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**GALASHIELS TRANSPORT INTERCHANGE  
OPERATING MODEL**

**Report by Depute Chief Executive - Place**

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**SCOTTISH BORDERS COUNCIL**

**2 April 2015**

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**1 PURPOSE AND SUMMARY**

- 1.1 **This report provides a summary of the business model for the operation of the Transport Interchange and a recommendation for the charging regimes for bus operators and tenants that will use the building.**
- 1.2 The Transport Interchange is being delivered as the gateway to the Scottish Borders for the Borders railway and as such has been designed to provide a positive interface with sustainable transport users to encourage a modal shift and provide a positive first impression to visitors and investors to the region.
- 1.3 The business plan has been created following industry standards to calculate the running cost of the building and the income generated.
- 1.4 As the business case has been built using contemporary information for other Council buildings, the actual running cost will not be known until after the first year of operation. However, the costs charged to occupiers for the building service charge and departure charge are calculated based on the estimates in the business plan.
- 1.5 The current estimate for the bus departure charge is £2.88 excluding VAT compared to the original bus station charge of £0.35. However, this reflects the quality of the building that is being provided and the increased level of customer service that is being provided to promote sustainable transport and the Scottish Borders.
- 1.6 This report recommends that the departure charge is subsidised by the Council to a level that is comparable with the rest of the UK market so that it does not adversely affect the commercial viability of bus routes in the short term and the additional costs are mitigated through measures to increase the income into the Transport Interchange in the early years.
- 1.7 Annexes 1–3 set out financial information in relation to the Operating Model. They are published as Private papers as they are commercially confidential.

## **2 RECOMMENDATIONS**

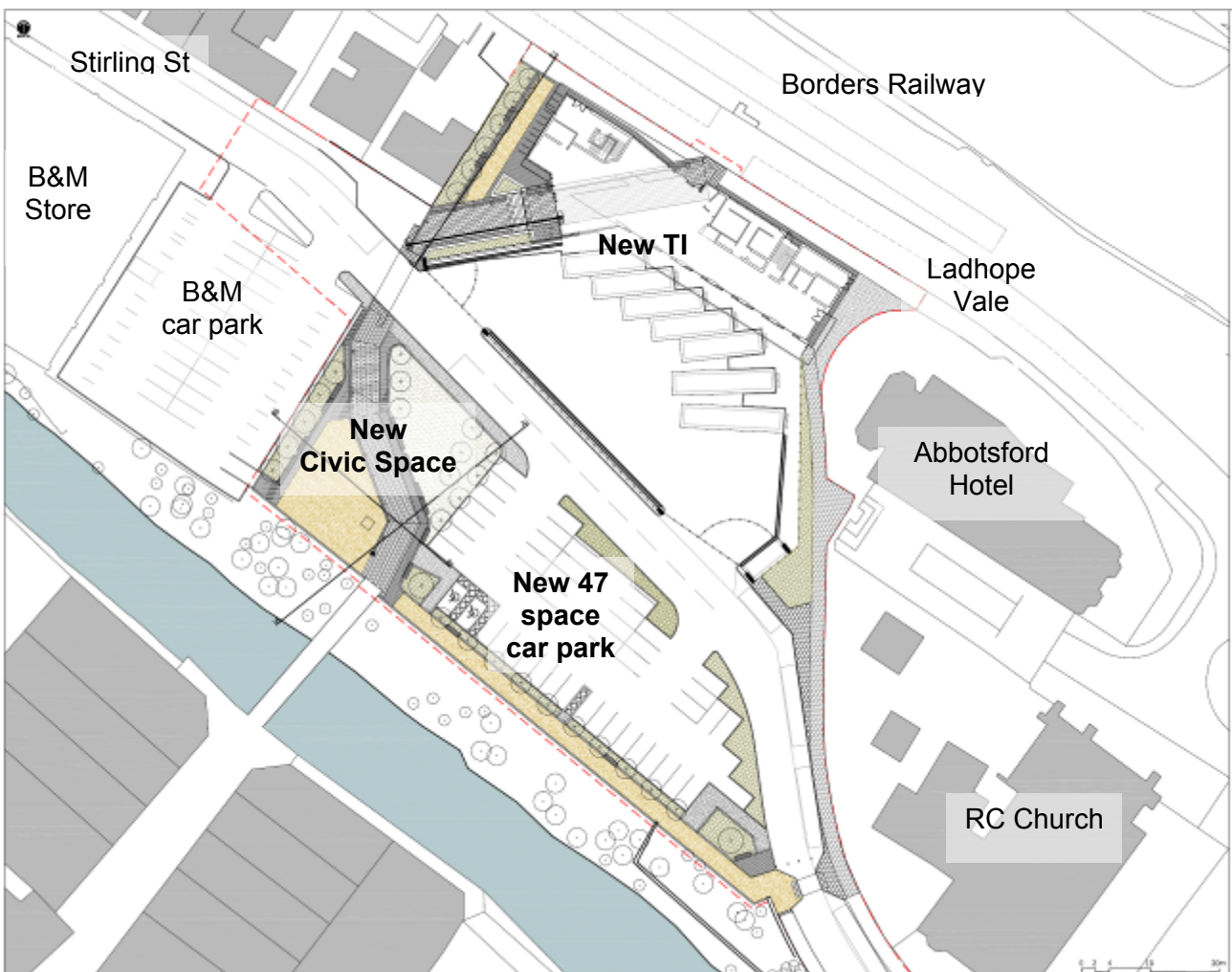
### **2.1 I recommend that Council agrees:-**

- (a) With the operation model for the Transport Interchange as per Section 4 of this report;**
- (b) With the option to subsidise the departure charge by £0.93 per departure, from £2.68 to £1.75, in the early years to ensure the level of the bus services currently expected for the Borders Railway opening; and**
- (c) That the Executive Committee will monitor the operational model of the Transport Interchange on an on-going basis.**

### 3 BACKGROUND

- 3.1 The preferred option for the Transport Interchange, that was approved by Council on 25 February 2010, will deliver the following benefits:
- (a) Create a statement structure that creates a gateway to the Scottish Borders and exemplar first impression to visitors and investors;
  - (b) Improve sustainable transport facilities to encourage a modal shift and provide an attractive, viable alternative to the private car;
  - (c) Sustain/increase the use of public transport to ensure that the frequency of service from the rail provider is maintained;
  - (d) Attract private sector investment into the town by encouraging increased footfall through the Stirling Street area;
  - (e) Knock-on economic benefits to the town centre from increased footfall and private sector investment.

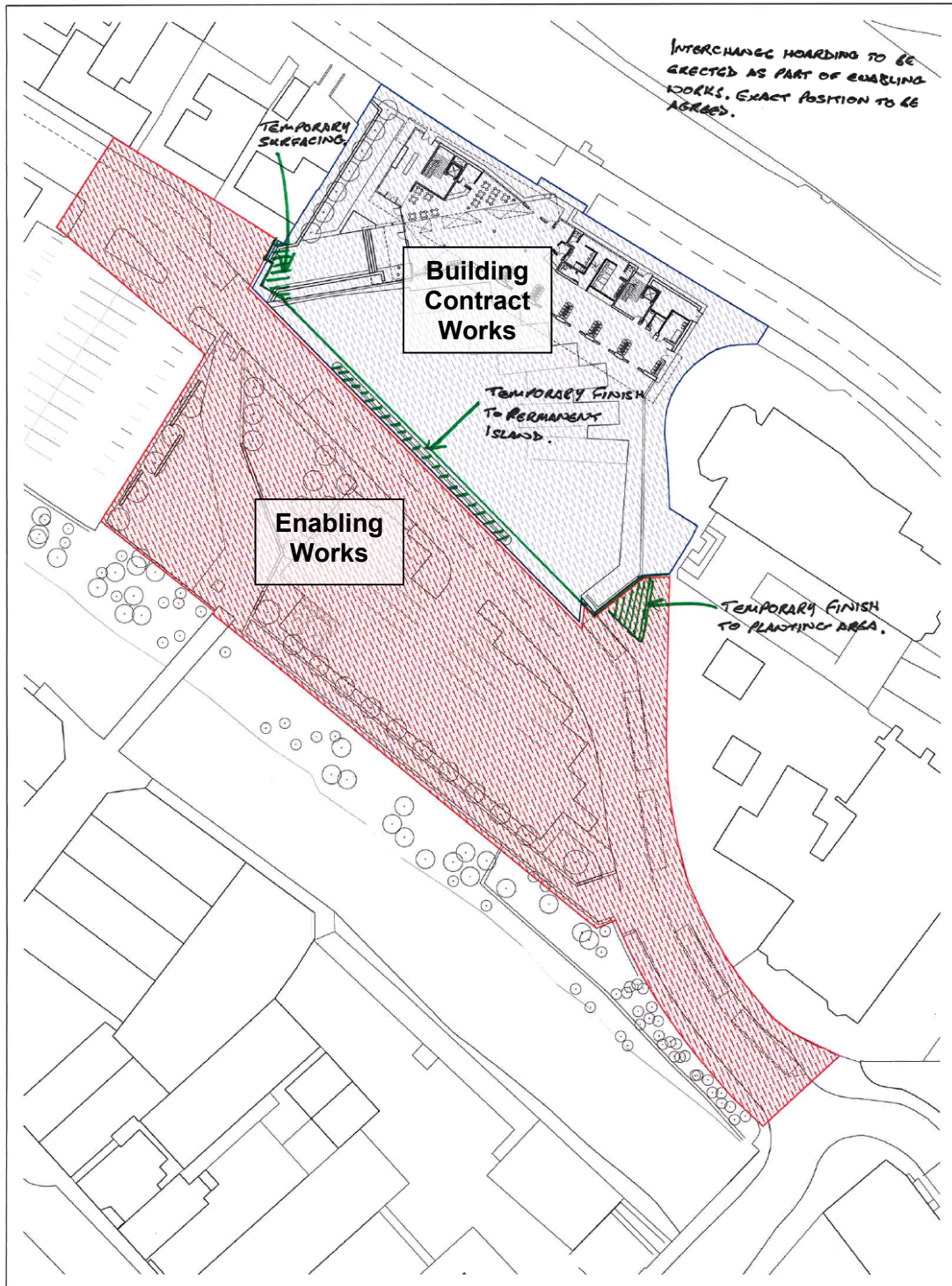
**Figure 1 – Master Plan Layout**



- 3.2 The Executive Committee agreed on 21 May 2013 that the project milestone of the procurement of the construction contractor should commence.
- 3.3 The works were split into two phases (as shown on Figure 2 below), with the enabling works (new road re-alignment, new civic space, building demolition, temporary on-street bus stances and traffic management) commencing in October 2013 and was partially completed by March 2014.

This approach allowed the building construction to commence in June 2014, with the remainder of the infrastructure works to be undertaken from June onwards (demolition of existing bus station and new car park).

**Figure 2 – Schematic of Infrastructure and Building Contract Divide**



Date: 20/09/12 Scale @ A3: 1:500@A3 CAD Format: Autocad CAD File: 583\_proposed site plan\_1 Rev: /

583_SK_017_1	Galashiels Transport Interchange Scottish Borders Council Overview plan illustrating possible division of works into highways and building	D5 Architects LLP 17/17 Cornhill Street Birmingham B3 3EY T: 0121 633 4563 F: 0121 633 3946 info@dsarchitects.net www.dsarchitects.net
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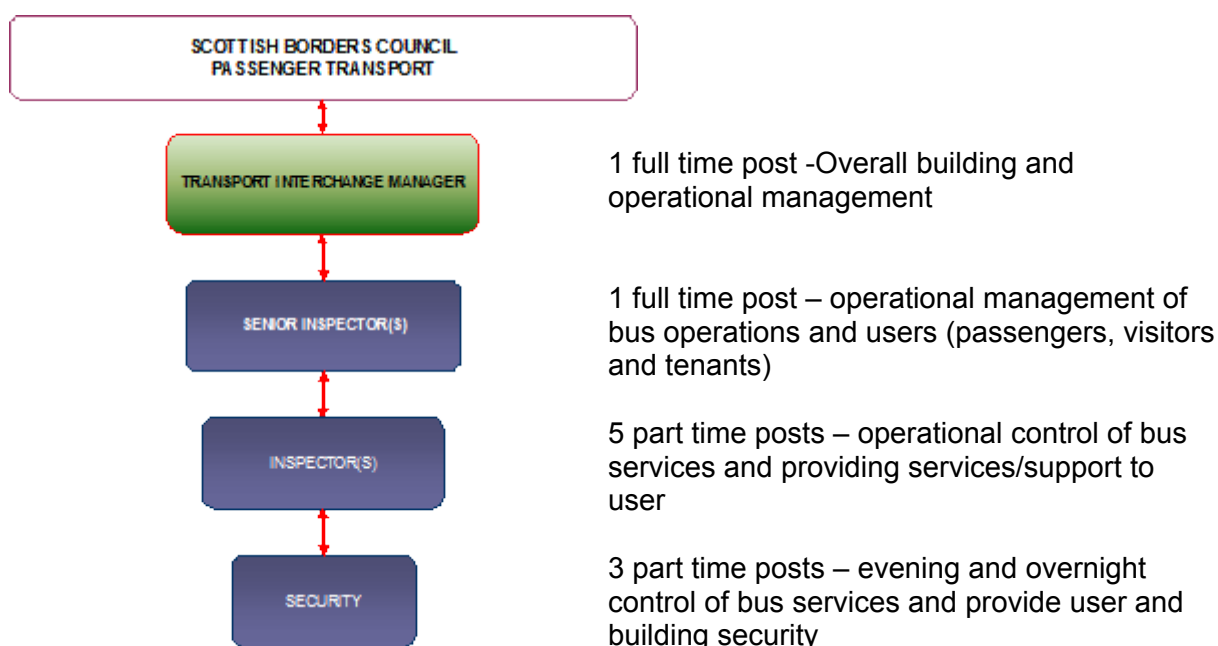
- 3.4 Works on site for the new building have progressed well in the last nine months and the recent focus of the project team has been the organisation and delivery of the operational model for the building prior to the commissioning period of the building in late June 2015.

- 3.5 The Transport Interchange Building will be unlike any other building owned and operated by Scottish Borders Council as it will have to provide 21 hour per day public access for bus and train services (05:00 to 02:00) and unrestricted access to the office space provided on the two upper floors.

#### 4 Operational Model

- 4.1 The project team (including Passenger Transport, Estates & Facilities Management and Corporate Finance) have created a ten year operating model for the building based on a twenty-four hour staffing model to inform the revenue budgetary requirements and targets that need to be achieved to run the building and let space within the building.
- 4.2 The main annual cost for the running of the building is staffing, equating to around 48% of the overall cost, and is made up of the structure in Figure 3 to cover the 21 hour per day availability of the building, overnight cleaning and security duties and provide the level of service expected of this new gateway to the Scottish Borders.

**Figure 3 – GTI Resource Structure**



- 4.3 All of the proposed posts will have a range of duties to include the following:
- Control bus operations/conflict;
  - Control bus layover and overnight parking;
  - Provide public support for sustainable transport and tourist information;
  - Aid passengers within the building;
  - Support tenants of the building;
  - Fault reporting and general maintenance;
  - General cleaning duties.
- 4.4 A 24-7 schedule of staffing requirements has been formulated to cover the 21 hour a day public availability that is required, with minimal overlap of resources and cover for holidays and period of staff ill-health. The schedules are provided in Confidential Annex 1.

- 4.5 The staffing schedule shows that the building will actually be staffed for 24 hours per day, with the security staff undertaking cleaning duties in the building in the three hour window that the building is closed to the public.
- 4.6 The building will be under the direct management control of Passenger Transport (designated budget holder) and sits within Commercial Services.
- 4.7 The project team believe that the staffing structure proposed for the Transport Interchange is the minimal required to provide a level of service that supports the users of sustainable transport, promotes bus and train services, provides a positive interface for visitors and investors to the area and ensures that the building is run and maintained to an appropriate standard.
- 4.8 To support the proposed staffing structure in the first few months of the Borders Railway opening, the project team are pursuing the opportunity for volunteer involvement to act as welcome hosts to provide additional points of contact for the public to help integrate the new building and train service into the community.

## **5 Business Plan**

- 5.1 The business plan has been built based on industry guidance from the Royal Institution of Chartered Surveyors and the Competition Commission (note on calculation of departure charge). The ten year profile is provided in Table 1. (A year 1 summary and Table 1 showing the ten year estimate of the business plan is provided in Confidential Annex 2)
- 5.2 The detailed estimates that formulate the overall figures in Table 1 have been calculated based on a consultant produced life cycle analysis, contemporary utility information from the Council's other building stock and graded posts for the staffing structure.
- 5.3 The target occupancy percentages and other income streams have been based on discussion with Estates Management, but the Transport Interchange Manager will be responsible for meeting and exceeding the current expectations to minimise the impact on revenue budgets.
- 5.4 The business plan has calculated the global cost for operating the building and then split the applicable costs for charging under the following headings:
  1. Service Charge – the costs of running the building (staff, utilities, insurance, etc.) and divided by the total floor area to get a cost per square metre.
  2. Departure Charge – all costs associated with areas of the building that are used for the operation of bus services (based on a cost per square metre or service charge) and then divided by the total capacity of the seven bus stances over the year.
- 5.5 The areas of the business plan that result in a reduced annual income versus expenditure resulting in a yearly financial deficit in the early years of operation are associated with:
  1. The Council incurring the running costs (or service charge) for all areas of the building that are not leased.
  2. If the capacity of the bus stances is in excess of the current provision of bus departures, then the Council has to retain the cost of unused capacity.

- 5.6 The issue of the Council retaining the costs of the service charge for empty space within the building and the unused capacity of the bus stance (used capacity estimated at 90%) is compounded by the estimated cost for running the building being higher than what can be recovered by the Service Charge at the market rate of £60/sqm that will be charged to tenants. This results in non-recoverable cost in year one of operation.
- 5.7 All of the issues above result in the year 1 estimated deficit demonstrated in Confidential Annex 2.
- 5.8 The reality of the non-recoverable element of the business plan is that it is currently based on purely estimated information and the business plan is a living document that will have to be updated on an annual basis to include actual costs incurred to replace the estimated information and will be important for the future budgetary profiling of the building.

## **6 Departure Charge to Service Providers**

- 6.1 Using the guidance provided by the Competition Commission (note on calculation of departure charge) and the estimated costs for running the Transport Interchange, the departure charge for the building is currently calculated to be £2.68 (excluding VAT).
- 6.2 One of the objectives for the Transport Interchange project was to create a level playing field for all bus operators in relation to Departure Charges for facilities in Galashiels and an equal charge will be applied to all companies using the Transport Interchange.
- 6.3 Service providers have highlighted their concerns regarding the negative effect that the estimated departure charge of £2.68 per bus departure will have, when compared to the previous departure charge of circa £0.35. Even compared to Edinburgh Bus Station (£2.10), the proposed charge is higher and bus service providers are suggesting that this could compromise the financial viability of some commercial routes and the Council-funded contracted routes.
- 6.4 Bus operators have indicated that the proposed departure charge will add a significant amount of additional cost on to existing services that will not be recovered by additional patronage on day one of the opening of the Transport Interchange and the Borders Railway.
- 6.5 There is an obvious difference in the level of service from the old bus station in Stirling Street and the new Transport Interchange, as the level of infrastructure and services will be improved, so an increased departure charge would always be required to sustain the building.
- 6.6 One of the key objectives of the Transport Interchange is the promotion of sustainable transport modes to generate a modal shift, but we have to be realistic and acknowledge the fact that this will take time to achieve and the bus companies will only benefit from the Transport Interchange and the Borders Railway over a period of time.
- 6.7 Officers anticipate that bus companies will be looking for the Council to reduce/subsidise the proposed departure charge through the current contracts (possible contract variations) or make more routes subsidised.
- 6.8 Passenger Transport have undertaken a review of departure charges in other bus stations throughout the country and the level of departure charging ranges from £1.30 up to £2.10 for similar facilities, so a possible defensible departure charge is in the region of £1.75 (excluding VAT).

- 6.9 An option for reducing the financial impact on service providers and strengthening the position on the value of the departure charge, to defend any approach for further financial contributions to the contracted bus services would be to reduce the service charge from £2.68 to £1.75, that equates to an annual cost demonstrated in Confidential Annex 2 & 3.
- 6.10 This approach would allow the Council to better control the implications of the new service charge in the following ways:
1. The charge of £1.75 is a defensible position on the market standard for this type of facility and there should be no scope to renegotiate existing contracts, bearing in mind it is comparable with other similarly equipped facilities. Also, operators will be reminded that they have not been paying a service charge in Galashiels due to buses operating from the street during the construction works since October 2013.
  2. All of the costs and charges for the Transport Interchange will be reviewed on an annual basis so that actual costs for running the building should hopefully be less than predicted in the business plan. This will ultimately reduce the costs associated with the departure charge and the estimated annual impact.
  3. The Transport Interchange Manager will be tasked with exceeding the targets of the business plan to increase the level of income for the Transport Interchange and thus subsidising the proposed reduction in the service charge in the early years. Areas to be targeted would be accelerating the leasing of building space, looking at additional advertising, conferencing opportunities, etc. A proactive and successful marketing could generate additional income in the region of £50 – £100k per annum in the early years.
  4. As the bus operations are only at 90% capacity, the possible increase to 100% within the bus apron would generate additional income.
- 6.11 This approach should provide the Council with better control of the situation to maintain the current level of service while empowering the Transport Interchange Manager to increase the income targets in the early years to subsidise the reduction in the departure charge.
- 6.12 In the long term the departure charge will be reviewed annually and associated actual costs applied and an annual increase to the £1.75 to cover inflation as a minimum will be considered.
- 6.13 As the contracted bus services are re-procured in future years, the level of departure charge at the Galashiels Interchange can be reassessed and hopefully the competitive procurement of the services will gain financial benefits.
- 6.14 The subsidy in the departure charge would change the revenue profile as per Table 2. It should be noted that none of the additional measures identified in section 6.10 have been incorporated into this budget profile. (The updated year 1 summary and Table 2 showing the ten year estimate of the business plan is provided in Confidential Annex 3).



## **7 IMPLICATIONS**

### **7.1 Financial**

- (a) The operational model and business plan for the Transport Interchange has been included in the revenue plan as per the profile in Table 1 and there are opportunities for the Transport Interchange Manager to increase income and reduce budget deficits earlier in the ten year profile.
- (b) If bus services reduce from the Transport Interchange then that negatively affects the business plan for the building. It is in the Council's best interest to strike the balance of recovering as much income as possible to cover the positive level of service provided by the Transport Interchange and encouraging bus operators to use the facility as part of the existing bus routes.
- (c) There is of course an option to reduce the biggest cost to the building and reduce the staffing and the level of service to the public and the bus service providers. For health and safety reasons the Council is required to provide a bus reversing operative from 8am until 6pm, covering the duties of the Senior and normal Inspectors and evenings for site security. Therefore a reduced service arrangement could save one Inspector level post at £23,932 per annum but it would affect the overall level of service to the public and the emergency planning procedures for the building and bus operations.

### **7.2 Risk and Mitigations**

There is a risk that service providers take a similar stance as they did with the opening of the St. Andrews Square bus station and boycott the use of the Transport Interchange on the grounds of the departure charge and its effect on the commercial viability of bus routes. This would leave the main sustainable access link to the Borders Railway fragmented and cause negative public relations. The reduction in the service charge will have a revenue consequence on the business model for the building, which can be mitigated in the early years, but it will be defendable to service providers as being comparable with the national market.

### **7.3 Equalities**

An Equalities Impact Assessment has been carried out on this proposal and it is anticipated that there are no adverse equality implications.

### **7.4 Acting Sustainably**

The Transport Interchange will promote all sustainable means of transport and therefore promote a positive impact.

### **7.5 Carbon Management**

The Transport Interchange will promote all sustainable means of transport and therefore promote a positive impact on carbon reduction. This effect has not been quantified.

### **7.6 Rural Proofing**

N/A.

### **7.7 Changes to Scheme of Administration or Scheme of Delegation**

N/A.

## 8 CONSULTATION

- 8.1 The Chief Financial Officer, Corporate Transformation Service Director and Service Director Commercial Services have been consulted and their comments have been included in this report.

### Approved by

**Name: Phillip Barr**

**Signature .....**

**Title: Depute Chief Executive - Place**

### Author(s)

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### Background Papers:

**Previous Minute Reference:** Council 25 February 2010, Executive Committee 21 May 2013

**Note** – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. Ewan Doyle can also give information on other language translations as well as providing additional copies.

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