Scheme.
- 1.2 The Bikeshare's current sponsor will cease their support on 31 March 2020, creating the opportunity for further refinement of the sponsorship and business model arrangements.
- 1.3 The current contract is a concession contract. The current value can be found in the Part 2 report. Constraints on the scope of the original specification will hinder the Scheme's ability to respond to market trends, advances in technology and to achieve further expansion. The procurement of a revised and updated scheme will therefore be needed if the Council wishes to sustain growth and retain an efficient and popular bike share scheme for Brighton & Hove.

2. RECOMMENDATIONS:

That the Environment, Transport & Sustainability Committee

- 2.1 Approves immediate variations to the current contract to allow for the change in business model and sponsorship arrangements with effect from 31 March 2020 and to allow for the operational and additional minor amendments referred to in paragraph 3.16 below;
- 2.2 Approves a 12 month contract extension and supporting revenue funding for the current operator from 01 September 2020;
- 2.3 Approves the initiation of a full procurement options review to include additional support for service and redistribution and the introduction of e-bikes to the scheme, with the option of considering an in-house operation, and for including wider city region Local Authority partners;
- 2.4 Agrees that a further report be brought to 23th June 2020 Environment, Transport & Sustainability Committee detailing the outcome of the procurement

options review with recommendations for the retender of the new service or an in-house operation.

3. CONTEXT/ BACKGROUND INFORMATION

- 3.1 In 2014, the Council, in partnership with Brighton & Hove's Clinical Commissioning Group, commissioned a business case and plan for introducing a public Bikeshare system to Brighton & Hove. The work enabled the Council to develop and submit a bid for significant, external funding to the Coast to Capital Local Enterprise Partnership (LEP) for a scheme to start in 2015/16. The submission of the funding bid for the scheme was endorsed by the Council's Environment, Transport & Sustainability Urgency Sub-Committee on 16th February 2015. The bid was independently assessed for the LEP and in March 2015, the Council was awarded a conditional offer of funding of £1.16 million for 2015/16 by the Local Transport Body, which would be supported by a local contribution of £290,000.
- 3.2 A report seeking approval for the tendering of a concession agreement for the provision of a Bike Share Scheme for the city was first approved by Environment, Transport & Sustainability Committee on 24 November 2015.
- 3.3 A subsequent report seeking approval of the extension of this contract to allow for a 'mobilisation period' was approved by the Committee on 11 October 2016.
- 3.4 The winning bidder (the Operator), Hourbike Ltd, was subsequently appointed in December 2016. The contract was entered into on 2 March 2017, followed by a mobilisation period of six months. The operational start date was agreed as 1 September 2017. The initial three year contract period therefore expires on 31 August 2020. The contract allows for two extensions of up to two years each. Notice of intention to extend must be given three months before the current expiry date (i.e. by 1 June 2020).
- 3.5 The LEP and local contribution match funding will be fully spent by the end of the current financial year (2019-20). This funding was used to purchase the initial bike fleet of 450 and paid for hubs, totems and any necessary civil engineering works. An additional 120 new and 30 reconditioned bikes have since been purchased for deployment. A further 43 used bikes, controllers, batteries and other parts were also purchased to ensure the bikes, which are no longer made, remain functional for their five year lifespan. The Council has also taken delivery of an additional stock of 200 Electric-bikes (e-bikes) from the now defunct Derby City Council scheme (of which 80 are still functioning – see Part 2 report for explanation) which will be used to support the spares programme and for potential use in e-bike trials in the City. Hubs have expanded beyond the initial area outlined in the Business Case to Portslade Station to the west and Rottingdean to the east. The total number of Bike Hubs have increased from the initial 50 to a total of 70 with two further sites pending. The fleet and infrastructure are wholly owned by the Council.

Benefits of the scheme to date.

- 3.6 Between 1 September 2017 and 31 Jan 2020, the scheme has delivered:
 - 106,824 total subscribers.

- 910 stands at 70 Hubs across the city / 2 hubs pending.
 - A fleet of 570 Bikes (with 30 bikes to be added over winter/ spring, increasing total fleet to 600).
 - A total of 873,742 trips were made.
 - A total distance cycled by subscribers of 1,727,054 Miles
- 3.7 BTN Bikeshare won a 'Highly Commended' award at the 2019 National Transport Awards in the 'Excellence in Walking and Cycling' category.
- 3.8 COMO UK are the accreditation body for UK Shared mobility schemes including Car clubs and Bikeshare, and commission an annual survey of Bikeshare users in 35 towns and cities across the UK. There were 2405 responses in 2019-20, 408 of which were from Brighton & Hove. 91.5% of BTN Bikeshare users agree or strongly agree that Bikeshare enhances the city's public transport, and 82.7% agree or strongly agree that the scheme makes the city a better place to cycle (see 5.2 and Appendices 2-3 for further results - a summary of public comments is available in members' rooms).

Original Business Case

- 3.9 The December 2014 Business Case for the Bikeshare Scheme was the document submitted to secure LEP funding. It was prepared by external consultants for the purposes of securing the funding bid, and analysed predicted costs, demand and revenue forecasts, and the strategic, economic and financial cases for the proposed scheme. The 'Business Model', also referred to in this section, is the more detailed financial operating model envisaged at the time of procurement. It is this model we are seeking to adjust in the contract variation.
- 3.10 At the time the 2014 Business Case was written, Bikeshare was a new type of business for Brighton & Hove, and therefore involved making estimates and assumptions which did not have direct precedent. A review in the light of two and a half years of operations shows that overall costs were actually lower than the range predicted by the business case. This was achieved by opting for a system of GPS enabled 'smart bikes' and a phone app based booking system rather than 'smart hubs', eliminating electricity and IT equipment costs. However, this saving has been partly offset by an increase in fleet numbers and hubs and a broadening of the geographical spread of the scheme. Redistribution and servicing hours have also been extended to meet customer demand.
- 3.11 The 2014 Business Case factored in an additional figure for fleet replacement of 10% of Operational costs per year. This cost was not included in the procurement business model but is captured by the proposed Business model variation (see 3.15 below and Part 2 report).
- 3.12 A review of the revenue estimations in the 2014 Business Case shows the contribution of Sponsors assumed by the procurement Business Model was over estimated. The past few years have seen a decline in this kind of placement sponsorship in favour of investment in online marketing spend. Nevertheless, the Sponsor contributions which were secured were generous relative to those secured by other schemes and have been necessary to maintain BTN Bikeshare's initial viability.

- 3.13 Demand forecasts in the 2014 Business Case used industry guidelines at the time to suggest a suitable number of bikes per 1000 residents and considered a broad range of data to determine optimal hub locations. Demand was calculated for residents, rail users, employees and tourists and predicted at 5.6 trips per bike per day. This has subsequently proved unrealistic across many UK schemes. Actual demand averages just over 2 trips per bike per day across the year, with peak season usage going as high as 4 trips per bike per day.
- 3.14 This demand forecast had an impact on hire revenue forecasts in the business case, which were therefore higher than actual hire revenue income proved to be. (See Part 2 report for actual figures).

Contract issues

- 3.15 The full value of the concession contract over the longest possible term provided in the agreement (7 years maximum term; currently in year 3 - see Part 2 report) would, (due to the unanticipated growth identified in the previous paragraph), exceed the threshold specified under the Concession Contracts Regulations 2016. This means that, as the law presently stands, the Concession Contracts Regulations will apply and substantial changes to the contract would not be permitted.
- 3.16 A surplus was achieved in 2018-19, the first full year of operation, due to the business model finally adopted. However, work undertaken by officers with the scheme operator in the last six months indicates that, whilst the service can generate a surplus, the actual costs of running the operation are higher than the assumptions made in this business model. Costs of attrition of the fleet (weathering factors, wear and tear, losses, servicing and refurbishment costs) also need to be reintroduced.
- 3.17 It is proposed to vary the business model to reflect the actual operating costs. Officers have worked with the operator to develop an open book model that is responsive to market conditions, but continues to provide a 50/50 surplus share back to the Council above actual break-even point in any given year, rather than the current fixed threshold (details of the current fixed threshold can be found in the Part 2 report). It is considered that amendments to the contract to develop further open book accounting arrangements would not amount to a substantial change under the Concession Contract Regulations.
- 3.18 The current sponsor is withdrawing on 31 March 2020 due to other commitments, having twice offered an extension across the last two quarters of 2019-20 to support the scheme over autumn/winter months. Positive discussions with potential alternative sponsors are ongoing, but have not been conclusive. The existing contract allows for a change in sponsor and it is proposed that the contract be varied to allow a three way sponsorship agreement between the new sponsor, the operator and the Council.
- 3.19 Further amendments to the existing contract are proposed dealing with various operational issues and additional minor matters. These are summarised in Appendix 4 of the Part 2 report.

Re-procurement

- 3.20 Proposals are being considered to extend the Scheme beyond the current geographical area and possibly to join with other neighbouring local authorities in linking or dovetailing bikeshare schemes across local authority boundaries. These proposals could be achieved through the procurement of a new contract in 2021 and a re-procurement could also take account changes to the bikeshare market. Such changes include the possibility that the Department for Transport will derestrict the use of e-scooters on the public highway creating an increased demand for e-bikes. Both factors could attract alternative providers of dockless systems outside the Council's control, damaging the viability of the Council's own Bikeshare scheme in its present form.
- 3.21 Further factors relating to the current operator which should be taken into account are included in the Part 2 report.
- 3.22 A 12 month extension to the existing contract will allow the Council to explore the option of bringing the service in-house, as well as the potential to include our neighbouring authorities in a wider scheme to include docked pedal and e-bikes. This will minimise street clutter and help us to encourage more commuters to cycle from more distant or hilly locations (within or beyond city boundaries) to the city centre.
- 3.23 Further information on fleet servicing is included in the Part 2 report.
- 3.24 This report has been prepared in consultation with Procurement officers and procurement options will be referred to the Procurement Advisory Board (PAB) following the decision of this committee. The Procurement Advisory Board will be involved in the final review of on the procurement strategy or decision to bring in-house.
- 3.25 A further report will be brought to 23 June 2020 Environment, Transport & Sustainability Committee detailing the outcome of the procurement options review with recommendations for the retender of the new service or an in-house operation

4 ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

- 4.1 Sections 3.6-3.8 of this report demonstrates the successes of the BTN Bikeshare Scheme. Compared to most other Local Authority schemes it has sustained growth and generated significant mileage. It has won a national award and has been very popular with residents and visitors. The results of a tariff increase (see Part 2 report – Appendix 6) from 1 August 2019 have been impacted by poor weather over autumn/ winter relative to 2018, but are likely to reduce the scheme's dependence on sponsorship and other subsidy. The Council has continued to invest in fleet and infrastructure as part of its commitment to the LEP and will continue to do so in 2020-21 using Local Transport Plan allocated funding.
- 4.2 Many public Bikeshare schemes across the UK have closed in the last year, including Lincoln, Derby, Northampton and Reading. The general consensus is

that the type of business model on which the current scheme is based is not sustainable without continued Local Authority revenue and capital support and/ or defined levels of sponsorship, both of which have proven difficult for many schemes to secure.

- 4.3 The 'first wave' arrival of dockless pedal only schemes run by external operators without Local Authority affiliation began three years ago with launches in London Boroughs and other major UK cities. This compounded the problem for existing public schemes and led some to close. Some dockless pedal schemes then collapsed or were withdrawn in many instances.
- 4.4 Many authorities have contracted out to private sector operators who may or may not own the fleet and infrastructure, and where these have not been successful, a few have sought to operate schemes 'in-house'. Liverpool City Council brought their scheme in-house but did not recruit additional staff to maintain customer service levels, adding tasks to existing officer posts. A lack of resources made it difficult to maintain Customer Service standards, revenue dropped, innovation and investment stopped and fleet numbers have declined due to budget constraints. In January 2020, the wider Liverpool City region put a cross authority scheme proposal out for tender. They are seeking a joint external operator to license.
- 4.5 Nottingham City Council took their Bikeshare scheme in-house, made the bikes free to rent and saw their scheme decline due to vandalism. A tariff has since been reintroduced, but the scheme has continued to reduce in size and coverage and has been badly affected by recent flooding. Nottingham and Derby are now scoping a joint re-procurement process together with Leeds, and a report looking at best practice for procurement specifications will be shared with other COMO UK members (including Brighton & Hove) in due course.
- 4.4 The cost of bringing the scheme permanently in-house at current service levels would require significant revenue funding and further contingency funds for service vehicles and premises leases. It would involve the creation of an additional staff structure to manage the scheme, negotiate agreements with existing and new subcontractors, a premises lease renewal, potential vehicle procurements and service level agreements with the Council's Finance and Communications teams. Further funds would be required to allow the scheme to continue to grow. (See Appendix 5 of Part 2 report). However, the in-house service option will continue to be reviewed as part of the development of the procurement strategy and the options review will be referred to the Procurement Advisory Board prior to a final decision being made on the procurement strategy.

5 COMMUNITY ENGAGEMENT & CONSULTATION

- 5.1 COMO UK's 2019-20 report on UK Bikeshare schemes can be found at Appendix 1. Key findings include:
 - The national average gender split of Bikeshare users (40% Female/ 58% Male) is much more even than general cycling.
 - Shared E-bike schemes support users to commute to and from work more frequently

- 48% of users reported health benefits/ exercise as reasons why they use a Bikeshare scheme
- 46% said joining a Bikeshare scheme was a catalyst to start cycling again.
- Bikeshare enables use of public transport by offering a 'last mile' solution.

5.2 The report on the responses of 408 BTN Bikeshare users to the COMO survey can be found at Appendix 2. Some respondents chose not to answer every question. The small size of the sample means the following findings cannot be treated as conclusive. Key findings include:

- 68% would be likely to use an electric bike if it was part of the Scheme
- 39.1% would be likely to use electric scooters and 40.8% would be unlikely.
- 43.3% would prefer the scheme to retain the current model where bikes can be found docked in hubs but can also be found and left elsewhere.
- 11.95% would prefer bikes to be left docked at designated hubs only.
- 32% would prefer a free floating scheme where bikes can be left anywhere.
- 55.85% of users are female.
- 22% of users earn less than £20,000 per annum
- 27% of users work part time or are students, retired or unemployed.

6 CONCLUSION

6.1 The current contract requires some immediate variations to ensure service continuity to the public for the following 17 months (the remaining term of the current contract plus a 12 month extension) while procurement or in-house options are reviewed and any re-procurement exercise is initiated. A revenue contribution will be necessary to support the scheme during this time. This is not without risk, but the option to bring the service in house during this period would cost the Council more than a 12 month extension to the current operator's Contract. The current operator's financial position no longer gives cause for concern, but will be kept under review.

6.2 The existing Contract does not allow for expansion of the scheme beyond the city boundary to neighbouring authorities because its value exceeds the Concession Contracts Act 2016 threshold. Both Lewes District and Adur & Worthing Councils have expressed interest in joining the scheme. E-bikes with swappable batteries are likely to encourage more commuting journeys into and across the city, and will find a ready market. The preferred option, therefore, is a new procurement as a wider City Region (to include other Local Authority partners), which would bring added purchasing power and a larger market than the existing scheme and would be a more attractive proposition to prospective operators and sponsors.

7 FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

7.1 Financial implications associated to the recommended contract variations and 12 month contract extension are included in Part 2 of this report.

7.2 The recommendations include carrying out initiation of a full procurement options review, which will be prepared on a basis to maximise economy and effectiveness, and will therefore support achieving value for money.

Procurement options will be referred to the Procurement Advisory Board (PAB) and a further report will be brought to this Committee detailing the outcome of the options review with recommendations for the retender of the new service or an in-house operation.

Finance Officer Consulted: Steven Bedford

Date: 09/03/20

Legal Implications:

- 7.3 The Environment, Transport and Sustainability Committee is the appropriate decision-making body in respect of the recommendations at paragraph 2 above, given that the Committee's terms of reference include environmental health, highways management, traffic management and transport.
- 7.4 The current contract allows for amendments through a change-control process. As the law presently stands (and will continue to stand during the Brexit transition period), the Concession Contracts Regulations 2016 (CCR) apply to the contract. It is considered that the proposed changes to the contract are not substantial and that they would be permitted under the CCR. The risk of a successful challenge to the proposed changes is therefore considered to be low.
- 7.5 Exempt Information

The report above refers to certain additional information in part 2 that should be read before the Committee considers the recommendations in paragraph 2 above ("Part 2 Information"). The Part 2 Information is commercially sensitive and is to be treated as confidential.

Lawyer Consulted: David Fairfield

Date: 02/03/2020

Equalities Implications:

- 7.6 BTN Bikeshare has much higher than UK average levels of female participation but a BME participation rate of 4.71% does not reflect the 2011 Census Ethnicity statistics

Sustainability Implications:

- 7.7 The Bikeshare scheme contributes to the city's sustainability goals including Carbon Net Zero emissions by 2030.

Brexit Implications:

- 7.8 Procurement may need to take account of EU competition rules during the transition period while a trade deal is being negotiated if this is extended beyond 31 December 2020.

Risk and Opportunity Management Implications:

- 7.9 An assessment of the risks associated with the extension of the contract is in the Part 2 report.

Public Health Implications:

- 7.10 Bikeshare usage by residents has a significant impact on the health and wellbeing of the city as a whole.

Corporate / Citywide Implications:

- 7.11 The scheme cannot expand to reach areas of the city not currently served under the current contract, despite evidence of significant demand.

SUPPORTING DOCUMENTATION

Appendices:

1. COMO UK Bikeshare users survey report
2. COMO UK BTN Bikeshare users survey results.
3. COMO UK BTN Bikeshare users – Postcode data

Background Documents:

1. COMO UK BTN Bikeshare users – Comments received.

