

Bath & North East Somerset Council		
MEETING:	Cabinet	
MEETING DATE:	10 September 2014	EXECUTIVE FORWARD PLAN REFERENCE: E 2694
TITLE:	Bath Freight Consolidation New Contract	
WARD:	All	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix A – List of businesses using the freight consolidation operation		

1 THE ISSUE

- 1.1 An urban freight consolidation centre was established to serve Bath in January 2011, with the aim of reducing the number of goods vehicle deliveries to businesses in the city.
- 1.2 The main benefit of the consolidation operation is the high percentage of journey reductions achieved for the participating businesses. On average, the number of deliveries to these businesses has been reduced by around 80%. There are currently 34 businesses, with 38 premises, in Bath using the consolidation service. At its current scale the reduction in total deliveries across the city is small, however if the number of businesses involved in the consolidation service could be significantly increased it would have a major impact on the number of delivery vehicles entering the city.
- 1.3 The contract and funding for the Bath freight consolidation operation, which is jointly procured with Bristol City Council, ended on 31st July 2014. A joint competitive tendering exercise was undertaken for a new contract to run for 3 years with an option to terminate the contract after 2 years. A decision is now required to award the contract.
- 1.4 Only one bid was submitted, by the existing operator DHL. The current contract price for Bath & North East Somerset is £118,000 per annum, DHL's price for this Council's share of the new contract is £124,000 per annum.
- 1.5 DHL has estimated that a breakeven volume cannot be reached within the lifetime of this contract and that an increase in freight volumes of 375% would be required to bring the operation close to a breakeven position, which they believe could be achieved in five years.

2 RECOMMENDATION

- 2.1 The options to be considered are:

- (1) To award the new contract for three years, with an option to terminate after two years. If either authority took the decision to terminate the contract after two years, the other authority would have the option to continue for a further year.

- (2) To give three months' notice to the businesses using the operation. Should the decision not to award the new contract be made by Bath & North East Somerset Council, Bristol City Council could still award the contract for their area.
- (3) The Council will during the contract period explore local options that will help to expand the service further.

3 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

- 3.1 On 12 October 2011, Cabinet approved the following: *'Measure 7 Freight Consolidation Trial: To take up & fund the option in the contract for the trial scheme to run for a second year in Bath which will be funded from revenue budget contingency at a cost of £102,873. To continue to engage with Bristol City Council on this joint Contract.'* At the end of 2013/14 there was £88k of this reserve remaining.
- 3.2 In 2014/15 there is a LSTF project underspend of £24k which can be reallocated to fund the freight consolidation operation. A bid to the DfT for £100k in LSTF funding has been granted to cover freight consolidation for 2015/16.
- 3.3 The following table shows the funding of each option:

	LSTF Grant	Revenue Budget Contingency Reserve	Service Savings to be identified
3 months notice	£24k	£7k	
2 year extension	£124k	£88k	£36k

- 3.4 The LSTF underspend and revenue budget contingency reserve are sufficient to cover a 3 month extension of the contract from 1 August 2014. This would also release £81k from the revenue budget contingency reserve.
- 3.5 An extension of the contract for two years would cost £248k and would be funded by LSTF (£124k) and the existing revenue budget contingency reserve (£88k) and would require Environmental Services to identify one-off savings of £36k through the budget process to fund the balance or opt out of the service giving three months notice.
- 3.6 Unless it has been possible to identify opportunities for the contract to be continued on a self-funding basis or further funding can be identified, 3 month notice to terminate will need to be issued on 1 July 2016".

4 STATUTORY CONSIDERATIONS AND BASIS FOR PROPOSAL

- 4.1 The freight consolidation operation contributes to 'leading Bath and North East Somerset to an environmentally sustainable, low carbon and climate resilient future' by reducing the number of delivery vehicles entering the city. This encompasses transport, peak oil and air pollution.

5 THE REPORT

- 5.1 An urban freight consolidation centre was established to serve Bath in January 2011 with the aim of reducing the number of goods vehicle deliveries to businesses in the city. Given that many of the deliveries into central Bath are made by heavy goods vehicles, these trips have a major impact on the city centre environment in terms of vehicle emissions as well as contributing to traffic congestion. The impact of goods vehicles is a key concern in a UNESCO designated World Heritage Site which includes an Air Quality Management Area. The contribution of freight traffic to poor air quality, noise, severance and damage to the fabric of historic buildings is disproportionate to the volume of freight traffic, which can also be intrusive in a crowded city centre environment.

- 5.2 Urban freight consolidation centres reduce the number of large delivery vehicle journeys entering city centres by providing a facility, on the edge of the city close to the strategic road network, where goods can be consolidated for onwards dispatch in smaller, electric delivery vehicles.
- 5.3 In order to share overhead costs for the consolidation centre, Bath & North East Somerset Council procured the operation in partnership with Bristol City Council to establish an operation to serve both cities, the first such operation serving more than one city in the UK.
- 5.4 Goods are consolidated for onwards dispatch in pre-arranged time slots using low emission/low carbon 'Smith Newton' 9 tonne electric delivery vehicles into central Bath. £9 per cage and £12 per pallet is charged to participating businesses for deliveries.
- 5.5 The main benefit of the consolidation operation is the high percentage of journey reductions achieved for the participating businesses. On average the number of deliveries to these businesses has been reduced by around 80%.
- 5.6 A number of new businesses joined the scheme within the first year (2011) with 17 outlets participating. At the end of Year 2 (2012) this had risen to 26 and at the end of last year (2013) this had grown to 34.
- 5.7 There are currently 34 businesses, with 38 premises, in Bath using the consolidation service (listed in Appendix A). At its current scale the reduction in total deliveries across the city is small, however if the number of businesses involved in the consolidation service could be significantly increased it would have a major impact on the number of delivery vehicles entering the city.
- 5.8 A competitive tendering exercise was undertaken jointly with Bristol City Council for a new contract to run for 3 years with an option to terminate the contract after 2 years. Bidders were asked to project a level of deliveries which would result in a break-even operation, requiring no Council subsidy.
- 5.9 Only one bid was submitted, by the existing operator DHL. The current contract price for Bath & North East Somerset is £118,000 per annum, DHL's price for this Council's share of the new contract is £124,000 per annum.
- 5.10 DHL has calculated the increase in freight volumes required to reduce subsidy payments and for the operation to be close to reaching a breakeven position, this is summarised in the table below. The reason for the high volume level required to reach break-even is because extra vehicles and staff are needed as volumes rise and therefore costs also increase.
- 5.11 The DHL business plan is to increase freight volumes by expanding the operation to include cross-dock work. This differs from the current operation where deliveries come into the consolidation centre and are then dispatched on the same day, to an operation where stock is stored at the consolidation centre for a number of days and dispatched when required. Cross-dock work provides higher revenue than same-day delivery, and will therefore require lower subsidies.
- 5.12 DHL has estimated that a breakeven volume cannot be reached within the lifetime of a three year contract but that the operation could be in a close to break-even position in 5 years if an increase in freight volumes of 375% can be achieved. The conclusion is that it will be challenging to reach a breakeven level of business and that an on-going subsidy will be required to maintain the operation, at least in the short and medium term.

Time Period	% increase in volumes required for price reduction	Subsidy charge (same day on-ward delivery)	Subsidy charge (including stock storage)
		£	£
Year 1	50%	246,680	224,180
Year 2	150%	224,870	179,870
Year 3	225%	194,894	134,894
Year 4	300%	148,845	73,845
Year 5	375%	115,001	28,751

5.13 If the new contract is not awarded, the current contract will need to be extended to provide a three month notice period to the businesses using the operation.

6 RATIONALE

6.1 Urban freight consolidation centres could reduce the number of delivery vehicles entering Bath and make a significant impact on the city centre environment. In Bath a high percentage of journey reductions have been achieved for participating businesses, on average the number of deliveries to these businesses has been reduced by around 80%. However although the Council and operator DHL have worked hard to recruit businesses since 2011, only 34 mainly small retail businesses in Bath city centre have joined the scheme, therefore at its current scale the reduction in total deliveries across the city is small.

6.2 The on-going subsidy required from the Council per annum if a new contract is awarded would be £124,000, funding is in place to continue the operation until March 2016. DHL's plan submitted for the business concludes that a break even volume can not be reached within the lifetime of a two or three year contract, but the operation could be close to a break-even position in 5 years if an increase in freight volumes of 375% can be achieved.

7 OTHER OPTIONS CONSIDERED

7.1 The options considered are:

- (1) to award the new contact for two years
- (2) to award the new contract for three years
- (3) to give three months notice to end the operation

8 CONSULTATION

Consultation has been undertaken with: Bath & North East Somerset councillors, local residents (including The Federation of Bath Residents Associations), representatives of local businesses (including Bath Chamber of Commerce and Future Bath Plus City Centre Management Partnership), Bristol City Council, freight operators representatives (Road Haulage Association and Freight Transport Association), Bath & North East Somerset Council's Section 151 Finance Officer and Monitoring Officer.

9 RISK MANAGEMENT

9.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.

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Background papers	
Please contact the report author if you need to access this report in an alternative format	