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# Funding and Commercial Solutions

Traffic Solutions





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In the current climate of budget cuts and uncertainty, how can Siemens help you and your Local Authority 'do more with less'?

Siemens Mobility, Traffic Solutions has listened to your concerns and has developed a number of innovative financing solutions that will help you continue to achieve your traffic management and strategic business goals despite significant budget constraints.

# Payment over time and pay as you use facilities

Whilst customers look for ways to deliver services with reduced or even no funding, one obvious approach might be to simply 'batton-down-the-hatches' and do nothing. However, this approach rarely leads to a successful outcome and in some cases can be counter-productive, simply because sweating ageing equipment can sometimes result in higher maintenance costs, increased equipment failure, higher ancillary costs (such as energy bills) and, in the long run, a higher total cost of ownership and replacement.

Siemens' varied financing structures now allow you to replace old equipment with new superior technology, despite your budget constraints. Payment options allow you to address capex or opex preferences and improve various business case metrics, such as Payback, Return on Investment, Net Present Value (NPV) & Internal Rate of Return (IRR) – all helping support your economic decision makers in their investment decisions.

In their simplest forms, payment options can be based on the following models;

- **Spread payments**

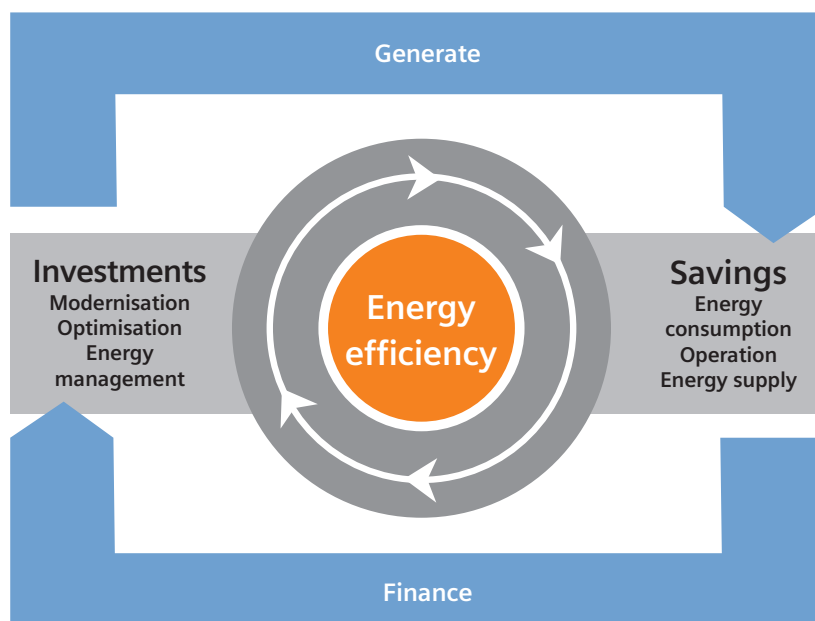
Avoid significant initial capital outlay with payments spread across an agreed period with low start options to get beneath a hurdle value (e.g. £2m cost vs. £525k pa asset replacement programme).

- **Payment deferrals**

Access future budget periods to procure equipment now (e.g. defer payments to next financial year).

- **Pay-as-you-use**

Pay for usage or outcomes and not ownership. The concept behind this type of agreement is simply to collect together all associated costs within a project and make a single regular payment for it. In certain cases, this may involve a third party hosting or outsourcing arrangement.





## Asset Financing & Budget Release Programmes

The idea of financing equipment is not a new one. There are sound reasons why organisations choose to finance assets in this way, these include:

- matching the repayment cycle of new equipment with its useful working life
- easier budgeting, based upon known and regular payments
- tax benefits associated with some arrangements
- inclusion of associated costs such as installation, consultancy and maintenance along with the actual cost of the equipment in one agreement

In short, utilising leasing or asset finance to acquire your traffic solutions provides a simple and effective way to manage the total cost of ownership of the equipment you need, over its useful working life. This eliminates the worry of initial acquisition costs when budgets are tight. You can start using your new equipment immediately with minimal fuss and outlay.

In certain cases it is even possible to sell and lease back your recently purchased Siemens equipment, without losing use of the equipment for a single minute. You receive an injection of cash for use on other projects within your organisation and benefit from making regular payments that match the working life of the asset.

In addition to the innovative solutions mentioned above, listed below are other financing options available to Siemens customers:

- **Lease** – a payment over time agreement that can smooth out many of the costs of a Siemens solution (such as the

signals or signs themselves), and also potentially the costs of installation and ongoing maintenance. In addition, the VAT is spread over time to further assist with reducing the upfront burden of an investment. With a lease you benefit from using the equipment without having to worry about the depreciating value of the equipment or other risk associated with ownership. In many cases a project is delivered over an extended installation period, where consulting, installation and commissioning work takes place over a planned period of time. In these cases we can set up a 'pre-lease' to help fund each stage, so you only 'drawdown' the funding as you need it, reducing the overall costs

- **Hire Purchase & Loan** – similar in principle to a lease with payments over time, but where ownership is also transferred to the customer often at the end of the agreement
- **Pay-as-you-use** – the concept behind this type of agreement is, at the simplest level, to collect together all associated costs with a project and make a single regular payment for it, thus paying for usage or outcomes and not ownership. In addition, in certain cases third party hosting or outsourcing could be involved to turn this arrangement into something more aligned to the output of the assets funded under it
- **Managed Service /Outsourcing** – this is a single, all embracing agreement provided by Siemens that can address a range of different components of equipment acquisition, usage and operation, maintenance and availability and age profile. This is a unique product for Siemens customers



*“ With a managed service arrangement provided by Siemens you are able to select and include the elements appropriate to your specific requirements.”*



## Public/Private Partnership (PPP) arrangements

In other areas of your business you will already be familiar with some form of managed service or outsourcing arrangement which bundles together equipment supply, installation and ongoing maintenance, service and even operations under a single supplier agreement – think of your IT infrastructure, for example.

Siemens are able to support you in a similar way with your traffic equipment, service provision and solution delivery, where a complete asset maintenance and replacement programme is delivered simply by Siemens under a central framework agreement or as an amendment to your existing maintenance agreement.

By taking advantage of such an arrangement, you benefit from continuing to work with a supplier that you already know and trust. At the same time, you benefit from cost savings delivered through the accelerated replacement of ageing, failing or obsolete equipment with more up to date, energy efficient and green alternatives.

With a managed service arrangement provided by Siemens you are able to select and include the elements appropriate to your specific requirements.

For example, ageing incandescent traffic signals with high running costs may be replaced with more advanced LED technology, delivering improved energy efficiency, reduced maintenance costs and better environmental credentials.

Using a PPP arrangement, several components, risks and service standards may be bundled together under a single regular payment including:

- Equipment supply, update and replacement
- Installation, commissioning & civil works
- Consulting
- Maintenance
- System management and availability

In some instances, targeted replacement of assets may effectively pay for the acquisition of new equipment over an agreed period, through the reduction in running costs.



## Example Traffic Signal LED replacement programme payback analysis

A Local Authority has an ageing traffic signal asset base that would take decades to update based on current spend and budget levels. In addition, failure rates, downtime and maintenance costs are increasing and the carbon footprint is not improving either. The current climate of budget cutbacks means facing a reduced budget for their traffic management solutions. The natural thing to do would be to stop or reduce asset investment and instead 'sweat the assets' for longer; however this would inevitably lead to higher total cost of ownership with maintenance costs, failure rates and higher energy/carbon consumption.

By working with Siemens, the Local Authority enter into a PPP arrangement where an asset replacement programme is bundled together with a maintenance programme. Initially, the signals and junctions with the worst energy consumption levels are targeted for replacement. The savings from reduced energy & maintenance costs along with reduced failure rates and faster fix/availability times collectively cost justify the programme – making the investment self-financing and affordable.

The resulting effect is a programme that is cash positive within 3 years with a full payback in less than 5 years. In this example, a £600,000 asset replacement spanning more than 160 sites would require an overall cost contribution of only £6,400 in the first year. If the programme was funded over a longer period, or if the payments in the earlier years were reduced, then the payback could conceivably be achieved even sooner.

Similar results can also be expected with Traffic Equipment communications infrastructure replacement from fixed lease line to lower cost alternative communication methods.

In short, this type of agreement enables you to consider an alternative way of doing business with a supplier that you know and trust to help you do more with less in a manner that also helps to transfer risk out of your organisation. These self-financing, green investment concepts go beyond everyday engineering and procurement conversations, so why not arrange to have a conversation with us to see if this type of facility could benefit you and your organisation.



Year	Power Savings	Maintenance savings	Payments	Surplus/(Deficit)	Cumulative
1	£42,000	£24,000	£72,408	-£6,408	-£6,408
2	£45,360	£24,600	£72,408	-£2,448	-£8,856
3	£48,989	£25,215	£72,408	£1,796	-£7,060
4	£52,908	£25,845	£72,408	£6,345	-£715
5	£57,141	£26,492	£72,408	£11,224	£10,509
6	£61,712	£27,154	£72,408	£16,458	£26,967
7	£66,649	£27,833	£72,408	£22,073	£49,040
8	£71,981	£28,528	£72,408	£28,101	£77,141
9	£77,739	£29,242	£72,408	£34,573	£111,714
10	£83,958	£29,973	£72,408	£41,523	£153,237
11	£90,675	£30,722	£72,408	£48,989	£202,226
12	£97,929	£31,490	£72,408	£57,011	£259,237
13	£105,763	£32,277	£ -	£138,040	£397,277
14	£114,224	£33,084	£ -	£147,308	£544,586
15	£123,362	£33,911	£ -	£157,274	£701,859
	<b>£ 1,140,389</b>	<b>£430,366</b>	<b>£868,896</b>	<b>£701,859</b>	

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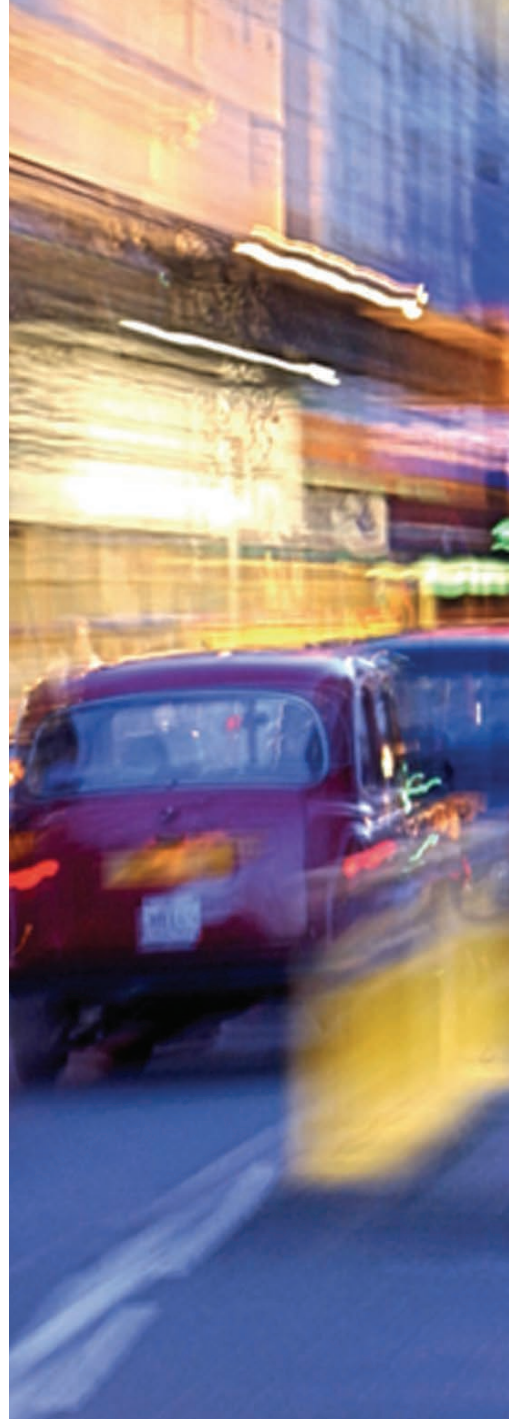
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