

**Report of the Chief Constable to the Chair and Members
of the Policy & Resources / Corporate Development Panel
24th November 2009**

**Executive & Presenting Officer: Mrs Ann Hall Assistant Chief Officer
(Finance & Commissioning)**

Status: For Decision

Cleveland Air Operations Unit Contracts

1. Purpose

- 1.1 Members will recall that the Police Authority approved the novation of the Power by the Hour (PBH) agreement from Northumbria Police to Cleveland Police Authority on the 18th December 2008. This agreement was to cover the replacement of a number of major engine and airframe components on the EC135 T1 helicopter which was inherited from the North East Air Support Unit (NEASU) on 1st April 2009.
- 1.2 In January 2011, Cleveland Police is scheduled to take ownership of a new EC135 P2 Helicopter, as a result of a collaborative Procurement exercise led by Thames Valley Police. To ensure a continued efficient and effective service of Cleveland Air Operations, a number of contracts must be awarded prior to receipt of the new helicopter. These include a decision on the options for the Engine and Airframe support agreements.
- 1.3 The existing Power by the Hour contract is more than 10 years old and covers both engine and airframe components. This agreement will terminate on disposal of the existing helicopter and a percentage (60%) of the credit balance will be released to Cleveland Police. The industry has changed the way it offers these support agreements to customers, which has resulted in two separate agreements, a Term Cost Agreement for engines only and Support by the hour (SBH) for the airframe.
- 1.4 The Procurement Department in partnership with Specialist Operations & Communications have investigated the options available to Cleveland Police

Authority in relation to the Term Cost Agreement and Support by the Hour contract as outlined below.

2. Recommendations

- 2.1 To approve Option 3 – To participate in the collaborative agreement for Engine Support only via a Term Cost Agreement with Eurocopter UK.
- 2.2 In addition, to approve the setting up of an account to hold funds for replacement parts of the airframe. This fund will ensure that the Force avoids short-term spikes with regards to airframe replacement parts.
- 2.3 That Members approve the increase in budget of £565, which can be contained within the long term financial plan.

3. Option 1 – The Authority establishes a Term Cost Agreement for Engines and Support by the Hour Agreement for Airframe

- 3.1 The purchase contract for the helicopter included the availability of support contracts with Eurocopter UK; therefore EU Procurement Legislation has been complied with.
- 3.2 Term Cost and Support by the Hour agreements are taken out on the first day of the helicopter going into service, despite manufacturers offering a warranty for the first 2000 flying hours. This allows Forces to build up a substantial credit in readiness for the expiration of the warranty.
- 3.3 The Term Cost and Support by the Hour agreements are collaborative contracts available to the six forces which participated in the mini competition for the purchase of the helicopter. In order for all Forces to benefit from the discounted rates offered under this agreement, all Forces wishing to participate must agree to sign up to the agreement during 2009 due to the manufacturing of some helicopters purchased under this framework being completed and going into service earlier than Cleveland's.
- 3.4 Engine and Airframe Advantages
 - Parts guaranteed within 24 hours from stock or 72 hours from suppliers which will optimise operational effectiveness by reducing aircraft down time for both engines and aircraft.
 - Hire parts are free of charge if contractor is unable to locate a part within above time frame.
 - Costs are transparent and can be budgeted. Approx £203,997 for airframe and £111,631 per annum for the engines.
 - Reduced risk of having to fund any major unscheduled parts from reserves.

3.5 Engine and Airframe Risks

- The Force is paying money to the supplier, who will hold the funds in their bank until the funds are required for parts.
- On the Support by the Hour agreement, there is an element of profit. At the end of the agreement, the supplier retains 40% of the credit balance or the full credit balance should we opt for a 10% discount off the price per hour.

4. **Option 2 – Authority meets the cost of replacement parts and labour on an ad-hoc basis**

4.1 The Authority could decide not to enter into a new Term Cost and Support by the Hour Agreement for the new helicopter. This option would require all replacement parts and labour as and when required to be funded from revenue/reserves.

4.2 Engine and Airframe Advantages

- If the Authority agrees for the funds to be paid into a specific account, all funds including interest gained will remain in the control of the Authority. This fund will be ring-fenced for air support.
- The first 2000 hours for engines and 1500 hours for the airframe are covered by the warranty.

4.3 Engine and Airframe Risks

- There may be insufficient funds held within the account to cover any component failure. Major components can cost several hundred thousand pounds. This would be significant unplanned expenditure for the Force.
- Operations may be affected due to increased downtime as response times on parts are not guaranteed.
- Routine component replacement will need to be met as well as labour costs.

4.4 Engines Risks

- Costs of hiring engines and parts can be extremely expensive if there is no pre-arranged agreement in place.

5. **Option 3 – The Authority agree to a Term Cost Agreement for Engines only**

5.1 The purchase contract for the helicopter included the availability of support contracts with Eurocopter UK; therefore EU Procurement Legislation has been complied with.

5.2 Term Cost Agreements are taken out on the first day of the helicopter going into service, despite manufacturers offering a warranty for the first 2000 flying

- 5.3 The Term Cost Agreement is a collaborative contract for the six forces which participated in the mini competition for the purchase of the helicopter. In order for all Forces to benefit from the discounted rates offered under this agreement, all Forces wishing to participate must sign up to the agreement during 2009 due to the manufacturing of some helicopters purchased under this framework being completed and going into service earlier than Cleveland's.
- 5.4 Market research has established that all Private and Public Sector helicopter owners from around the world have similar arrangements in place for their engines. It is widely accepted as industry best practice, due to the significant cost of purchasing and hiring spare parts.
- 5.5 The proposed agreement is a Term Cost Plan (Fleet Management Programme), whereby all six forces act as a Fleet to secure discounts off the cost of the programme. There is no credit balance at the end of the agreement but engine overhauls, which are extremely expensive, are included within the agreement.
- 5.6 The agreement is with Eurocopter UK who is contracting with the Forces under the Thames Valley Mini Competition for the purchase of helicopters. This agreement also included the option for support agreements and therefore EU Procurement Legislation has been complied with.
- 5.7 The agreement on offer from Eurocopter UK is a commonly known as a 'Pratt and Whitney programme'. Pratt and Whitney are the original equipment manufacturers (OEM) and the only supplier able to offer this programme.
- 5.8 Engines Advantages
- Parts are guaranteed within 24 hours from stock or 72 hours from suppliers which will optimise operational effectiveness by reducing aircraft down time for engines.
 - Costs for the engine are transparent and can be budgeted. Approx £111,631 per annum for the engines.
 - Reduced risk of having to fund any major unscheduled parts from reserves which are extremely expensive for engines.
 - Reduced costs for engine hire, should one of the engines fail.
- 5.9 Airframe Advantages
- If the Authority agrees for the funds for the airframe to be paid into a specific account, all funds including interest gained will remain in the control of the Authority. This fund will be ring-fenced for air support.

5.10 Airframe Risks

- There may be insufficient funds held within the account to cover any component failure for the airframe. This would be significant unplanned expenditure for the Force. If the current Support by the Hour credit is protected with the annual cost and rolled over year on year, this will be a minimal risk to the Authority.
- Operations may be affected due to increased downtime as response times on parts are not guaranteed.
- Routine component replacement will need to be met as well as labour costs.

6. Option 4 – The Authority agree to a Support by the Hour Agreement for the Airframe only

6.1 The purchase contract for the helicopter included the availability of support contracts with Eurocopter UK; therefore EU procurement legislation has been complied with.

6.2 Support by the Hour agreements are taken out on the first day of the helicopter going into service, despite manufacturers offering a warranty for the first 1500 flying hours. This allows Forces to build up a substantial credit in readiness for the expiration of the warranty.

6.3 The Support by the Hour agreement is a collaborative contract for the six forces which participated in the mini competition for the purchase of the helicopter. In order for all Forces to benefit from the discounted rates offered under this agreement, all Forces wishing to participate must sign up to the agreement during 2009 due to the manufacturing of some helicopters purchased under this framework being completed and going into service earlier than Cleveland's.

6.4 The agreement is with Eurocopter UK who is contracting with the Forces under the Thames Valley Mini Competition for the purchase of helicopters. This agreement also included the option for support agreements and therefore EU Procurement Legislation has been complied with.

6.5 Airframe Advantages

- Parts are guaranteed within 24 hours from stock or 72 hours from suppliers which will optimise operational effectiveness by reducing aircraft down time for airframes.
- Hire parts are free of charge if contractor is unable to locate a part within above time frame.
- Costs for the airframe are transparent and can be budgeted. Approx £203,997 per annum for the airframe.
- Reduced risk of having to fund any major unscheduled parts from reserves for the airframe.

6.6 Engine Advantages

- If the Authority agrees for the funds for the engines to be paid into a specific account, all funds including interest gained will remain in the control of the Authority. This fund will be ring-fenced for air support.

6.7 Engine Risks

- There may be insufficient funds held within the account to cover any component failure for the engines. Engine components are significantly more expensive than airframe components. Major components can cost several hundred thousand pounds. This would be significant unplanned expenditure for the Force. The engines are the most expensive component of a helicopter, requiring regular maintenance and overhauling.
- Operations may be affected due to increased downtime as response times on parts are not guaranteed.
- Routine component replacement will need to be met as well as labour costs.
- The cost of hiring an engine is extremely significant if there is no pre-arranged agreement in place.

7. **Implications**

7.1 Finance

The current contract costs (fluctuate with exchange rate and are subject to annual Retail Price Index Inflation) include £135,207 per annum for Engine Support and £179,826 per annum for Airframe Support. This is a total of **£315,063** per annum.

7.2 The new contract costs (fluctuate with exchange rate and are subject to annual review) comprise £111,631 per annum Term Cost Plan for Engine Support and £203,997 per annum for Airframe Support. This is a total of **£315,628** per annum.

7.3 This is an increase of £565 per annum, which can be contained within the long term financial plan.

7.4 The Long Term Financial Plan has taken account of all known costs for the new helicopter. This contract and plan is a known cost.

7.5 The recommended life span of a helicopter is ten years, however support costs either via contract or through ring-fenced funds should be maintained until the helicopter is sold.

7.6 The Force will set up of an account to hold funds for replacement parts of the airframe. The Force will pay €223,200 per annum which is approximately £203,997 (varying with the exchange rate) into the account, along with credit from the existing arrangement to cover any replacement costs on the

airframe. This fund will ensure that the Force avoids short-term spikes with regards to airframe replacement parts.

7.7 Diversity & Equal Opportunities

There are no diversity or equal opportunities implications arising from this report.

7.8 Human Rights Act

There are no Human Rights Act implications arising from this report.

7.9 Sustainability

There are no sustainability implications arising from this report.

7.10 Risk

There are no further risk implications other than those outlined in the options appraisal detailed above.

5 Conclusions

5.1 Option 3 is considered to be the lowest risk and most cost effective option to the Force. This option will allow the Force to maintain control of the funds and interest by setting up an account with the budget which it would have paid to the supplier, whilst also ensuring that there is an agreement in place for the greatest risk area, the engines.

5.2 The Force will arrange an account from which the credit balance from the existing agreement and approximately £203,997 per annum will be paid into to cover any component replacements for the airframe. This account will be for the sole use of purchasing component parts for the EC135 P2 until which time the helicopter is sold.

5.3 It must be recognised that any credit will need to be rolled over every year and that this may be a significant sum, however it must be accepted that no reduction can occur due to significant life cycle costs anticipated in the last five years of the helicopter's recommended ten year lifespan.

5.4 The Procurement exercise for Power by the Hour has been completed in line with EU Legislation and will commence on receipt of the new EC135 P2 and will terminate when the Force no longer owns the EC135 P2.

Sean Price
Chief Constable

Originator of report

Contracts Monitoring & Review Officer – Commissioning
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