

Belfast Public Hire Bike Scheme

Addendum 3 to the Outline Business Case

Further Review of Projected Revenue Costs

21 September 2012

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1 Introduction

- 1.1 In January 2012, DRD invited applications from Councils in Northern Ireland to bid for capital grants to implement Active Travel Demonstration Projects, with a budget of approximately £3 million available over three years to 2015, to fund between 3 and 6 projects. Belfast City Council submitted an application for capital funding to establish a Public Bike Hire Scheme in Belfast based on the Outline Business Case prepared by Grant Thornton UK LLP ("Grant Thornton") for Belfast City Council and the Strategic Investment Board in April 2011 (the "OBC") and an Addendum to the OBC prepared in May 2012 (the "Addendum").
- 1.2 Belfast City Council has subsequently been awarded capital grant of up to £698,700 for the procurement and implementation of Option 3 from the OBC and Addendum, which is a mid-sized 3rd generation bike hire scheme, with 300 bikes and 30 bike stations. It is a requirement of the capital grant that the scheme is fully implemented and operational, with the capital grant fully expended and claimed, by 31st March 2015.
- 1.3 Grant Thornton reviewed the projected capital and operating costs set out in the original OBC as part of preparing the first Addendum to the OBC, dated 1 May 2012.
- 1.4 Belfast City Council has now, as part of our original engagement, asked Grant Thornton to:
 - conduct a further review and analysis of the size and composition of the projected operating costs; and
 - consider the potential approaches which may be employed to mitigate or address the level of operating / revenue costs associated with the scheme and the operating cost risk borne by the Council.
- 1.5 This third Addendum to the OBC therefore should be read in conjunction with the original OBC and in particular the first Addendum, dated 1 May 2012.

2 Projected Revenue Costs

Confirmation of Cost Projections

- 2.1 The first Addendum to the original Outline Business Case ("OBC") projected an annual revenue cost for a third generation scheme of 300 bikes of £370,400 per annum (in 2012 prices). This was analysed as follows:

Item	£ p.a. (2012 prices)	Basis of Cost
Operating Cost	334,800	£1,168 per bike
Bike Replacement Cost	15,600	£520 per bike
Contract Management	20,000	Estimate
Total Revenue Cost	370,400	

- 2.2 The costs above were derived from a detailed research exercise which gathered estimated cost data for a number of existing schemes across the world, as set out in the original OBC and as updated in the first Addendum.
- 2.3 Whilst data exists which suggests a scheme could be operated for less than the £1,168 per bike metric set out above, this metric is considered prudent as:

the range of operating cost data retrieved is large; and
no specific allowance has been made for contingency, optimism bias, or other similar risk adjustments.

Further Comparative Data

- 2.4 By way of further comparison, the estimated operating costs for future regional bike schemes prepared by the National Transport Authority (NTA) in the Republic of Ireland¹ has also now been published. Cork in particular was most comparable to Belfast in terms of potential scale, and the NTA report estimates that a scheme of up to 265 bikes would cost €520k (or circa £415k) per annum to operate. This is slightly higher than the cost projected for a scheme in Belfast, but is broadly comparable in terms of order of magnitude.
- 2.5 Galway, Limerick and Waterford were each projected to cost €270k (or circa £220k) per annum for up to 250, 165 and 100 bikes, respectively. No cost data per bike was presented in this report.
- 2.6 The costs set out above therefore continue to be considered as reasonable and prudent estimates of the annual operating costs of the Belfast scheme.

Non Cash Costs

- 2.7 It is important to note that the costs set out above do not include the impact of any non-cash (e.g. depreciation) costs, which were estimated and set out in the first Addendum.

¹ Proposals for Introducing Public Bike Schemes in Regional Cities – Technical Feasibility Study, National Transport Authority, June 2011

Composition of Operating Cost

- 2.8 Available data in relation to the operating costs of similar bike sharing schemes is limited and generally presented as a 'per bike' metric, not broken down into constituent cost items. However, an estimate of cost breakdown has been provided below, based on available information².

Item	Share of Operating Cost	£ p.a. (2012 prices)
Operating Cost Analysis		
Bike Redistribution	30%	100,440
Bike Maintenance	22%	73,656
Station Maintenance	20%	66,960
Back Office Systems	14%	46,872
Administration	13%	43,524
Other Replacements	1%	
Total Operating Cost	100%	
Bike Replacement Cost	-	15,600
Contract Management	-	20,000
Total Annual Cost	-	370,400

- 2.9 As can be seen from the table above, the largest elements of the operating costs relate to bike redistribution costs (the cost of, for example, relocating bikes from central locations to outlying locations), and bike and station maintenance.

² Optimising Bike Sharing in European Cities – A Handbook, OBIS, June 2011

3 Options to Mitigate Revenue Costs

Options to Offset Revenue Costs

- 3.1 The majority of bike hire schemes operated worldwide do not operate solely on the basis of user charging and require some form of subsidy. The Council therefore wish to understand the approaches that could be employed to reduce the projected on-going revenue cost liability arising from a bike hire scheme for Belfast. There are a number of approaches which may be considered, and these are discussed below.

Membership and User Tariffs

- 3.2 The majority of schemes employ a combination of Membership and User Tariffs which generate revenue for the owner/operator. However, in determining the level of such charging, the Council will need to balance the strategic objectives of the scheme with a number of practical considerations.
- 3.3 The Council will recognise that a greater level of take up should be encouraged by a lower level of charging (many schemes offer the initial period of usage free of charge to encourage the use of the bikes for short trips only). Equally, lower charging will also be more compatible with any social inclusion ambitions for the scheme. Membership and user charging is also considered (albeit on an anecdotal basis) to help create a sense of ownership and responsibility for the scheme and may contribute to lower levels of vandalism. Similarly, membership and user charging systems offer a clear route to monitoring use and discouraging theft through the recording of user data each time a bike is hired.
- 3.4 The levels of Membership and User Tariffs are considered below for the schemes in Dublin, London, Blackpool and Paris (assuming for this purpose €1 = £0.8).

Description	Dublin	London	Blackpool	Paris
Annual Membership	£8.00	£45	£10.00	£23.20
Usage for 0 – 30 mins	Free	Free	Free	Free
1 hr	£0.40	£1.00	£1.00	£0.80
2 hrs	£1.20	£6.00	£2.00	£5.60
3 hrs	£2.80	£15.00	£3.00	£12.00
4 hrs	£5.20	£35.00	£4.00	£18.40

- 3.5 As can be seen above, each scheme has implemented a membership charge, provides 30 minutes of free usage, followed by a small charge for use up to one hour. Charges increase steeply in most schemes post one hour to discourage long term use of the bikes.

Potential Membership and User Charging Revenue

- 3.6 The original OBC for Belfast projected a 'low' scenario based on 300 bikes and a registered uptake of 2% of the population, or circa 5,500 members on maturity. Based on an annual membership charge of £10, this would generate annual revenue of £55,000.
- 3.7 The 'low' scenario also projected between 900 and 1,500 (an average of 1,200) trips per day at maturity. This would equate to approximately 438,000 trips per annum. Data in relation to the

dublinbikes scheme³ states that approximately 95% of journeys are free. On the assumption that the remaining 5% of journeys are charged at a blended cost of £2 for varying periods of use, 438,000 trips in Belfast could generate circa £43,800 revenue per annum.

- 3.8 Based on the projections and assumptions above, membership and user charging may generate circa £98,800 per annum, mitigating in the region of 27% of the total projected revenue costs of £370,400 per annum.

Sponsorship or Naming Rights

- 3.9 The opportunity exists to sell sponsorship or naming rights to a scheme in Belfast which could also be used to mitigate on-going revenue costs. This approach has been used in particular in London where Barclays are reported to have paid £25m over five years for such rights, although London is clearly not a useful comparison to Belfast in terms of order of magnitude. The 'green' credentials of a bike hire scheme may prove to be an attractive proposition to potential sponsors, although consultation with outdoor advertising companies during the development of the original OBC noted that the advertising market is weak at the moment.
- 3.10 It is very difficult to estimate the amount that an organisation would be willing to pay for sponsorship rights in Belfast. There is a lack of publicly available information on comparable commercial sponsorship deals for other cities, however the recent 'CowParade' event in Belfast offered up to 12 on-street sponsorship opportunities to local businesses at a cost of circa £5,000 each for twelve months. It should be noted however that this element of the event did not proceed and the level of interest and take up is not in the public domain.
- 3.11 The Council may therefore wish to test the market as to the level of sponsorship that may be generated by the scheme. As set out in the second Addendum to the OBC, it would be possible to tender a sponsorship or naming rights package either together with the main scheme procurement (i.e. to encourage bike hire scheme operators to include sponsorship revenue as part of their bid for the scheme), or bids for sponsorship / naming rights could be sought in parallel as part of a separate competition.

Advertising

- 3.12 The potential for the scheme to be financed through the use of on-street advertising (e.g. billboards) was discussed as an option in the original OBC. Under this model, advertising rights are awarded to a company in return for the delivery and operation of the scheme. However this option was ruled out as a grant was being made available to fund the capital development of the scheme. However, the potential exists for the Council to ring-fence income streams from existing or new advertising assets in the City (e.g. advertising on new street furniture at the cycle stations). However, the income generated in this way would most likely result in a redistribution of advertising revenue within the Council, rather than providing significant additional revenue for the Council.
- 3.13 A further approach to mitigate revenue costs could be through the sale of 'on-bike' advertising rights. As set out in the original OBC, this is a model which is being employed in Aarhus, where the Authority has appointed a third party advertising agency to source and manage the sale of 'on-bike' advertising. This space could be sold to either a single advertiser, or a number of smaller advertisers, although this is likely to be less efficient. It is again very difficult to estimate the level of income which would be generated by such an approach. The Council may wish to test the market in this regard.

³ <http://www.dublincity.ie/PRESS/DCCPRESSPACKS/DBW2011/Pages/CyclinginDublin.aspx>

Other Contributions

- 3.14 The Council should also explore the potential for revenue contributions to be secured from other public bodies or agencies. The range of objectives and potential benefits of the scheme (transport, environmental, health etc.) would align with the objectives of a wide range of public bodies who, for policy reasons, may be interested in partnering with the Council on the scheme.
- 3.15 The Council may also wish to explore the potential for private sector contributions towards the operational costs of the scheme. Experience in Dublin has been that the scheme is hugely successful and as such, a number of large employers have approached the Council with a view to having the scheme extended / located near their business premises. The potential may therefore exist for a business contribution to be made in exchange for the location of docking stations in the vicinity of certain premises.

Structuring of Procurement to Provide Cost Certainty

- 3.16 It will be important for the Council to gain as much certainty as possible with regard to any on-going operating cost liability. The options set out above provide for a number of realistic routes through which the overall level of operating cost may be mitigated. However, the Council will have the ability to secure varying degrees of certainty regarding operating costs through the allocation of user demand and operating cost risks in the contract, and the proper structuring of the procurement and drafting of procurement documentation.
- 3.17 For example, the procurement may be structured to inter alia:

Transfer operating cost risk, by requiring the operator to bid an annual operating charge for the scheme. This would require the Operator to assume operating cost risk, and provide the Council with a degree of certainty as to the on-going operating cost liability. This approach could be undertaken in tandem with the procurement of sponsorship or naming rights, as discussed in the second Addendum.

Transfer demand / income risk (from membership and user charges) by requiring the operator to bid a guaranteed minimum level of income or a capped operating subsidy from the Council. This would involve the operator assuming a level of demand risk, with the Council potentially sharing any excess returns beyond the minimum levels with the operator. If the operator assumes a degree of demand risk and bids a minimum level of income / maximum subsidy requirement for a defined scheme, this would give the Council greater certainty as to the maximum cost exposure it will have in each year before entering into a contract. Such an approach is however likely to require the transfer to the Operator of some control over the setting of membership and usage charges, which will need to be carefully managed in order to ensure that the Council's policy objectives of encouraging public use of the scheme are protected. The requirement to 'bid back' a minimum income or maximum subsidy could be undertaken in tandem with the procurement of sponsorship or naming rights, and would provide greater certainty as to the Council's maximum on-going operating cost liability.

Transfer full operating cost and demand risk by requiring the operator to fund the operating costs of the scheme from user charges and third party income (i.e. no public subsidy available). Under this approach, the operator would be required to bid a capital price and a charging mechanism that would allow the operator to fund the operating cost of the scheme from user charges, sponsorship/naming rights, advertising revenues and any other third party revenue that they can generate. However, experience elsewhere suggests that this self-financing approach is unlikely to be successful, as the level of income required to fully cover the operating costs is unlikely to be able to be secured from user charging and sponsorship alone and that some level of public subsidy will be required.

Conclusion

- 3.18 Experience elsewhere has shown that there are a number of different sources of income that can be sought by the Council to offset the estimated annual operating cost of circa £370,000. These include membership and user tariffs, sponsorship / naming rights, advertising revenues, public sector funding support (for delivering policy objectives) and private sector contributions. Experience elsewhere suggests that together, such income could be expected to generate over £100,000 per annum.
- 3.19 The Council is also able to structure the procurement of the scheme to transfer the operating cost risk and third party income risk to the successful operator, thereby providing certainty to the Council as to the level of the annual operating subsidy that the Council will have to fund during the term of the first operating contract for the scheme.