

**Forward Plan reference number:** (FP/836/10/20)

<b>Report title:</b> Re-procurement of bus services at Park and Ride Sites	
<b>Report to:</b> Cabinet	
<b>Report author:</b> Andrew Cook, Director, Highways and Transportation	
<b>Date:</b> 12 December 2020	<b>For:</b> Decision
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<b>County Divisions affected:</b> All Essex	

## 1. Purpose of Report

- 1.1 This report requests approval for supporting the continuation of the current service model for the park and ride bus services and the re-procurement of bus services for all three sites.

## 2. Recommendations

- 2.1 Agree the procurement of the bus services for the three Park and Ride Sites for a four-year period from 25 September 2021 with the option of extending each contract for up to a further three-year period in one-year extensions on the basis set out in paragraph 3.7 of the report.
- 2.2 Agree that the Director, Highways and Transportation is authorised to approve the terms of the new contracts and the entering into such contracts following completion of the procurement process.
- 2.3 Agree to extend the agency agreement that is currently in place with Chelmsford City Council for the management of the two Chelmsford Park and Ride Sites for a further two-year period from September 2023 to September 2025.

## 3. Summary of issue

- 3.1 ECC manages park and ride services ("P&R Services") in Colchester and two in Chelmsford. The P&R Services are a key part of the Climate Change Commission commitment to reduce congestion and support economic growth through access to local businesses. This is in line with the following ECC Strategic Priorities:
- Improve the health of people in Essex
  - Help to secure sustainable development and protect the environment
  - Facilitate growing communities and new homes
  - Limit cost and drive growth in revenue
  - Re-imagine how residents' needs can be met in a digital world

- 3.2 The 3,425 car parking spaces across the 3 sites facilitated approximately 1.45m passenger journeys per annum pre COVID-19. This is composed of commuters travelling from across Essex and the wider region as well as daytime leisure travellers. The service supplies key transport links to city centres, hospitals and universities. However, as the country went into lock down following the outbreak of COVID-19 in March 2020, all P&R sites were temporarily closed. The Sandon and Colchester sites were reopened in July and Chelmer Valley in August, as people returned to work and education. The social distancing guidelines and government messaging to continue to work from home if you can, and if you have to go to work to avoid public transport if you can, has resulted in passenger figures being low and they currently sit between 10 and 20% of pre-COVID-19 levels. The current view is that it will take up to two years to return to pre-COVID-19 figures although this is difficult to predict.
- 3.3 P&R Services are a core part of ECC's approach to sustainable travel. Those using the service contribute to reduced congestion and carbon emissions and improved air quality in urban centres.
- 3.4 Currently the facilities management of the two Chelmsford sites, Sandon and Chelmer Valley is provided through an agency agreement with Chelmsford City Council which expires in September 2023. It is proposed that this arrangement continues for a further two years during which time consideration will be given to a future model of operating these sites. The Current agency agreement with Chelmsford CC allows the extension until 2025. The facilities management of the Colchester P&R site is included in the MITIE contract and therefore no action is needed.
- 3.5 The existing bus services are currently provided under gross cost contracts to ECC. ECC pays the full cost of operating the services, sets the fares and retains all the revenue. A number of other models for this service have been considered. In December 2018, a market engagement exercise showed the commercial market had little appetite for providing the bus services commercially. There are very few commercial services which pass the sites and those that do don't have capacity for the numbers of passengers who use the P&R Services, so additional bus services would need to be provided. There is also the risk the operator could choose to only run the service at the most profitable times, and this could impact usage. There was also no indication that there would be a saving to the taxpayer with this model.

#### *Procurement Approach for bus services*

- 3.6 There are two operational contracts relating to the three sites. The Colchester P&R is serviced by Arriva and this contract was awarded in 2014 to begin in 2015. The facilities management element of the contract is provided by Mitie. Sandon and Chelmer Valley P&R is serviced by First and was awarded in 2016. The facilities management element of the contract is provided by Chelmsford City Council. Both bus service contracts have now reached their maximum extension period and now require a re-procurement exercise prior to the contract end date of 25 September 2021. Both contracts have been in place since March 2015 and are unable to be extended any further.

- 3.7 It is proposed that a competitive one stage tender exercise will be completed and will be evaluated on a 70% price and 30% quality basis. The total contract value of approximately £12m will require a full OJEU process. The aim is that the contract(s) will be tendered for the three sites over two lots: Chelmsford and Colchester. The suppliers will have the option to submit a combined bid for the two contracts should they wish to do so.
- 3.8 It is proposed that the new bus contract(s) will be awarded on the same financial basis as the current contract i.e. that ECC buys the service and keeps all bus fare revenue. This will place full risk of passenger numbers and hence revenue income fluctuation with ECC but will also enable ECC benefit from all revenue generated from all aspects of the service and its operation.
- 3.9 It is recognised that as a service that contributes toward a number of strategic priorities, and as a result of current impact on travel patterns and passenger transport usage, the provision of P&R services will continue to require public subsidy for some time to come.
- 3.10 The procurement will seek to encourage bids that utilise greener vehicle technologies. Euro 6 diesel already offers significant air quality benefits over previous standards. Additionally ECC is keen to encourage bids utilising technologies that can be delivered at pace, such as hybrid technologies, including geofenced hybrid technologies which will enable all-electric running in urban areas; and other vehicle powertrains that offer climate change and air quality benefits, such as hydrogen.

#### **4. Options**

##### **Option 1 - Continue with the current model and re-procure bus services for all the Park and Ride sites (recommended option)**

- 4.1 The operational management of both sites is currently delivered by ECC. At Colchester the facilities management is under contract to MITIE and at Chelmsford this is provided by Chelmsford City Council.
- 4.2 This option keeps the current model where ECC procures the bus services, retains the fare and parking revenue, commercially exploits the site e.g. events, sets, leads the growth and marketing strategy and sets the timetable, fares and vehicle specification. But it also introduces greater flexibility in the service specifications to reduce cost such as flexibility to determine timetables, vehicle specification, site operations where it is considered savings could be made.
- 4.3 Procuring these services will provide ECC with the best value for money, as demonstrated through the tender, and will ensure a bus service continues to be supplied to the residents of Essex. For many residents this service also reduces the stress of driving into the town and city centres. In addition, it will align with the Climate Change Commission commitment to reduce congestion and carbon emissions.

## **Option 2: Commercialise the bus services (not recommended)**

- 4.4 This option would hand responsibility for the P&R Services to a commercial provider in its entirety. The provider would set timetables, fares and vehicle specifications, keep all the revenue and take all the risk. All accountability for service provision would transfer to the commercial provider who could flex the service to keep costs low. A gain share could ensure that the investment by Essex taxpayers can start to be recouped. For example, the contract could say that ECC receive a percentage of the profit if passenger numbers rise.
- 4.5 However, ECC would not have direct control operationally of the service but is likely to continue to be held responsible for it. For example, ECC would not have a say in the frequency of the service provided or the level of the fares set. The operator could choose to only run service at the most profitable times such as peak times Monday to Friday. This could in turn impact usage. In addition, there is no guarantee that ongoing taxpayer investment won't be needed. The market may consider the commercialising model is not financially viable without additional taxpayer money and ECC would continue to pay for a net cost contract. With this model revenue is kept by operators and ECC cannot create a single managed off-street parking estate. This reduces the opportunities to work with the City and Borough Councils to provide a joint parking and sustainable transport strategy.
- 4.6 In December 2018, a Market Engagement exercise showed the commercial market had little appetite for this model. There are very few commercial services passing these sites. Market engagement to date indicates due to COVID-19 the interest for this model by the operators has lessened due to risk of revenue and outlay: the suppliers may price in contingency risk. In addition, the current passenger usage may deter interest further.

## **5. Next steps**

- 5.1 Following approval, ECC will begin the procurement of bus services for the three sites in two lots. The suppliers will have the possibility to submit a combined bid for the two contracts.

## **6. Issues for consideration**

### **6.1 Financial implications**

- 6.1.1 The existing budget provision included in the medium-term resource strategy (MTRS) for park and ride is as follows:

	2020/21 Original Budget £	2021/22 Aspirational Budget £	2022/23 Aspirational Budget £
<b>Expenditure</b>			£
Public Transport Contracts	2,488,023	2,488,023	2,488,023
Other	243,556	243,556	243,556
	<b>2,731,579</b>	<b>2,731,579</b>	<b>2,731,579</b>
<b>Income</b>			
Fare Income	(2,009,237)	(2,050,389)	(2,091,541)
Other	(109,413)	(109,619)	(110,471)
<b>Total Income</b>	<b>(2,118,649)</b>	<b>(2,160,008)</b>	<b>(2,202,013)</b>
<b>Total Controllable Budget</b>	<b>612,929</b>	<b>571,570</b>	<b>529,566</b>

6.1.2 The Park and Ride expenditure budget for 2020/21 totalling £2.732m includes budget for the provision of bus services and maintenance of sites, this is estimated to cost £2.488m in 2020/21 as shown above.

6.1.3 The current financial year has experienced a number of situations that have impacted the above budget including:

- the closure of park and ride sites due to COVID-19
- the reopening of park and ride sites, with a reduced bus service provision
- the introduction of park and pedal at all sites
- significant reduction in passenger numbers due to the requirement to socially distance on public transport leading to a reduced bus provision and significantly reduced fare income.

If these pressures continue into the following financial years, there is a risk that a cost pressure may materialise above and beyond what is stated below.

#### 6.1.4 Financial Risk

Whilst the current contractual costs are fixed up until September 2021, there is a risk that a revenue pressure materialises if services are unable to be procured at nil % price increase and therefore within the existing budgetary envelope. This risk may materialise due to a number of factors including, but not limited to:

- The impact of inflation. The current contractual costs were fixed on award (5-7 years ago), therefore there has been no inflationary uplift. It is possible that we will see the impact of 5-7 years inflation in the returned tenders. The impact of this is unknown, but the below table helps to provide context in terms of the additional cost per annum at alternative % levels of price increase. It is worth noting that any additional cost will result in a revenue budget pressure for future years and this does not take account of the impacts of COVID-19 on passenger fare income

Additional Cost per Annum	2% Cost escalation £	5% cost escalation £	7% cost escalation £	10% cost escalation £	12% cost escalation £
Public Transport	49,760	124,401	174,162	248,802	298,563

- The risk associated with COVID-19. There is a risk that contractor's price the risk of COVID-19 in which results in a cost increase.

The current 2020/21 net controllable budget for Park and Ride is £612,929, this assumes a pre-COVID-19 level of fare income (circa £2m) is achieved. As stated above, due to COVID-19 there are significant pressures reported on Park and Ride fare income as passenger figures currently sit between 10% and 20% of pre-COVID levels. This is due to the requirement to socially distance on public transport leading to reduced passenger numbers. ECC has reduced the frequency of bus services currently as demand remains quite low.

Consequently, cost pressures are being reported in this financial year across all park and ride sites, if these pressures continue into future years, and contractual costs increase beyond that which is budgeted for in 2020/21, then the financial burden and cost to the council of providing the park and ride services increases. This creates a continued risk to revenue. The current view is that it will take up to two years to return to pre-COVID-19 figures although this is difficult to predict. The following table represents the potential funding gap which may arise due to the loss of fare income:

Sensitivity Analysis on Fare Income levels	5% Pre-Covid Fare Income achieved	10% Pre-Covid Fare Income achieved	15% Pre-Covid Fare Income achieved	20% Pre-Covid Fare Income achieved	5% Pre-Covid Fare Income achieved	10% Pre-Covid Fare Income achieved	15% Pre-Covid Fare Income achieved	20% Pre-Covid Fare Income achieved
	2021/22				2022/23			
	£	£	£	£	£	£	£	£
Total Expenditure	2,731,579	2,731,579	2,731,579	2,731,579	2,488,023	2,488,023	2,488,023	2,488,023
Total Income	(212,139)	(314,658)	(417,178)	(519,697)	(215,048)	(319,625)	(424,203)	(528,780)
Net Position	2,519,440	2,416,920	2,314,401	2,211,881	2,272,974	2,168,397	2,063,820	1,959,243
Current Net Controllable Budget	571,570	571,570	571,570	571,570	529,566	529,566	529,566	529,566
Funding Gap	1,947,870	1,845,350	1,742,831	1,640,311	1,743,408	1,638,831	1,534,254	1,429,677

Further, sensitivity analysis has been undertaken to assess the impact of the above risks on the budget envelope. As shown below, if contracts cannot be awarded at current contract cost then it has a negative impact on the total controllable budget.

	2020/21 Original Budget	Impact of 2% cost inflation	Impact of 5% cost inflation	Impact of 7% cost inflation	Impact of 10% cost inflation	Impact of 12% cost inflation
<b>Expenditure</b>						
Public Transport Contracts	2,488,023	2,537,783	2,612,424	2,662,184	2,736,825	2,786,585
Other	243,556	243,556	151,732	151,732	151,732	243,556
	<b>2,731,579</b>	<b>2,781,339</b>	<b>2,764,156</b>	<b>2,813,916</b>	<b>2,888,557</b>	<b>3,030,141</b>
<b>Income</b>						
Fare Income	(2,009,237)	(2,009,237)	(2,009,237)	(2,009,237)	(2,009,237)	(2,009,237)
Other	(109,413)	(109,413)	(109,413)	(109,413)	(109,413)	(109,413)
<b>Total Income</b>	<b>(2,118,649)</b>	<b>(2,118,649)</b>	<b>(2,118,649)</b>	<b>(2,118,649)</b>	<b>(2,118,649)</b>	<b>(2,118,649)</b>
<b>Total Controllable Budget</b>	<b>612,929</b>	<b>662,690</b>	<b>645,506</b>	<b>695,267</b>	<b>769,907</b>	<b>911,492</b>

The total controllable budget required will increase above the figures presented if fare income falls below an annual £2.009m.

## 6.2 Legal implications

6.2.1 ECC must comply with the Public Procurement Regulations 2015 when procuring the new bus services. The proposal set out in 3.8 is a lawful way of achieving that.

6.2.2 The agency agreement entered into with Chelmsford City Council gives it operational discretion to run the park and ride site and it is therefore outside the scope of the Public Contracts Regulations 2015. It is understood that the contract permits extension to 2025 in any event.

## 7. Equality and Diversity implications

7.1 The Public Sector Equality Duty applies to the Council when it makes decisions. The duty requires us to have regard to the need to:

- (a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act. In summary, the Act makes discrimination etc on the grounds of a protected characteristic unlawful
- (b) Advance equality of opportunity between people who share a protected characteristic and those who do not.
- (c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.

7.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, marriage and civil partnership, race, religion or belief, gender, and sexual orientation. The Act states that 'marriage and civil partnership' is not a relevant protected characteristic for (b) or (c) although it is relevant for (a).

7.3 The equality impact assessment indicates that the proposals in this report will not have a disproportionately adverse impact on any people with a particular characteristic.

**8. List of appendices**

Equality Impact Assessment

**9. List of Background papers**

None