

Decision of:	EXECUTIVE
Decision Number:	EX28/2017
Relevant Officer:	Steve Thompson, Director of Resources
Relevant Cabinet Member:	Councillor Simon Blackburn, Leader of the Council
Date of Meeting:	11 September 2017

PROVISION OF LOAN FINANCE TO BLACKPOOL TRANSPORT SERVICES LIMITED

1.0 Purpose of the report:

- 1.1 To seek approval for the Council to make a loan to Blackpool Transport Services Limited (BTSL) who wish to replace 72 time expired buses with new vehicles using finance provide by the Council.

2.0 Recommendation(s):

- 2.1 To Prudentially Borrow up to £16.2m over a term of 10 years to lend to Blackpool Transport Services Limited.
- 2.2 To offer Blackpool Transport Services Limited a loan facility of up to £16.2m. It is intended to phase the release of the funds to cover the purchase of 20 double buses in October 2017 (£4,659,000), 4 buses in March 2018 (£934,000), 18 buses in October 2018 (£2,997,000), 15 buses in March 2019 (£3,558,000), 15 buses in March 2020 (£3,635,000), and sundry depot assets (totalling £217,000). Each loan would be repaid over ten years with 120 monthly payments. The requested loan facility also includes a £200,000 contingency to allow for price change over the life of the renewal programme.
- 2.3 To offer Blackpool Transport Services Limited a short-term facility of up to £1,000,000 for 2 months after each drawdown in order to manage cash flow in respect of the VAT payable on the transaction.

3.0 Reasons for recommendation(s):

3.1 The company is a wholly owned subsidiary of the Council and this proposal is an opportunity to support it in improving the quality of public transport in the town.

New buses have much cleaner engines than their predecessors so fleet replacement will contribute to improving air quality. Public Health England has published data (2015) showing that 5.48% of mortalities in Blackpool can be attributed to particulate air pollution (West Lancashire average is 4.14%). Since the buses Blackpool Transport intends to purchase have Euro VI engines and they produce half the level of particulate pollution (0.01 parts per million) than Euro V and Euro IV buses, the benefits to air quality in the town centre should be noticeable. A similar outcome is an improvement in fuel consumption of around 18%, reducing the amount of diesel needed to operate the bus network.

The loan will be repaid by the company from increased income derived from bus network patronage and reduced expenditure on maintenance and fuel.

3.2a Is the recommendation contrary to a plan or strategy adopted or approved by the Council? No

3.2b Is the recommendation in accordance with the Council's approved budget? Yes

3.3 Other alternative options to be considered:

The company could raise loan finance from a leasing company at a higher cost or with more restrictive terms. This would mean that the replacement programme might be phased more slowly or higher fares charged to users or a lower return offered by the company to its shareholder the Council. None of these situations are considered desirable.

4.0 Council Priority:

4.1 The relevant Council Priority is

“The economy: Maximising growth and opportunity across Blackpool”

Many visitors to Blackpool are used to travelling on buses purchased by operators for work in cities like Glasgow, Leeds and Manchester. These fleets are often subject to maximum vehicle age restrictions under the terms of local authority contracts which means that the Blackpool fleet has been made to look tired, old fashioned and a deterrent to travelling by public transport.

5.0 Background Information

- 5.1 Blackpool Transport Services Limited provides a comprehensive commercial network of bus services throughout Blackpool and some parts of the Fylde coastal plain. The company operates 138 buses, 16 light railway trams and approximately 20 heritage trams.
- 5.2 During the past decade the company has not been able to invest regularly in its bus fleet. As an illustration, if no buses had been purchased from the beginning of the renewal programme in June 2016, then by September 2019, 74% of the individual buses' useful economic lives would be expired. The effect of operating a fleet with such a skewed age profile is that they are suffering from deteriorating reliability causing higher consumption of spare parts, there is a need to employ extra engineering labour and the ratio of spare buses to operating buses is very high. This last outcome then drives costs even higher.
- 5.3 Blackpool Transport Services Limited has an ambitious Business Plan covering the five-year period from 2016 to 2021. The Business Plan has been approved by the Council and the public are aware of the fleet rejuvenation programme.
- 5.4 The Business Plan describes a range of strategic initiatives that support the central theme that a bus or tram customer's experience has to be a positive one. This concept is more than just achieving customer satisfaction results, which Blackpool Transport Services Limited already does, because the strategic aim is to attract as champions new public transport users, and grow its revenue and profitability.
- 5.5 The combination of the fleet's very high age and the Council acting in the role of shareholder with an expectation of an annual £1m return on its investment means that the bus fleet has to be replaced over as short a time as possible. It is therefore intended that an ongoing rolling programme is established. A financial case for buying the new buses has demonstrated the Company is able to meet the financing costs resulting from the investment.
- 5.6 In 2016 and 2017 the Council provided loan finance to enable Blackpool Transport Services Limited to purchase 35 new buses and this new loan facility will enable the Company to acquire a further 72 buses. This will mean that the fleet of Palladium buses will consist of 107 vehicles acquired under loans from the Council plus 19 buses the Company has financed. The total fleet will be 126 vehicles, which is a reduction of 12 buses from the size of the current fleet. This reduction is achievable because the new buses better match operational requirements and are more reliable.

- 5.7 The first loan drawdown is intended to finance the acquisition of 20 double deck buses for use on a rail replacement contract that has been offered to Blackpool Transport Services Limited. The contract from Arriva and Northern Railways will link Blackpool and Preston during a 19-week rail blockage that commences in early November 2017. The quality of the service is a vital part of maintaining travel flows for commuters between these two towns and visitors to Blackpool.
- 5.8 New buses have become information technology platforms that have the potential to offer customers features such as infotainment on WIFI (ebook, emagazines, audio-books and Now TV) as well as live data feeds monitoring the mechanical and electrical condition of the bus. This last aspect should enable predictive maintenance and reduce vehicle down time. By replacing buses quickly, Blackpool Transport Limited will be able to offer the above to customers on all Palladium branded buses by 2020.
- 5.9 The occupation of Rigby Road and Starr Gate Depot requires increasingly high levels of capital and revenue expenditure to use these sites efficiently. The finance requested is regarded as the minimum needed for assets that are portable should the business relocate from Rigby Road.

5.10 Does the information submitted include any exempt information? No

5.11 Is the Corporate Delivery Unit aware of this report? Yes

The Corporate Delivery Unit has been consulted on the report but does not have any issues to raise.

5.12 **List of Appendices**

None.

6.0 Legal considerations:

6.1 The Council's Legal Services Section has considered whether the loan constitutes "State Aid" and whether the Council has the appropriate legal powers to make such a loan. The interest rate to be applied will not break state aid rules and the Council has the powers to make such a loan under the general powers of competence under the Localism Act 2011 Section 1.

7.0 Human Resources considerations:

7.1 None.

8.0 Equalities considerations:

8.1 None.

9.0 Financial considerations:

9.1 The Council will borrow up to £16.2m prudentially in five tranches as detailed. This has been considered by the Business Loans Fund Panel and recommended for approval.

9.2 The loan repayment from Blackpool Transport Services Limited will fund the Prudential Borrowing costs incurred by the Council.

9.3 In addition, the Council will offer a short term loan facility to Blackpool Transport Services Limited to enable them to manage their cash flow position.

10.0 Risk management considerations:

10.1 The most significant risk to the Council is the non-repayment of these loans, but the Council will take a charge on the buses purchased thereby seeking to minimise the sums at risk.

10.2 Blackpool Transport Services has made all payments due under the first loan facility as they have fallen due.

11.0 Ethical considerations:

11.1 The loan would support the acquisition of a more environmentally friendly transport service.

12.0 Internal/ External Consultation undertaken:

12.1 As outlined in the Financial considerations this has been considered by the Business Loans Fund Panel.

13.0 Background Papers

13.1 Confidential Business Loans Fund Panel minutes that by their commercially sensitive nature are not available for public inspection.

14.0 Key decision information:

- 14.1 Is this a key decision? Yes
- 14.2 If so, Forward Plan reference number: 8/2017
- 14.3 If a key decision, is the decision required in less than five days? No
- 14.4 If **yes**, please describe the reason for urgency:

15.0 Call-in information:

- 15.1 Are there any grounds for urgency, which would cause this decision to be exempt from the call-in process?
- 15.2 If **yes**, please give reason: No

TO BE COMPLETED BY THE HEAD OF DEMOCRATIC GOVERNANCE

16.0 Scrutiny Committee Chairman (where appropriate):

Date informed: 1 September 2017 Date approved:

17.0 Declarations of interest (if applicable):

- 17.1 Councillor Benson declared a Disclosable Pecuniary Interest the nature of the interest being that her husband was an employee of Blackpool Transport Limited.

Councillor Mrs Wright declared a prejudicial interest the nature of the interest being that she was a Council appointed Board member of Blackpool Transport Limited, she has also been appointed as the Board's Chairman.

18.0 Executive decision:

- 18.1 The Executive agreed the recommendation as outlined above namely:

1. To Prudentially Borrow up to £16.2m over a term of 10 years to lend to Blackpool Transport Services Limited.

2. To offer Blackpool Transport Services Limited a loan facility of up to £16.2m. It is intended to phase the release of the funds to cover the purchase of 20 double buses in October 2017 (£4,659,000), 4 buses in March 2018 (£934,000), 18 buses in October 2018 (£2,997,000), 15 buses in March 2019 (£3,558,000), 15 buses in March 2020 (£3,635,000), and sundry depot assets (totalling £217,000). Each loan would be repaid over ten years with 120 monthly payments. The requested loan facility also includes a £200,000 contingency to allow for price change over the life of the renewal programme.
3. To offer Blackpool Transport Services Limited a short-term facility of up to £1,000,000 for 2 months after each drawdown in order to manage cash flow in respect of the VAT payable on the transaction.

18.2 Date of Decision:

11 September 2017

19.0 Reason(s) for decision:

The company is a wholly owned subsidiary of the Council and this proposal is an opportunity to support it in improving the quality of public transport in the town.

New buses have much cleaner engines than their predecessors so fleet replacement will contribute to improving air quality. Public Health England has published data (2015) showing that 5.48% of mortalities in Blackpool can be attributed to particulate air pollution (West Lancashire average is 4.14%). Since the buses Blackpool Transport intends to purchase have Euro VI engines and they produce half the level of particulate pollution (0.01 parts per million) than Euro V and Euro IV buses, the benefits to air quality in the town centre should be noticeable. A similar outcome is an improvement in fuel consumption of around 18%, reducing the amount of diesel needed to operate the bus network.

The loan will be repaid by the company from increased income derived from bus network patronage and reduced expenditure on maintenance and fuel.

19.1 Date Decision published:

13 September 2017

20.0 Executive Members in attendance:

20.1 Councillor Blackburn, in the Chair

Councillors Cain, Campbell, Cross, Kirkland and Smith

Note: Councillor Benson having declared a Disclosable Pecuniary Interest left the room during consideration of the item and took no part in the discussion or voting thereon.

Note: Councillor Mrs Wright having declared a prejudicial interest left the room during consideration of the item and took no part in the discussion or voting thereon.

21.0 Call-in:

21.1

22.0 Notes:

22.1