

CAMBRIDGE PARK & RIDE OPERATIONS

To: **Cabinet**

Date: **17 January 2012**

From: **Executive Director: Environment Services**

Electoral division(s): **All**

Forward Plan ref: **2012/012** *Key decision:* **Yes**

Purpose: **To consider the options for the future operation of the Park and Ride service.**

Recommendation: **It is recommended that Cabinet:**

- a) **Agrees that the Park and Ride service be taken forward as an Open Access arrangement in conjunction with a Partnership Agreement.**
- b) **Agrees that the operation of the sites should be competitively outsourced as soon as possible.**
- c) **Agrees that the management of the Busway be retained in-house for the time being.**

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1. BACKGROUND

- 1.1 Following a review of potential business models, Cabinet on 13th December 2011 asked officers to bring forward proposals for the commercial operation of Park and Ride bus services and for securing the most economical operation of the Park and Ride sites. This followed extensive consideration of options available over the previous year.
- 1.2 Cabinet also agreed that eligibility for the English National Concessionary Travel Scheme was to be retained on the Park and Ride services for as long as possible, and that parking controls were to be installed at the Babraham site to ensure that those who use the sites to park but do not use the bus, contribute to the cost of managing the Park and Ride site.

2 DETAIL

- 2.1 A key consideration which affects the options available for the provision of Park and Ride bus services is the nature of the bus industry, which, as confirmed by a recent Competition Commission report, has a strong natural tendency towards local monopolies. These local monopolies arise for both commercial and practical reasons, such as the difficulty and costs in securing and establishing new operating depots. Given the nature of the market, the likelihood of another operator challenging the incumbent local operator for a service such as Park and Ride is probably limited, although with an appropriate process, keeping open the potential for competition can be achieved.
- 2.2 During 2011 the Council undertook industry days at which it engaged with the bus industry. This assisted the Council to better understand the market and ensured that bus operators were aware of the opportunities available to them. As a result of this it is considered that the Council is most likely to secure best value by putting in place a structure which allows for any willing and competent provider to provide bus services, as well as entering into a competitive process to secure the best value for money arrangement for the operation of the sites.

Bus Services

- 2.3 There are essentially two options available for the commercial delivery of bus services; there is either a one-off competition to appoint a single operator, or an open access arrangement in which operators are free to compete for custom as and when they wish. Both options allow the Council to also let a tender for the management of the sites.

Option 1 – One-Off Competition - Single Operator

- 2.4 Bus operators would be invited to submit bids for the right to operate the Park and Ride bus service on a commercial basis. This could be on the

basis of quality, price or a combination of the two. Given the Council's aim of reducing the subsidy to Park and Ride, it is anticipated that quality would be set at the current level and the competition would be purely price based. Operators would be invited to compete on the basis of the highest departure charge in order to be awarded the exclusive use of the sites to run the Park and Ride bus service.

Option 2 – Open Access

- 2.5 Under an open access regime, any bus operator could use the Park and Ride sites to provide express services into the City Centre providing they agreed to abide by a Partnership Agreement and pay a set departure charge. The Agreement would stipulate the pre-determined conditions such as frequency, punctuality, livery, emissions standards etc. The conditions would need to strike a balance between allowing competition and ensuring operators provided a full service and did not just operate the more lucrative routes. Feeder services into the Park and Ride sites could be exempted from the agreement and departure charges if required to encourage and facilitate their development.

Site Management

- 2.6 It is considered that outsourcing of the operational management of the five Cambridge Park and Ride sites could achieve significant savings through operators taking on some or all of the costs of operating the sites. In doing so, the Council would ensure that access arrangements and pricing were on the same basis for any provider of services, so that a level playing field can be maintained. Operational management of a site would include staffing, day to day maintenance including cleaning and cash collection, monitoring the CCTV and marketing. Minimum service standards would be set.
- 2.7 In option 1 above, the operation of the sites would be included as a sub-option to the tenders. In option 2 the operation of the sites would need to be separately tendered.
- 2.8 The operation of the Busway is funded entirely from Busway access charges. There is therefore no saving to be made by the Council from including the two Busway Park and Ride sites in the Park and Ride site operations tender and it is not proposed to include it at this time, although this could be reviewed in future.

3 OPTION APPRAISAL

- 3.1 Financial information regarding the site operation, patronage and fares is set out in Appendix 1. Appendix 1 also contains an assessment of the

impacts of a range of departure charges on income and the effects on the level of subsidy of transferring site management to a bus operator.

- 3.2 The financial outcome for the Council of both options for bus service operation would be similar as both options are commercial and therefore bus operating costs and site management costs will be of the same order. Significant reductions in the Park and Ride subsidy will therefore only come from transferring the site operations to a bus operator and allowing the operator to set fares commercially to meet as much of the site operating costs as possible.
- 3.3 Under both options noted above, tenderers for site operation would be invited to put forward proposals to minimise or eradicate the current subsidy over a period of years. The details would be developed through a competitive dialogue process, but are likely to involve a combination of costs being directly met by the operator and departure charges.
- 3.4 Under the open access service option (Option 2) the site operator would be required to allow any competent operators onto the site. All operators would be required to pay a departure charge, to meet their share of site operating costs. This charge would be set annually under a similar model to that used on the Busway.
- 3.5 As in reality, there is little to distinguish between the two options financially, the decision on which option to take forward rests on the risks and deliverability of the respective options.
- 3.6 Option 1, like most competitive processes, possesses many variables and significant uncertainties and thus risk for the operator, which they would need to allow for in their bids. Obviously, each competing bus operator is likely only to submit the lowest possible bid which they judge will win the competition. Option 1 will only succeed in securing a high departure charge if there is real competition for the business. Given the strong tendency towards local monopolies, there is little real prospect of robust competitive pressures securing a significantly higher departure charge. Consequently, there is a risk that bids might be lower than at present, or if the current charges were taken as a 'floor' a risk of no operators bidding.
- 3.7 Option 2 avoids the above risks, and the current operator has indicated that they would be willing to operate services under an open access regime. They have also expressed an interest in putting forward proposals to operate the sites.
- 3.8 Option 2 has the benefit that it can be implemented at the expiry of the present arrangement. The longer procurement processes for Option 1 could not be concluded before the current arrangement lapses which

could lead to uncertainty over services and departure charges in the intervening period.

- 3.9 Legal and Procurement advice has been sought from both internal sources and Counsel. Advice suggests that it is possible to proceed with either option though neither is free of risk of challenge.
- 3.10 It is considered that there is slightly more risk of challenge with Option 1 as it grants exclusive use of the Park and Ride sites. Under option 2 the Council would need to demonstrate that conditions for operation in the Partnership Agreement were in the public interest and not anti-competitive.
- 3.11 Taken on their own, neither option for provision of bus services would be subject to the full rigour of EU procurement provisions but the tendering procedure for the management of the sites would have to be conducted under EU procurement rules. However as Option 1 would logically include an option of site management this would bring it within the EU procurement rules.
- 3.12 Under Option 2 it would be possible to commence bus services as soon as required following advertisement in accordance with the Council's contracts regulations. The process to transfer the operation of the Park and Ride sites would then follow through a formal competitive process which would need to allow sufficient time from award of contract to implementation to enable a new operator to acquire buses and a depot. Consequently, outsourcing the management of the site and the consequent savings could take until November 2012.
- 3.13 Should the management of the Park and Ride sites be outsourced and any staff transferred, then TUPE provisions will apply and a full staff consultation undertaken as per the Council's normal practices.
- 3.14 It must be noted that while the operators will be able to make some savings in site operating costs through economies of scale, significant reductions in the subsidy will only come by allowing operators to set fares at a commercial level.
- 3.15 Current Park and Ride fares are lower than normal bus fares and the City centre off-street parking charges. Historically the cost of two adult fares has been linked with the cost of off-street parking for more than two hours in the City centre. Operators' ability to raise fares will be constrained by the need to continue to keep fare levels competitive with off-street parking charges in order to avoid losing shopper patronage.
- 3.16 Concessionary travellers would be immune from any fare increase while those using the service for work are likely to tolerate modest fare increases without significantly reducing patronage.

4 CONCLUSION

- 4.1 The financial appraisal shows that the outcomes for the Council are likely to be similar under either option for the procurement of the bus services.
- 4.2 Option 1 carries with it a number of risks, not least the possibility that there might be no bidders. It has no certainty of securing a higher access charge. Option 1 will also take longer to implement in view of the need to follow procurement regulations and therefore cannot be in place for the expiry of the current arrangements. This creates uncertainty which may affect the current service levels.
- 4.3 Option 2 avoids the risks of Option 1. The existing operator has indicated that they would be willing to operate under an open access arrangement. Option 2 will therefore allow the Park and Ride service to continue without interruption and provide a stable platform for the procurement of site management.
- 4.4 On balance Option 2, an Open Access arrangement in conjunction with a Partnership Agreement, is therefore the preferred option.
- 4.5 It is therefore recommended that Cabinet:
 - a) Agrees that the Park and Ride service be taken forward as an Open Access arrangement in conjunction with a Partnership Agreement.
 - b) Agrees that the operation of the sites should be competitively outsourced as soon as possible.
 - c) Agrees that the management of the Busway be retained in-house for the time being.

5 COMMUNICATIONS

- 5.1 The Park & Ride service is highly valued by many stakeholders and particularly the millions of passengers who use it annually. Any proposed changes may instinctively raise fears of reductions in service or quality, even if this is not the case. Consequently, a proactive and positive communications strategy is required to ensure the users are fully reassured.
- 5.2 Essentially, the communications message is a positive one with the following key themes:
 - The Park and Ride will continue to serve the needs of its passengers and stakeholders as at present.
 - Concessionary entitlement will continue.

- Parking charges for those using the bus service will not be imposed.
- Funds currently used to subsidise Park and Ride will be used on other transport improvements.
- Fare increases may be required but will remain competitive.

- 5.3 The Passenger Transport Development team, in concert with the Press Office will implement the communications plan. The objective of the plan will be to ensure that the public and key stakeholders understand the reasons for the changes and that the Council remains committed to delivering the highest quality Park and Ride service and delivering best value to the taxpayer.

6 ALIGNMENT WITH PRIORITIES AND WAYS OF WORKING

6.1 Supporting and protecting vulnerable people when they need it most

Maintaining the availability of concessionary travel protects individuals who need to travel and may not otherwise be able to do so.

6.2 Helping people live healthy and independent lives in their communities

There are no significant implications for this priority.

6.3 Developing the local economy for the benefit of all

Maintaining a competitive and valued Park and Ride service will help to reduce congestion, maintain people's ability to access job opportunities and grow wealth and prosperity in Cambridgeshire. Savings realised can be invested in other transport projects.

6.4 Ways of working

The proposals seek to deliver high quality services for best value through working with private sector partners and engaging with the public and key stakeholders.

7 SIGNIFICANT IMPLICATIONS

7.1 Resource and performance implications

The proposals aim to minimise the costs of operating the Park and Ride sites without reducing the performance.

7.2 **Statutory, risk and legal implications**

There is risk that an operator could challenge the process whichever option is taken forward but advice suggests that we should be able to successfully defend any challenge.

7.3 **Equality and diversity implications**

The objective is to maintain the current level of service. There are therefore no equality and diversity implications.

7.4 **Engagement and consultation**

The proposals have been developed through engagement with the bus industry. A communications plan will be developed to accompany the implementation of the proposals.

Source Documents	Location
Report to Cabinet on 13 th December 2011	Room 114 Shire Hall Cambridge

Appendix 1 – Financial Information

Table 1 Current Operating Costs and Income

Operating Costs	£,000s
Pay/N.I./pensions/training	414
Office expenses/marketing/utilities/cash collection/CCTV/cleaning/grounds/ buildings maintenance	302
Business rates	310
Total Site Operation Cost	1026
Income	
Casual income	-55
Departure Charges (£2 per scheduled service)	-276
Parking Income (forecast net income from Babraham)	-78
Total Income	-409
Net cost to Council	617

Note that these costs take into account the changes agreed by Cabinet on 13th December 2011; specifically the implementation of parking charges for non-bus users at Babraham and Stages 1 and 2 of the current staff review. Stage 1 of the review will see savings of £70k whilst Stage 2 will see a reduction of 2 staff due to the switch to a single shift per day rather than the two as at present and will realise additional savings of £48k.

The site operating costs do not include management, administration and on-costs of P&R service, Quality Bus Partnership and Guided Busway, which amount to £71k.

Table 2 Impact of increasing departure charge (Option 1)

Departure Charge	(£)	£2	£2.20	£2.40	£2.50
Departure Charge Income	(£,000s)	-276	-303	-331	-345
Total Income	(£,000s)	-409	-436	-464	-478
Operating Costs	(£,000s)	1026	1026	1026	1026
Net cost to Council	(£,000s)	617	590	562	548

This table assumes no change in the number of services and that operators are prepared to bid competitively.

Table 3 Impact of Operators meeting site operating costs (Options 1 and 2)
(all costs in £000s)

	Departure Charge		
	£0	£1	£2
Operating costs to Council			
Pay/N.I./pension/training	0	0	0
Office expenses / marketing	40	40	40
Business rates	310	310	310
Total Site Cost to Council	350	350	350
Casual income	-55	-55	-55
Departure Charges	0	-138	-276
Parking Income	-78 ³	-78 ³	-78 ³
Total Income to Council	-133	-271	-409
Net cost to Council	217	79	-59
<i>Reduction in subsidy</i>	<i>400</i>	<i>538</i>	<i>676</i>

This table assumes that operators take on all responsibility for site staffing and management costs, and shows the impact of a range of departure charges from £0 to the current £2. The actual extent to which operators will take on responsibility for site costs and the trade off for departure charges will be determined by the procurement process. This table illustrates the range that may be achievable.