GMCA GREATER MANCHESTER COMBINED AUTHORITY

Bus Franchising in Greater Manchester June 2020

Consultation Report

Final draft (subject to proofreading)

Section 1 - Contents

Section 2 - Introduction

2.1.1 At its meeting on 7 October 2019, and having complied with the other steps as required by the Transport Act 2000 (as amended by the Bus Services Act 2017) (together "the Act"), GMCA decided that it wished to proceed with its proposed franchising scheme ("the Proposed Franchising Scheme") and therefore resolved to conduct a consultation in accordance with section 123E of the Act.

2.1.2 The purpose of the consultation was to allow consultees to provide their views on whether or not the Proposed Franchising Scheme should be made, with or without modifications, before a decision is taken by the Mayor (on behalf of GMCA) whether or not to make a franchising scheme.

2.1.3 The consultation started at noon on 14 October 2019 and closed at 11:59pm on 8 January 2020. To inform consultees, and as required by section 123E(2)(a) of the Act, upon the launch of the consultation GMCA published:

- its detailed and comprehensive consultation document containing the information required under section 123F of the Act;
- its assessment of the Proposed Franchising Scheme ("the Assessment");
- the auditor's report on the Assessment; and
- other materials (including documents supporting the Assessment, an initial equality impact assessment ("EQIA") of the Proposed Franchising Scheme, the auditor's observations on the Assessment and TfGM's replies to the same).

2.1.4 GMCA aimed to make the consultation materials it published as accessible as possible to all interested persons and organisations, whilst also ensuring that local passengers and others were aware of, and able to input into, the consultation.

2.1.5 At the close of the consultation, 8,516 consultation responses had been received. A breakdown of these responses can be seen in Ipsos MORI's report at section 2.3. This included 7,120 responses from members of the public, 115 from non-statutory consultee stakeholders, 41 responses from statutory consultees (which are those groups of persons and organisations whom GMCA were required to consult in accordance with section 123E(4) of the Act) and 1,240 campaign responses (further information about campaign responses can be found in section 14 of Ipsos MORI's report).

2.1.6 While TfGM were in the process of reviewing the consultation responses and preparing this report under the direction of GMCA, there was a global outbreak of COVID-19 which rapidly developed into a national state of crisis in the UK and elsewhere. Among other actions taken, the UK Government published its plan to "*contain, delay, and mitigate any outbreak, and use research to inform policy development"* on 3 March 2020, which resulted in there being widespread and significant disruption to the bus market in GM, and had the consequential effect of

diverting GMCA's and TfGM's attention to matters more directly associated with managing that crisis. Additional legal measures implemented by the UK Government in its response to the COVID-19 pandemic, such as the Health Protection (Coronavirus, Restrictions) (England) Regulations 2020, had further direct implications for GMCA, caused further disruptions for GMCA, TfGM and all bus operators and stakeholders in GM and across the country.

2.1.7 It is important to note that this report does not attempt to consider the impacts of the global COVID-19 pandemic or any of the implications that might be of consequence to the Proposed Franchising Scheme resulting from it. Further analysis by GMCA and TfGM will be required within the parameters and scope of a review that will be determined by GMCA. Instead, this report focuses on the outcome of the consultation only.

2.1.8 This report explains:

- TfGM's approach to reviewing and considering the consultation responses on behalf of GMCA;
- TfGM's response to the consultation feedback as obtained, categorised and presented by Ipsos MORI and presented in its consultation analysis and qualitative research reports, and
- a detailed breakdown of the responses to the consultation responses received from (amongst others) statutory consultees.

2.1.9 It also considers other matters, such as the findings of the supporting qualitative research activity and a review of alternative partnership options submitted by operators in their consultation responses.

2.1.10 This report is likely to form part of GMCA's response to consultation, which will also include consideration of whether:

- GMCA considers it desirable that the Proposed Franchising Scheme should be made, with or without modifications; and
- if the Proposed Franchising Scheme should be made with modifications, what those modifications should be and whether any further consultation on them is required.

2.1.11 This report also explains how those modifications would be proposed to account for the responses to the consultation and are not intended to modify the Proposed Franchising Scheme to account for any changes to the bus market in GM following the COVID-19 outbreak. Any such modifications would require further consideration within the parameters and scope of the review that will be determined by GMCA.

Section 3 - Approach to reviewing consultation responses

3. 1 - Introduction

3.1.1 All responses received during the consultation went to Ipsos MORI – the agency appointed by TfGM on behalf of GMCA to categorise and code the responses. Ipsos MORI have reviewed and summarised all responses received during the consultation period under the direction of TfGM and GMCA. This process, and the analysis from it are summarised in the Ipsos MORI's *"Doing Buses Differently: Consultation on a Proposed Franchising Scheme for Greater Manchester"* Report, which has been published alongside and is referred to throughout this report (except for those sections addressing the qualitative research as explained at section 3.4 below).

3.1.2 Most of the responses went directly to Ipsos MORI but where a consultation response was sent directly to TfGM or GMCA, it was then sent to Ipsos MORI.

3.1.3 The categorisation and coding of all responses was undertaken by Ipsos MORI. In addition to this, TfGM undertook a review of responses as follows:

- Statutory consultee responses – a full review of all responses received was undertaken by TfGM;
- Comments relating to the EQIA – also reviewed in full; and
- All other responses –a review of all comments coded by Ipsos MORI as 'unfavourable' or 'suggestions'; plus an additional ten per cent 'quality assurance' check across the Ipsos MORI codeframe.

3.1.4 More detail on this activity is set out below. The key themes from the comments received from consultees and TfGM's response to the issues raised will be set out in order of each case to the Assessment (see sections 4 to 8 below), before consideration is given to the alternative partnership proposals received during the consultation (see sections 9 to 11) and any comments relating to the EQIA and the Proposed Franchising Scheme (see sections 12 and 13). Where appropriate, consideration of the relevant questions asked to consultees as part of the consultation will be given where it relates to that case.

3. 2 - TfGM approach to reviewing responses

3.2.1 As stated above Ipsos MORI received, categorised and coded all the responses to the consultation. This was done by creating a codeframe (or a coding framework), further information of which can be found in section 3.1 of Ipsos MORI's report.

3.2.2 TfGM also reviewed the responses to identify and consider the substantive issues and observations raised by consultees and to ensure that all criticisms of, or suggested modifications to, the Proposed Franchising Scheme were identified.

3.2.3 For statutory consultees (such as bus operators and local authorities), TfGM

reviewed all of those responses, regardless of which questions a respondent had answered or how Ipsos MORI had coded the response. A full list of statutory consultees as per section 123E(4) of the Act can be found at Appendix 1. Whilst OneBus – an association representing the majority of the commercial bus operators in Greater Manchester, formerly known as the Greater Manchester Bus Operators Association – are not identified as a statutory consultee within the Act, they undoubtedly play an important role in representing the views of its membership. TfGM has therefore reviewed OneBus' response.

3.2.4 For all other responses (such as responses from members of the public and other stakeholders), TfGM reviewed 10% of all responses received. The purpose of this exercise was to review how Ipsos MORI had coded the responses and to provide reassurance that they had been correctly coded.

3.2.5 The responses were reviewed by appropriate TfGM officers and advisors who had developed the Assessment, and who therefore had the expertise to review the response depending on which question had been answered. The output of the 10% quality assurance review was then shared with Ipsos MORI. One of the main issues identified by TfGM was in relation to Ipsos MORI's categorisation of responses as a 'comment' or a 'suggestion' as there were some instances where a comment was coded incorrectly, particularly around suggestions. Following this, TfGM also reviewed the codeframe itself to consider whether the codes established by Ipsos MORI were in fact suggestions or whether the responses attributed to those codes should have been coded as favourable or unfavourable comments instead rather than a comment or a suggestion. This piece of work led to some codes being recategorized from a suggestion to a favourable comment, and some codes being categorised from a suggestion to an unfavourable comment.

3.2.6 All comments ultimately coded as a suggestion or an unfavourable comment were reviewed by TfGM. This meant that TfGM reviewed each response and considered the points being raised.

3.2.7 It should be noted that TfGM did not undertake a review of all responses which had been coded as a favourable comment by Ipsos MORI. Ipsos MORI's report presents findings on what favourable comments were made by consultees. It is that analysis of those comments which is included and considered in this report.

3. 3 - TfGM approach to reviewing late responses

3.3.1 The consultation closed at 23:59 on 8 January 2020. Section 15 of Ipsos MORI's report shows that 72 responses were received after the consultation deadline and that the majority of those responses were in fact campaign responses. In the interests of fairness to those who took part within the consultation window, Ipsos MORI have summarised late responses separately.

3.3.2 Of the late responses received, one was from a statutory consultee: the Competition

and Markets Authority, who informed TfGM on 8 January that it was in the process of finalising the governance and sign-off of its response and that its responses would be submitted late. This response was received by Ipsos MORI on 7 February 2020. This response has been reviewed by TfGM in a consistent manner to all other statutory consultee responses and this analysis is included in sections 4 and 8 below. The other late responses which were submitted by other non-statutory consultees (including the Association of British Commuters, Age UK Bolton, a local Greater Manchester councillor and a charity organisation) all appear to have made comments which were generally supportive of the Proposed Franchising Scheme.

3.3.3 Section 15 of Ipsos MORI's report found that after excluding campaign responses, there were 27 late responses which were submitted by members of the public. Ipsos MORI found that all of those responses provided comments which were representative of the responses received by members of the public during the consultation period. Further detail on the key themes raised by the public can be found in Ipsos MORI's report and from sections 4 onwards of this report.

3. 4 - TfGM approach to reviewing qualitative research

3.4.1 As well as categorising and coding the consultation responses, Ipsos MORI were also instructed by TfGM to undertake a form of qualitative research to complement the consultation process. This qualitative research explored the options set out in the Assessment, including the Proposed Franchising Scheme, with members of the public and other key interest groups such as businesses, young people and those residing outside of Greater Manchester in neighbouring authorities. A copy of that report, titled *"Qualitative Research Summary Report",* is also published alongside this report.

3.4.2 Workshops and focus groups were set up to understand what participants thought about the current bus market and other aspects of the Assessment, so as to gain a more detailed undertaking of what the participants thought of those matters. Two large-scale workshops were held which took place over an extended time period (six hours) and provided an opportunity for participants to consider the proposals over the course of the day.

3.4.3 In addition to the workshops, six shorter focus groups were carried out. Three of these groups were carried out face-to-face, and three were conducted as online focus groups due to the geographical dispersal of the participants. Further information on what was involved in the research and what information was

provided to participants can be found in the report.

3.4.4 The research focused on key questions from the short questionnaire, in particular:

- The current challenges with the bus market in Greater Manchester;
- Options to reform the bus market;
- Public sector funding;
- The Economic Case and its conclusion;
- The Financial Case and its conclusion; and
- The Proposed Franchising Scheme.

3.4.5 TfGM has reviewed and considered the findings of that report alongside its review of the consultation responses.

Section 4 - Strategic Case Response Themes

4. 1 - Introduction

4.1.1 This section sets out how respondents to the consultation commented on the Strategic Case in the Assessment for reforming the bus market and the conclusions in it on the different options for reform. The Strategic Case in the Assessment sets out the implications of declining bus use and the challenges facing network integration in Greater Manchester. It sought to provide a full review of the options available to address these problems. Three options were shortlisted in the Assessment: the Do Minimum option, a new partnership and the Proposed Franchising Scheme. Under a new partnership two options are assessed, both covering the whole of Greater Manchester, which sought to illustrate the range of potential outcomes that could be achieved by such a partnership: the Operator Proposed Partnership and the Ambitious Partnership.

4.1.2 It should also be noted that, during the consultation, TfGM has received further partnership proposals from bus operators. They have been considered by TfGM and the conclusions are set out in separate chapters of this response (see Section 9 -, Section 10, Section 11Section 11 - of this response). The implications of that consideration are set out here as part of the discussion on the treatment of partnerships within the Strategic Case.

4.1.3 Consultees were asked to consider the following specific questions in relation to the Strategic Case:

- Q12. The Strategic Case sets out the challenges facing the local bus market and says that it is not performing as well as it could. Do you have any comments on this?
- Q13a. The Strategic Case says that reforming the bus market is the right thing to do to address the challenges facing the local bus market. To what extent do you agree or disagree with this?
- Q13b. Why do you say this?
- Q14. Do you have any comments on GMCA's objectives for the future provision of bus services as set out in the Strategic Case?
- Q15. Do you have any comments on how the Proposed Franchising Scheme might contribute to GMCA's objectives for bus services as set out in the Strategic Case?
- Q16. Do you have any comments on how a partnership option might contribute to GMCA's objectives for bus services as set out in the Strategic Case?

4.1.4 The following discussion of Strategic Case issues also looks at relevant issues raised in answers to other questions and in separate submissions and letters, such as that of Stagecoach which is not organised by consultation question. In particular, answers

to questions 26 and 35 contained relevant material from respondents.

4.1.5 The discussion of the Strategic Case issues also picks up the issues set out in Ipsos MORI's report. report concluded that most participants agreed with the challenges facing the local bus market as set out in the Strategic Case, that reform was needed, and that such reform would be the right thing to do to address such challenges. Of the 6,032 participants who completed the tick-box question (Q13a.), 87% agreed that the strategic case for reform was the right thing to do. Furthermore, 74% agreed strongly with reform, just 4% disagreed strongly. According to Ipsos MORI analysis, most but not all, of the 39 statutory consultees who provided comments about the Strategic Case for change were in agreement that there was a case for change and that reform would be necessary in the future. While bus operators currently not present in the Greater Manchester market tended to welcome the Proposed Franchising Scheme, Ipsos MORI note that some of the incumbent bus operators did not think that the Proposed Franchising Scheme is the right approach at all, preferring instead a partnership option. For organisations who advocated a partnership approach, they believed that this could have more benefits over the Proposed Franchising Scheme, and that in their opinion, GMCA's objectives could be achieved in less time, for less cost and less risk by a partnership scheme.

Statutory Consultees - Bus Operators and Transport Stakeholders

4.1.6 The Ipsos MORI report noted a number of points on the bus operators' responses. Ipsos noted that non-incumbent operators tended to support the Proposed Franchising Scheme and thought there would be advantages to introducing it. An operator not in the commercial market in Greater Manchester, HCT Group, cited declining passenger numbers, route cuts and increasing fares as justification for change. Incumbent operators tended to oppose Proposed Franchising Scheme and the main source of opposition came from the operators currently active in Greater Manchester. Opposition also came from organisations associated with operators such as OneBus that represent commercial operators in Greater Manchester. An incumbent operator, Rotala, cited pollution and congestion as key issues to be tackled. Some respondents, such as Stagecoach, were not in agreement with GMCA's analysis of sub-optimal performance of bus services in Greater Manchester and did not agree with re-regulation.

4.1.7 Other points are important to note. Incumbent operators face a change in the market where they would need to compete to run services in Greater Manchester and potentially operate at a lower margin than they would wish to. They have marshalled a number of arguments to oppose the Proposed Franchising Scheme. Incumbent operators linked their challenge of the analysis of the causes of decline to the potential for the Proposed Franchising Schemes to meet GMCA's objectives. They have in general argued that the challenges to the bus market from internal causes (such as complexity of fares or network issues) are far less significant than challenges from outside – the most significant being congestion which slows buses down (although this also affects one key alternative mode, private cars). Thus, a

push to change how the market works which franchising represents would be misplaced. They go on to argue that the best solution would be for GMCA to pursue a partnership and spend further funds on bus priority measures, combining the benefits from these two measures.

4.1.8 These points are linked to points made about the analysis of partnership in the Assessment. Operators assert that partnership could achieve more than has been allowed for in the Assessment, and contrast this with the higher level of cost and risk to GMCA of implementing the Proposed Franchising Scheme. Operators also make some other points about the Proposed Franchising Scheme, for instance asserting that it could discourage operators from running cross-boundary services.

Statutory Consultees - Local Authorities

4.1.9 The Ipsos MORI report noted that local authorities were in agreement with the challenges put forward in the Strategic Case and the proposed reforms, in particular citing poor service levels, declining patronage, congestion and pollution as reasons for change. Increased affordability of fares and provision of services based on social needs were also reasons cited by local authorities as justification for change. Local authorities raised some additional reasons, such as the changes in the location of public services, which were not considered in the Strategic Case. Whilst most local authorities were in agreement the Proposed Franchising Scheme was the best way to combat these challenges, some councils raised concerns around the impact of change on cross-boundary services and also the potential cost associated with the introduction of the Proposed Franchising Scheme.

4.1.10 Both authorities within Greater Manchester and neighbouring authorities had concerns about how the application of the permit scheme and changes due to the statutory tests might affect the viability of services. These authorities point out how important these services were to communities on both sides of the boundary, and in some cases look for GMCA to show an understanding of how the Proposed Franchising Scheme would affect specific services.

Other Statutory Consultees

4.1.11 The Ipsos MORI report noted that most other statutory consultees supported the Proposed Franchising Scheme. Travel North West cited cheaper fares and better ticketing as supporting reasons for change, but noted that the full extent of benefits would not be achieved without additional investment in improvements to infrastructure. This is in line with TfGM's acknowledgement that 'Phase 2' measures will be required to deliver the full benefit of change. Unite stated that increased accountability was a key benefit that re-regulation can deliver, which would enable increased control.

4.1.12 It should be noted that the Competition and Markets Authority ("CMA"), reiterated their previous views on the bus market in the UK and their preference for 'on road' competition (as the current deregulated market) over the 'off road' competition.

They also note the difficulty of reversing the decision to put a franchising scheme in place and therefore urge that any authority considering such a move be clear on the benefits to passengers that would result.

Academic Institutions and Action Groups

4.1.13 The Ipsos MORI report noted that responses put forward by academic institutions and action groups included support for the Proposed Franchising Scheme as it would create greater and easier mobility for students, reduced/cheaper fares, improvements in disabled access, a better ticketing system, and integration of the bus network into the wider GM transport network. They also stated that the Proposed Franchising Scheme would be likely to reduce car journeys across Greater Manchester, and as such there would be environmental benefits with reduced pollution.

4.1.14 Some groups were very supportive of the Proposed Franchising Scheme and cited reports from independent organisations that were favourable to franchising and how it could improve bus services in UK cities.

Members of the public

4.1.15 Ipsos MORI's analysis found that reliability, frequency, value for money, reduced congestion, increased patronage and improvement in the environment were key reasons for supporting the Proposed Franchising Scheme put forward by members of the public. Some responses that were not in favour of change were concerned with affordability, and the effect on the employees of bus operators. A number of respondents suggested additional changes such as express services and the reorganisation of bus routes.

Chapter structure

4.1.16 Following a general market update (setting out the latest information on the bus market in terms of patronage and the mileage run by operators), this chapter is structured into the following sections, responding to the main themes identified from TfGM's analysis of consultation responses and consideration of the Ipsos MORI reports, as follows:

- General Market Update: setting out the latest information on the bus market in terms of patronage and the mileage run by operators (i.e. how the size of the market has changed.);
- Causes of decline: looking at the account of the challenges facing the bus network in Greater Manchester, and the potential for congestion and other issues to have been underestimated in the Assessment;
- Phase 2 and infrastructure spending: among other issues, considering and addressing the challenge on 'Phase 2' that the money required for the transitional spending for the Proposed Franchising Scheme could be better spent

on relieving congestion and other schemes

- Competition and the shift from ‘on-road’ to off road competition, including the views of the CMA on this issue;
- The franchising proposition on network: considering and addressing challenges to the proposals around network change under the Proposed Franchising Scheme;
- The franchising proposition on fares: considering and addressing challenges on fare levels and changes, and whether the proposed simplification is a good idea;
- The franchising proposal on customer service: addressing challenges on the value and nature of unified branding, accountability and point of contact under franchising;
- The effect of the Proposed Franchising Scheme on cross-boundary services and the approach to ensuring that services that are high quality cross-boundary services where they serve a passenger need;
- The value of partnership proposals: considering and addressing challenges to how the Assessment appraised partnerships and the new partnership proposals that were presented in response to or subsequent to the consultation process.

4. 2 - General Market Update

Patronage

4.2.1 Since the Assessment was completed, data for 2018/19 has become available that allows Table 3 of the Assessment to be updated:

Total Passenger Journeys on Public Transport Services in Greater Manchester (Millions of Journeys)

	Annual public transport patronage (millions)							
					Indexed to 2009/10			
Year	Bus	Train	Metrolink	Total	Bus	Train	Metrolink	Total
2007-08	226.7	22.2	20.0	268.9	100.0	97.8	102.0	100.0
2008-09	233.0	22.8	21.1	276.9	102.8	100.4	107.7	103.0
2009-10	226.6	22.7	19.6	268.9	100.0	100.0	100.0	100.0
2010-11	224.0	22.1	19.2	265.3	98.9	97.4	98.0	98.7
2011-12	218.6	24.9	22.3	265.8	96.5	109.7	113.8	98.8
2012-13	219.7	25.3	25.0	270.0	97.0	111.5	127.6	100.4
2013-14	216.7	24.7	29.2	270.6	95.6	108.8	149.0	100.6
2014-15	210.9	25.0	31.2	267.1	93.1	110.1	159.2	99.3
2015-16	208.5	25.1	34.3	267.9	92.0	110.6	175.0	99.6
2016-17	201.6	26.7	37.8	266.1	89.0	117.6	192.9	99.0
2017-18	194.3	26.9	41.2	262.4	85.7	118.5	210.2	97.6
2018-19	189.1	26.4	43.7	259.2	83.5	116.3	223.0	96.4

4.2.2 It is clear from these figures that the decline in bus patronage has continued into 2018/19. During 2019 there will have been some positive impact from the new concession for young people – the 'Our Pass' offering free travel to 16-18 year-olds. It is as yet too early in that pilot scheme to know by how much this will have

increased patronage.

Mileage

4.2.3 The table below shows estimated mileage since 2015.

Annual mileage ('000s registered miles)
Source: TfGM Network Database

Calendar Year	Wholly commercial	Subsidised + partially subsidised	Overall
2015	52,114	11,857	63,971
2016	50,796	11,427	62,224
2017	49,295	11,115	60,411
2018	48,788	10,938	59,726
2019	46,244	10,701	56,945

4.2.4 It can be seen that there has been a downward trend in both types of mileage, but with wholly commercial mileage falling more steeply than subsidised and partly subsidised mileage.

Market share & competition

4.2.5 The table below sets out the level of market concentration in five-yearly intervals and the data from 2018.

No of operators	1999		2004		2009		2014		2018		2019	
	% of all operators	% share of mileage	% of all operators	% share of mileage	% of all operators	% share of mileage	% of all operators	% share of mileage	% of all operators	% share of mileage	% of all operators	% share of mileage
Commercial mileage												
2	4.7	78.7	4.8	76.3	5.6	78.9	8.0	86.0	10.0	84.2	10.0	62.8
3	7.0	84.3	7.1	81.9	8.3	86.7	12.0	92.6	15.0	90.5	15.0	76.6
4	9.3	85.9	9.5	85.3	11.1	88.7	16.0	94.6	20.0	93.2	20.0	86.7
5	11.6	87.4	11.9	87.4	13.9	90.4	20.0	96.2	25.0	95.6	25.0	93.1
10	23.3	94.0	23.8	94.4	27.8	96.7	40.0	99.1	50.0	99.6	50.0	99.4
15	34.9	97.8	35.7	98.3	41.7	98.8	60.0	99.8	75.0	100.0	75.0	100.0
20	46.5	99.2	47.6	99.4	55.6	99.6	80.0	100.0	100.0	100.0	100.0	100.0
Total ops	43		42		36		25		20		20	
Subsidised mileage												
2	6.3	46.0	5.4	42.9	5.6	38.4	7.4	50.1	8.3	39.8	9.1	41.9
3	9.4	55.9	8.1	51.4	8.3	55.5	11.1	60.2	12.5	55.6	13.6	58.9
4	12.5	63.8	10.8	59.6	11.1	62.0	14.8	67.4	16.7	65.2	18.2	65.7
5	15.6	71.2	13.5	65.8	13.9	68.1	18.5	73.3	20.8	72.1	22.7	71.9
10	31.3	87.1	27.0	85.9	27.8	88.0	37.0	94.0	41.7	90.8	45.5	90.6
15	46.9	95.5	40.5	94.7	41.7	95.8	55.6	98.4	62.5	96.7	68.2	97.7
20	62.5	98.7	54.1	97.7	55.6	98.6	74.1	99.6	83.3	99.6	90.9	99.9
Total ops	32		37		36		27		24		22	

4.2.6 First's sale of its Queens Road and Bolton depots to Go Ahead and Rotala respectively has changed the market in the northern part of Greater Manchester. The contrast between 2018 and 2019 includes the effect of the sales. As the tables show, the top two operators in Greater Manchester went from running 84.2% of the commercial

mileage to running only 62.8%. This means that there is a lower level of market concentration in the north of Greater Manchester than has been the case, and hence greater potential for competition.

4.2.7 The new operators in Greater Manchester entered the market through acquisition after GMCA asked TfGM to carry out the Assessment of the Proposed Franchising Scheme. Since the acquisitions there have not been extensive changes to the network. First have recently completed a mini-network review in and around Oldham, mostly modified to remove cross town services to improve punctuality and reliability. Go North West have been proactive in livery design and recently launched their first route brand – the service 52 'Orbits'. This also benefitted from extended hours of operation to maximise opportunities for Trafford Centre passengers. Rotala (branded Diamond Bus) have experienced problems because of driver shortages from them taking over service operations in August 2019 leading to wide-scale service disruption and significant gaps in services on frequent services, creating inevitable customer and stakeholder disquiet.

4.2.8 These changes have yet to result in any tangible improvements for customers during this time. The mileage run by operators has further reduced rather than increased. Changes to ticketing have created further barriers to travel. Initially following the acquisitions there was a North Manchester ticketing agreement whereby each of the three operators accepted each other's tickets. This has now ceased to exist. As a result, passengers who do not pay the premium for an all-operator ticket have access to fewer routes. This would affect any journey that now requires a bus trip in an adjoining area run by a new operator, requiring the purchase of a new ticket or of an all-operator ticket at a premium.

4. 3 - Theme 1: Causes of Decline and the challenges facing the bus market in Greater Manchester

4.3.1 A number of incumbent operators who responded to the consultation challenged the account in the Assessment of the causes of decline of the bus services, and argued that the discussion of the challenges facing the bus services (at section 2.1.10 - 2.1.16 of the Assessment) placed too much emphasis on issues with the bus services themselves (for example, lack of co-ordination in the network, fares and ticketing issues etc.), and too little weight on the other factors that influence demand such as the effects of congestion. This supported statements later in their responses either that franchising was unnecessary or that focus should first be given to other direct measures to address issues such as congestion. Rotala in their response to Q12 describe franchising as a 'knee-jerk' response to falling patronage.

4.3.2 Representing operators, OneBus cite figures from prior to deregulation in 1986 to show that passenger number declines predated the privatisation of the bus market. It should be noted that the factors affecting changing bus patronage in the 1970s and 1980s are likely to be different in some respects to those driving change now. For instance, car use increased greatly in earlier years compared with more recent years: increasing from 96.3 million miles in Great Britain in 1970, to 233.7 million miles in 2000; but only increasing to 255 million miles by 2018 (DfT tra0101). Greater Manchester would have seen a similar trend.

4.3.3 OneBus and the incumbent operators have also suggested that some of the challenges noted from the functioning of the bus market are overplayed in the Assessment and do not constitute a problem that needs to be addressed.

4.3.4 It is important to note that the case for reforming the bus market (and hence for introducing the Proposed Franchising Scheme specifically) was not based upon a particular set of reasons for historic decline. Instead, it is based on the finding in the Assessment that there are issues with the bus service that could be addressed, and hence the service would improve, if reform were undertaken. It was thought that franchising would also improve the value for money for public investment in a number of 'Phase 2' measures.

Congestion

4.3.5 Operators have not challenged what TfGM have set out on congestion in the Strategic Case of the Assessment, but have argued that congestion should have more prominence compared to other issues.

4.3.6 Several incumbent bus companies and organisations representing the interests of bus users (OneBus and Bus Users UK) argued that the Assessment underplays the effects of congestion. For instance, in their answer to Q12, First argue that "*the biggest single challenge facing local bus operation is the adverse effects of congestion, in terms of decreased service punctuality, greater variation in operating*

conditions and increased journey times." They point to the increased journey times and the additional costs that congestion imposes on operators, and hence fare increases for passengers. Stagecoach cite Professor David Begg's report in section 4.5 of their response concerning the impact of congestion on bus services which "*identifies that for every 1% reduction in average bus speed, the cost to bus operators of providing those services increase by 1%. The average speed of Stagecoach's south Manchester services has worsened from 10.17 mph in 2007/8 to 9.21 mph in 2018/19 – a 9% reduction*."

4.3.7 Several incumbent operators, including Stagecoach in section 4.6 of their response, suggest that congestion could as easily be addressed through partnership, and therefore it would be wrong to proceed with the Proposed Franchising Scheme. OneBus in their response to Q16 suggest that partnership would be a quicker way of achieving GMCA's objectives. Operators also point to the transition spending on the Proposed Franchising Scheme and argue this could be better spent elsewhere. This point is discussed below at section 4.12. Rotala felt it would be better to focus on congestion and pollution, rather than franchising. The report also refers to The Chartered Institute of Logistics and Transport's response to the consultation, noting that they have seen no evidence that franchising would improve reliability and punctuality.

4.3.8 Independent passenger groups who responded also identified the importance of bus journey times to passengers and the adverse effects that congestion might have on them. Transport Focus in their response to questions 12 and 13 of the consultation cite research previously published that 34% of infrequent / non-users see journey times as a barrier to using the bus, the second most commonly cited reason (the first being buses not going were people want to go).

4.3.9 It is not the case that the Assessment ignores the effects of congestion. The effects that congestion has had and is likely to have were in fact considered in section 6.2.12 – 6.2.16 of the Assessment together with an analysis of the changes in traffic speeds since 2011/12. This section also cites the research undertaken by Transport Focus on the importance of the factors associated with the bus service that passengers value. Overall section 6.2 of the Assessment sets out a number of factors outside the operation of the bus market that have historically affected bus patronage and will continue to do so. The forecasting for the Reference Case, set out in the Assessment at section 14.4, takes a number of factors into account to create a forecast of how the bus market might evolve without intervention.

4.3.10 The effects of congestion are also clearly set out in the analysis presented in the Economic Case. In particular the effects of congestion on the costs of running the bus service are taken into account. It is true that the reference case waterfall plot reported in the Economic Case (Chart 14) of the Assessment, showing the modelled factors that influence patronage, suggests at first glance that congestion has a minimal impact on bus patronage in the forecasting carried out. This is because that

impact is only representing the immediate impact of increasing journey times for passengers, which are relatively small and are offset by a positive impact on bus patronage caused by increasing car journey times.

4.3.11 As respondents suggest, increasing congestion increases costs to bus operators in order to maintain their levels of service, and fare rises and/or network contractions are some of the knock-on impacts this can have for passengers. These factors are accounted for in the model suite by increasing bus hours and PVR by the same proportion as the forecast reduction in bus journey times. These metrics are used, along with bus kilometres, in the financial model to calculate operating costs which therefore increase due to congestion. This is set out in the Economic Case discussion at Section 5 of this response.

4.3.12 This means that the overall effects of congestion in the model are significant, as the cost changes drive changes to fares and network which themselves have effects on patronage. Thus, TfGM is satisfied that both in the Assessment of the bus market and in terms of forecast, the effects of congestion were not underplayed. This point is also considered in relation to comments made on the Economic Case, which explains in more detail the total impact of congestion in the forecasts (at section 5 of this response) While the consultees have raised congestion as an issue, consultees have not introduced any evidence or information concerning congestion that would justify changing TfGM's analysis of its effects in the Assessment materially.

4.3.13 Improvement in the punctuality and reliability of bus services are clearly set out in the third objectives for GMCA to improve the speed and reliability of the bus service (section 7.2.9 – 7.2.10 of the Assessment). Greater Manchester has long recognized the importance of addressing congestion, as part of a comprehensive bus strategy, as demonstrated by programmes of investment in bus priority since the first GM Local Transport Plan was agreed in 2000. While congestion does have an adverse effect on reliability and punctuality, bus operators' management actions and operational contingency also have an effect on the punctuality and reliability of services. As noted by Ipsos MORI in their findings, HCT Group and a number of local government organisations recognised in their responses to the consultation that the reform of the bus market, as set out in the Strategic Case, has the potential to improve punctuality and reliability.

4.3.14 It is important to note, however, that the Proposed Franchising Scheme is not proposed in the Assessment as an alternative to measures to improve congestion.

4.3.15 The Strategic Case contains a section on 'Phase 2' measures that points to the need to undertake further measures concerning congestion. Sections 8.7 and 8.8 of the Assessment explained that the Proposed Franchising Scheme would facilitate a greater range of such Phase 2 measures. The argument that the Proposed Franchising Scheme diverts funding and/or attention away from such measures, however, is considered in greater detail below at section 4.12 of this response on

further infrastructure spending.

Metrolink and tendered services

4.3.16 Another challenge to the need for reform of the bus market has been that the decline in bus patronage is due to a modal shift to the Metrolink tram service. There has been such a shift, reported in the Assessment at section 5.2, where it stated the decline in bus patronage since 2010/11 is due "*in part but only in part*" to the ability to use the expanded Metrolink network (section 5.2.3.). Section 6.2.10 of the Assessment provided an estimate that 65% of the total decline in bus patronage between 2012 and 2017 was due to a modal shift to Metrolink.

4.3.17 A number of operators have argued that the effect of Metrolink on bus patronage means that there is not a case to reform the bus market. Go North West state this in their answer to Q12 as a cause of decline though they give no further detail.

4.3.18 Stagecoach, pointing to the new lines that have opened since 2007/8, contended that the abstraction from bus to tram accounts for the majority, two thirds, of the decline in bus usage in that period and that, when adjusted for this correctly, the actual decline in bus usage is at its lowest level since the 1950s. First in their answer to Q12 note the information presented in the Assessment on the effect of Metrolink. They apply the 65% figure from the Assessment to the reported decline of 29.7million journeys between 2010/11 and 2017/18 to arrive at a figure of 10.4 million not attributable to Metrolink. They conclude that, if the effect of Metrolink is removed, patronage fell by 4.6% between 2010/2011 and 2017/18, rather than 13.3% (29.7 million).

4.3.19 Some operators also attribute the decline in bus patronage to the decline in financial support for TfGM tendered services. These are put on where operators do not run (or more usually) have withdrawn a service or part of a service (e.g. evenings and weekends). Belle Vue in their answer to Q12 suggest this is part of the reasons for the decline in bus patronage. Rotala contend that most of the decline in bus patronage is due to a combination of Metrolink and also reduction in support for TfGM tendered services. They argue that of the 4.6% decline (calculated above), 3.5% was accounted for by the reduction in the supported service budget. It considers, therefore, that the reduction in bus patronage is considerably less material than was assessed and *"entirely contradicts the assumption in the Strategic Case that bus patronage is on a downward spiral in the Greater Manchester Area."*

4.3.20 First also challenge how Metrolink has been taken into account in the forecasts: saying that it looks like recent trends in abstraction to Metrolink have been extrapolated forwards, and that the forecast should be different (though they do not state how these should be different.) Arriva, in response to Q12 state that the development and expansion of the tram network, if not done in a coordinated

manner, risks abstraction from bus services.

The effects of Metrolink

4.3.21 The Assessment does not seek to hide the impact of Metrolink expansion. It does, in fact, overplay its effect. More recent data has become available on the extent of extraction from the bus network caused by increases in Metrolink patronage.

4.3.22 The original estimate in the Assessment contained an error. The decline in bus patronage was measured over 5 years (2011/12 to 2016/17) while the estimated abstraction from bus to Metrolink was based on a six year period.

4.3.23 Since the Assessment was published, more recent patronage data for 2018/19 has become available. Applying the same method for estimating patronage abstraction by Metrolink as was used in the Assessment to the 29.7 million fall in annual bus patronage over the 7-year period between 2011/12 and 2018/19, using Metrolink data for the period 2011 to 2018, the estimate of abstracted patronage becomes 38%. (Note that the 5.2 million fall in bus patronage between 2017/18 and 2018/19 was significantly higher than the 2.5 million increase in Metrolink patronage).

4.3.24 Since the Assessment was completed, further Metrolink survey data has also become available that repeats the question "*If Metrolink was not available for the journey you are describing, what would you have done instead*?" If these new figures were used to estimate abstraction over the 7-year period between 2011/12 and 2018/19, using Metrolink data for the period 2011 to 2018, the previous estimate of 38% would fall to 33%. This is because more of the newer passengers will not have come from previous bus journeys, some undertaking new journeys to destinations such as Media City and some who may have come from outside Greater Manchester. Initially, a higher proportion of Metrolink patronage is likely to have come from the bus network, and it would take time for Metrolink to attract passengers from cars. It would not be unreasonable to assume that, considering the period as a whole, over the whole period, abstraction would be in the range of 33% to 38%.

4.3.25 Over the period 2011 to 2018, annual patronage on established Metrolink lines (Altrincham, Bury and Eccles) increased by approximately 1.4 million which does not appear in the figures in the Assessment. At least some of this increase could have been caused by the expansion of the network, providing people with more possibilities for undertaking journeys by Metrolink. Applying the 2018 survey data to this increase would give an estimate of an additional 5% of patronage abstracted from bus, making a total of 38-43% of the decline in bus patronage being due to the expansion of Metrolink.

4.3.26 One other effect of the increase in Metrolink patronage not included in the Assessment is a potential positive effect on patronage in bus transport from the historic increase in Metrolink patronage. This will be stimulated by integrated public transport, as people use bus as a feeder mode to Metrolink or to continue journeys.

A high proportion of Metrolink passengers might be those that otherwise would not be using public transport, or enabled by Metrolink to live a car-free or reduced-car-use lifestyle (as set out in the Assessment at section 5.4). A survey undertaken in October and November 2018 showed that 6.3% used bus to get to a Metrolink stop and 4.2% for an onward journey after using Metrolink. This shows that Metrolink does not preclude bus use but can also encourage it.

4.3.27 In contrast to statements by operators including Stagecoach, the Assessment did not underplay the effects of Metrolink in contributing to bus patronage decline, but rather overestimated those effects to the disadvantage of the Strategic Case supporting the Proposed Franchising Scheme. The effect on patronage between 2011 and 2018 is likely to be very much lower than set out in the Assessment. While this still means that the expansion of Metrolink has had a long term effect on bus patronage, it does not mean that other factors are not important or that the bus service is not capable of improvement. In TfGM's assessment, bus operators and other consultees did not provide any relevant evidence demonstrating that the material considerations in the Assessment had, in fact, been underplayed. Given the availability of improved data concerning bus and tram patronage, and no contradictory new evidence or analysis, TfGM now considers the Strategic Case supporting the Proposed Franchising Scheme is stronger in this particular respect than originally anticipated. The forecasts deal with the effects of Metrolink appropriately. The fact that the expansion of Metrolink reduced bus patronage does not mean that there are not issues with the bus service should be addressed through reform.

Reductions in supported services

4.3.28 The factors bearing on all patronage will affect subsidised services as well as commercial services, so not all of the reduction in patronage on subsidised services will be due to the reduction in the scale of the service itself.

4.3.29 Rotala's calculations of the impact of the reduction in the supported service budget are problematic because they use an incorrect estimate of the supported service budget of £45 million in 2010/11, when in fact it was just under £29 million, an overstatement by a factor of 55%. The budget for 2019/20 is £27.6m.

4.3.30 Mileage reductions will reduce patronage and it is the case that reductions in funding for supported services have reduced overall patronage. This has been a factor in reduction in bus patronage in the UK generally. However, commercial mileage has reduced more than subsidised mileage in recent years, and because subsidised services are run in places or at times where operators do not think economic services are possible, they have significantly fewer passengers. In percentage terms, commercial and subsidised miles have reduced by similar amounts: since 2015 wholly commercial mileage reduced by 11.3% and subsidised and partially subsidised by 9.3%; in absolute terms the number is higher for commercial mileage

approximately 5.9 million miles lost as opposed to 1.2 million.

4.3.31 Cuts in commercial mileage are significantly more extensive and those services tend to carry more customers (Rotala assume twice as many). The reduction in subsidised services are therefore very unlikely to have had a significant effect on patronage in Greater Manchester as asserted by Rotala.

The combined effects of Metrolink and reduced subsidised services

4.3.32 It would not be right, therefore, to attribute the decline in bus patronage almost entirely to the expansion of Metrolink and reduction in the mileage of subsidised services.

Forecast effects of Metrolink

4.3.33 With respect to the criticism from First on forecasting, the forecast is not an extrapolation of previous abstraction from bus to Metrolink but based on what further abstraction of known schemes might cause. It is standard practice (contained within DfT's WEBTag guidance on transport appraisal) that forecasts should include known schemes rather than other transport schemes that do not yet have consent or funding. TfGM is satisfied that doing so is a suitable and informative assessment methodology. Thus, the forecast includes an effect for the opening of the Trafford Park Line, which was at an advanced state of planning, but does not include any further potential Metrolink lines While it may be possible that the network would be further expanded in the 30-year appraisal period, in TfGM's view it would not be appropriate to include speculation about the potential effects of possible schemes in its forecasting. This is also true of any anticipated changes – for instance in the area of clean air – that would make it more likely for bus patronage to increase and indeed future programmes of bus priority and their future positive impact on bus speeds and patronage.

4.3.34 The forecasts include an income elasticity, and this would take account of the effect where some organic growth in Metrolink patronage might be expected from increased income, as a 'better' (albeit more expensive) mode, at the expense of bus. It is one of the mechanisms that underpin the effect of increasing income reducing use of bus.

Other factors causing decline

4.3.35 Some respondents give other reasons for the decline in bus use. Some of these – for instance Tameside Metropolitan Borough Council – support the analysis presented in the Assessment but suggest other reasons why fewer trips might be taken, for instance the decline in town centres in Greater Manchester or an increase in low density housing. Rotala point to the lack of indexation of the Bus Service Operators Grant in addition to other factors in their answer to Q12.

4.3.36 The Assessment points to a number of such other, for instance the decline of town

centres at 5.2.8. The lack of indexation of the BSOG is taken into account in the financial forecasts for all scenarios in the Assessment and this in the forecasts set out in the Strategic Case of the Assessment at Section 5.5.

4.3.37 OneBus in their answer to Q12 set out a whole category of what they term "*authority failures*" where TfGM is said to be at fault and the cause of the decline in bus patronage. Factors they cite include inadequate information at bus stops, a lack of raised kerbs at bus stops, the closure of certain roads to bus traffic by local highways authorities (not TfGM), and perceived "*negativity"* about buses. TfGM is satisfied that none of these factors, are likely to have been significant factors in the decline. It is false to claim that TfGM has been spreading negativity about buses as a mode of transport, but instead highlighted their importance in its published policies such as the Transport Strategy 2040 and its associated Delivery Plan. In any event, the factors identified do not weigh against the Strategic Case supporting the Proposed Franchising Scheme. As set out in the Assessment, Phase 2 measures could include improvements to on-street infrastructure (such as raised kerbs or information at bus stops) and could also include work to improve the reputation of the bus service.

4.3.38 TfGM is confident that there has not been any significant cause of decline in bus patronage not considered in the Strategic Case.

Limited competition and the challenges arising from the functioning of the bus market

4.3.39 The Assessment set out some challenges facing the bus market that come not from exogenous sources – such as a rise in car ownership – but from how it functions. This sets out the limited competition typical of bus markets and how this exists Greater Manchester, and that there are challenges arising from how the network is planned and operated; from overly complex fares and ticketing and from a lack of complete and high quality information. Some respondents noted these features of the bus market and supported the analysis, while others (incumbent operators) challenged the analysis.

4.3.40 OneBus and some operators, including Stagecoach, did not agree with the analysis in the Assessment on the perceived challenges to the market, however, there is also support for the analysis set out in the Assessment on the issues facing the current bus market. Ipsos MORI found that elected representatives, environmental heritage community or amenity groups, local government organisations and other non-statutory organisations were supportive of the analysis in the Assessment of the issues facing the bus market, as noted in their report.

Competition

4.3.41 The Strategic Case in the Assessment sets out an assessment of competition within the Greater Manchester bus market at section 6.3.5-6.3.10; the effects of this on cost of travel and network integration are set out in the subsequent sections. This is supplemented by analysis set out in the Bus Market Supporting Paper at section 3.7. This concluded that there was limited competition within the Greater Manchester

bus market and that the effects of the limited competition, and some of the effects of the competition that did exist, caused some challenges for the bus market. Operators generally did not challenge the concept that the bus markets suffer from limited competition.

4.3.42 Operators noted that the sale of two of Frist Manchester's depots and operations has meant that has now been some new entry into the Greater Manchester bus market. The potential for greater competition because of this change was noted in Section 6.3.10 of the Assessment, it being stated that it is unlikely that the long-term trend in competition will change markedly and that Greater Manchester is unlikely to see long-term benefits from a competitive market. It is important to note that have been no new entrants to the Greater Manchester market at scale other than through purchase.

4.3.43 In terms of the increased competition in the north of Greater Manchester, Go North West states that in fact it competes with other operators on similar or identical flows and has increased competition recently by offering an enhanced peak express service between Bury, Heywood and Manchester. The main example is Rochdale Road on which Go North West runs the 17 and 18 services from Manchester towards Middleton and Rochdale which compete with Diamond services between Middleton and Manchester. The peak express service referred to is likely to be the X63 which was a pre-existing service where daytime services were increased. There is no discernible trend of improved services across the north of Greater Manchester where these operators run services. The Assessment at section 6.3.39 noted that this would lead to a more fragmented position in terms of fares – and this has proved to be the case in North Manchester as passengers' operator-own tickets allow them travel on fewer routes than previously. As noted above in the Market Update, this has not yet resulted in extensive changes to the bus network.

4.3.44 Some incumbent operators and OneBus argue that the Assessment overplays the importance of some of the challenges from the functioning of the bus market, implying that reform is not necessary. The following sections look at these issues.

Network effects

4.3.45 First in their answer to Q12 say that the lack of network co-ordination is overstated, arguing that maximising "*connections*" could lead to reduced demand. Go North West in their answer to Q12 point to the existence of bus stations passengers can use for interchange and GMTL travelcards as evidence coordination is possible. Transdev argue the lack of co-ordination is a "*surprising accusation*" as there are tickets available for bus and tram (though not for train and tram).

4.3.46 In terms of services that have social and economic value, First point to the practice of giving a "*consistent level of service*" on routes, and Transdev point out some

operators run services on a marginal basis.

4.3.47 The points raised by operators do not show that the Assessment overstated the significance of the inefficiency of planning a set of separate competing networks. It is worth noting that DfT in their initial impact assessment on the legislation enabling franchising to be considered, included a figure of 3% for the improvement in network efficiency under franchising. Section 6.3 and 6.4 of the Assessment demonstrate that planning separate networks, rather than one integrated bus network, is less efficient and does not provide as good a service for passengers as it might. This is further demonstrated by the network modelling undertaken as part of the economic analysis. This showed that reallocating resources could be done more efficiently and that this would lead to benefits for passengers. There is therefore not only a strong theoretical reason to believe that network efficiency can be improved but this has been demonstrated in the modelling. (Assessment section 6.3 and section 14.6)

4.3.48 It is also right to point out operators do not typically provide services that have social and economic value to the community if they are not profitable. This is not to criticise operators but merely to point out a feature of a deregulated market that, in TfGM's Assessment, supports the case for the Proposed Franchising Scheme. Equally, it would be counter intuitive for operators to integrate their services with train and tram where to do so would reduce their patronage and transfer it to competing services or modes.

Complex fares and ticketing

4.3.49 Operators have also criticised the points made on complex fares and ticketing. First say in their answer to Q12 that *"continued existence of single operator period products is entirely appropriate. These provide a discount for the benefit of the great majority of passengers who make the same journey(s) every day on the same service provided by the same operator*." First also say that better information choices "*are already available to the passenger should they choose to use them*" in their answer to Q12. Go North West in their answer to Q12 assert that they *"do not consider current ticketing arrangements to be complex or detrimental to passengers*." They say TfGM have overstated the importance of this issue. Stagecoach point to the existence of multi-operator tickets as well as single operator tickets (Section 4.7) and say that they can provide more choice and value. Transdev assert that the complexity is "*subjective*" in their answer to Q12 and that passengers taking regular journeys do not notice overall complexity.

4.3.50 The evidence presented in the Assessment at section 6.3.30 – 6.3.39 as well as the evidence presented in the Bus Market Supporting Paper on the views of passengers at section 6.3.43 shows that there is complexity in the current system and that passengers do find the complexity of current ticketing and the lack of interoperability between tickets as a barrier to using the bus service. This is highlighted by the responses to previous engagement with passengers (including the consultation on the Transport Strategy 2040) as well as the response to the consultation on the

Proposed Franchising Scheme. Ipsos MORI note in section 7.1.2 of Chapter 7 of their report Transition Buxton's response in relation to challenges in the market that *"It is not performing well because services are too expensive, too infrequent, routes are too complicated*." They also note that 37 of the favourable comments in response to how the Proposed Franchising Scheme might contribute to GMCA's objectives were that tickets would be simplified with a general member of the public stating that *"I hope a simpler fare system can be achieved*." Another member of the public set out the lack of interoperability, stating that "*Part of the problem with the bus scheme is the weak and expensive interlink between different companies. Franchising this would be perfect as it gets rid of the different operators, different tickets, different prices and disjointed timetables*." Other responses are considered further in section 5.1.10 below.

Satisfaction scores

4.3.51 In terms of customer service, operators point to high scores in customer satisfaction surveys which are consistently in the 80s (these are reported in the Bus Market Supporting Paper at Section 7.1, with the satisfaction scores on punctuality which are lower at 73%).

4.3.52 Satisfaction scores are to some extent a helpful metric, but they do not relate to those who have chosen to stop using the bus or those who have never considered it as a mode. High satisfaction scores in these surveys have been a feature of the UK bus market while patronage has been declining, and they do not mean that there are not issues with the operation of the bus service that should be addressed.

Views of other stakeholders

4.3.53 In their answers to Q12, several of the GM authorities and neighbouring authorities expressed agreement with the issues set out in the Assessment. For instance, Blackburn and Darwen Council said that it "*supports GMCA's analysis in terms of challenges facing the Greater Manchester bus market, which mirrors background conditions experienced within the Borough of Blackburn with Darwen*". Cheshire East Council set out analysis that further supports that contained in the Assessment, setting out "*shared issues that support a case for change include: lack of a coherent network; lack of a common identity (brand); complexity of fares and tickets; lack of local accountability; and unclear value-for-money on public funding*". They also point to the performance of London under the franchised system compared with other metropolitan areas in the UK.

4.3.54 Others note problems with the network. Bolton Council report "*There is inadequate network coverage and absence of commercial services to some of our major employment sites such as Middlebrook and Logistics North*." Manchester City Council express concern on the standard of service in their answer to Q12, and note "*the current system often leads to a confusing range of tickets which the travelling public often find hard to understand*" and note the variable standards in terms of

fleet and standards of service. They also point to lack of response to changing travel patterns in terms of the increased importance of Manchester Airport and its Enterprise Zone and the late night / shift work economy.

4.3.55 Similar points on the challenges facing the bus market are also made by Rochdale Borough Council, Stockport Metropolitan Borough Council and Trafford Council. Travelwatch North West point to a set of factors; as well as the need for bus priority measures; the convenience of the car and growth in car ownership together with lack of car restraint in cities like Manchester, they point to unfamiliarity with ticket purchasing procedures (pricing, how to pay, etc), journey planning and information. They also point to the difficulty of accessing information about fares; customer care perception and in reality - very much down to driver attitude and conduct; lack of fares integration and poor modal interchange arrangements; in turn this results in an over complex fare structure, which is a disincentive to travel; lack of on-bus information systems, not least real time.

Objectives for reform

4.3.56 There is a good deal of agreement among respondents with the objectives for reform that come from the analysis of the issues affecting the bus market set out in the Assessment at Section 7. This comes in part from incumbent operators (even those who oppose the Proposed Franchising Scheme): Arriva in their answer to Q13 note there is a case for reforming the bus market in Greater Manchester; First in their answer to Q14 note their agreement with all the objectives in the Strategic Case.

4.3.57 The Ipsos MORI report at section 7.2.1 of Chapter 7 refers to a number of stakeholders that wanted the objectives to go further. Some referred to them going further in terms of encouraging modal shift. Bolton Council advocated expanding them to include sustainable improvements that could be measured over time. However, the Ipsos MORI findings also acknowledge that most stakeholders agreed with the objectives, with 355 consultees providing favourable comments in response to Q14 of the consultation in comparison to 95 unfavourable comments. Very few of these comments were in disagreement with the objectives themselves. They are a combination of wanting to see more ambition in terms of overall outcomes – such as increases in the modal share of non-car modes of transport – and disagreement that the Proposed Franchising Scheme would be the best way of achieving these objectives.

4.3.58 Stockport Metropolitan Borough Council suggested extending the objectives to cross-boundary services. The objectives for improvement do apply to these services. It should be noted that it would not be possible extend the franchise areas beyond Greater Manchester other than in partnership with a neighbouring authority who would franchise services. Neighbouring authorities are in different positions with regard to potential bus reform, and this could be an option considered in the future. It would be possible to work with neighbouring authorities in the context of cross-boundary services as indicated below. In terms of further ambition to encourage

modal shift and improve the environmental performance of the fleet, these ambitions were set out in the Transport Strategy 2040 and further detail given in the Delivery Plan to the Transport Strategy 2040 (published in 2019). The specific objectives set out in the Assessment build on these and feedback suggests that they are the right for the bus services in Greater Manchester.

Conclusion

4.3.59 Given the multiplicity of factors affecting bus patronage over the medium term, positively (the economy and population of Greater Manchester have grown over this period, which will have a positive effect on patronage) as well as negatively , it is not possible to be definitive about the causes of decline in patronage and how respective causes might continue to increase or decline in the future.

4.3.60 However, rather than underplaying the effects of the key factors of congestion and Metrolink abstraction adduced by operators, the Assessment sets them out clearly, or even overplays them to the disadvantage of the Proposed Franchising Scheme. TfGM is satisfied that the Assessment takes account of these factors in its consideration of the bus market and how it is likely to evolve in the future. It also sets out other important factors that affect patronage that are not associated with the operation of the bus services, and which TfGM considers will have a material impact on patronage, such as increases in car ownership.

4.3.61 The information set out by operators on the causes of decline in the bus service in Greater Manchester does not convincingly indicate the analysis in the Assessment is materially incorrect, flawed or biased, nor does it alter the conclusion drawn by the Assessment that there are factors affecting the service that mean that reform should be sought by GMCA. On the other hand, TfGM's and Ipsos MORI's analysis has identified that consultation responses from local authorities and bus users overwhelmingly support and endorse TfGM's analysis concerning factors influencing decline, and have endorsed the potential for measures under the Proposed Franchising Scheme to encourage and simplify bus use.

4.3.62 In addition, there is little challenge offered by operators to the objectives set out by GMCA in the Strategic Case of the Assessment, apart from that they could be implied from the challenges on the problematic nature of the complexity of fares and ticketing noted above. They are generally endorsed even by those who oppose the Proposed Franchising Scheme as appropriate for improving the bus service in Greater Manchester.

4. 4 - Theme 2: Competition and the shift to a franchise market structure

4.4.1 Introducing the Proposed Franchising Scheme would change the market in Greater Manchester from a deregulated one where competition takes place 'on road' as operators are free to register services and run buses to one where competition is 'off-road as operators compete to run franchise contracts. Some respondents had comments on the idea of changing the market structure in this way. As well as support for the Proposed Franchising Scheme noted above, there was broader support for the idea of franchising.

4.4.2 Two reports that argue in favour of a franchised bus model were cited as part of statutory consultee responses. Abellio referenced a report published by Centre for Cities (CfC) in November 2019, entitled "*Delivering change - improving urban bus transport"*, which provides analysis that supports Abellio's view that a franchised scheme would deliver the greatest benefits to GMCA. Unison cited a report by Transport for Quality of Life (TfQL), 'Building a World-class Bus System for Britain', which supports their view that franchising enhances service provision through increased public control. These reports, and their analysis of the benefits of franchising, are explored in more detail below.

4.4.3 In their report 'Building a world class bus system for Britain' (2016) Transport for Quality of Life ("TfQL") analysis concludes that franchising represents better value for money than a deregulated bus system. Their estimates conclude that replacing the deregulated bus model throughout the UK with franchising would yield net financial benefits equivalent to £340m per annum, arising from retention of "*excess profits*" (£114m per annum), as well as "*patronage and revenue increases over time as a result of unified network design and simplified ticketing (£168m per annum) and efficiencies in provision of services that are currently tendered (£79m per annum*)". The report's overall conclusion states that the municipal operation would yield the greatest financial benefit, followed by franchising.

4.4.4 Similarly, in their report on 'Delivering Change' (2019), Centre for Cities ("CfC") find that franchising is a fundamental enabler of higher quality bus services. This is because franchising provides the Mayor with powers covering standards, fares, ticket types, routes and service frequencies. CfC state that the increased level of mayoral control facilitates innovation and improvements to customer experience, such as the integration of the bus network with other transport modes, creation of a common payment system, and greater certainty of outcome in relation to how services will respond to investments (e.g. new bus lanes can be created for routes where higher frequency services are planned). CfC consider that these improvements, empowered by franchising, enable the network to be designed to cover the most extensive area possible for passengers to utilise the available modes of transport.

4.4.5 Furthermore, CfC highlight that greater control over bus services equips Mayors with

greater ownership due to increased exposure to reputational damage. For example, CfC states that franchising provides Mayors with increased ability to control air quality as they are able to put more stringent standards in place to meet environmental and clean air targets. Accountability for failure to meet any such targets therefore clearly lies with the Mayor. CfC consider that this is likely to provide a heightened sense of responsibility, therefore encouraging a more active and interventionist approach to bus services under their authority.

4.4.6 TfQL's report notes that effective transition towards a franchised model requires successful management and minimisation of disruption, as well as the introduction of measures for small operators. TfQL's research finds that this is most likely to be achieved through a depot-level franchising model, similar to the Franchising Scheme envisaged for Greater Manchester. TfQL point out that any potential negative impact on small operators could be mitigated through the introduction of specific measures such as allocating certain routes to be on an individual franchise, thereby encouraging participation from small operators.

4.4.7 It is important to note that whilst both reports provide an analysis that favours a franchised bus model, they also acknowledge some of the risks involved with franchising which need to be managed carefully. In particular, control over farebox revenue means that unforeseen decreases in revenue or increases in operating costs will have to be plugged by other means. CfC state that whilst franchising provides additional benefit in comparison to a deregulated model, further supporting measures are required in order to attain the full benefit, including the introduction of further bus priority measures, as well as close coordination with neighbouring authorities.

On-road vs. off-road competition

4.4.8 Comments on changes to specific level of competition are considered above in section 4.2. Some operators, and the CMA, said in their responses that it would be preferable to run bus markets so that there was 'on-road' competition. Without setting out a position in detail, incumbent operators Stagecoach and Rotala specifically expressed preference in their consultation responses for 'on the road' competition with Rotala stating that "*opening a market up to competition only periodically in the form of tenders limits the dynamic evolution of the market and risks locking in a sub-optimal outcome*". Rotala also point out that the competitive position in Greater Manchester has changed since the sale of two of First's depots and operations, to Rotala and Go North West. Ipsos MORI note in their report that Rotala assert that competition for the market is an inferior form of competition in their answer to Q35 (12.1.1).

4.4.9 The CMA set out a more detailed and nuanced position on competition. In their response, they noted that the CMA and its predecessors have engaged with local bus markets several times and noted a preference for on-road competition in line with

their preference for competition to take place within markets if this is possible.

4.4.10 In particular the CMA summarised the 2011 Investigation findings which found that competition was not working, and in particular that:

- head-to-head competition was uncommon;
- competition is not effective in those local markets where head-to-head competition does not exist;
- many local markets exhibit persistently high levels of concentration; and
- ongoing sustained head-to-head competition, where present, delivers significant benefits to customers.

4.4.11 The CMA recapped that the 2011 Investigation did not recommend franchising as a means of addressing competition issues in bus markets. The 2011 Investigation noted a number of material risks around authorities having the skills and capabilities to design and monitor bus networks, as well as its view that there is information asymmetry between transport authorities and the operators, which might lead to mis-specified franchise contracts. However, in their consultation response, the CMA state that its views identified in the 2011 Investigation were reached from the perspective of the CMA's narrow objectives, and acknowledged that those charged with managing effective bus networks have much wider sets of objectives and duties which they are required to balance: "*in making that decision, the CC acknowledged that LTAs have wider social and policy objectives which franchising may help to achieve*".

4.4.12 In their consultation response, the CMA note their position on bus franchising and make some specific observations about the Proposed Franchising Scheme. In respect of its position on bus franchising they note that: "*the CMA recognises that franchising may be appropriate in specific circumstances but believes that on-road competition should only be abandoned in favour of competition for the market in circumstances where this is the only way to secure better outcomes for the travelling public, residents and taxpayers*."

4.4.13 The Assessment and the Bus Market in Greater Manchester Supporting Paper includes analysis that indicates that this is the case given the limited nature of competition in Greater Manchester. The CMA note in their response the consultation that LTAs may have multiple policy objectives that may go beyond the promotion of competition that would benefit consumers, and that LTAs are best placed to make that decision.

4.4.14 Having set out its broader position on franchising, the CMA make a number of observations on the Greater Manchester Proposed Franchising Scheme. They note the decline in bus journeys and the 2040 targets to increase the proportion of journeys made by walking, cycling and public transport to 50%. They also note the GMCA and TfGM's intention to develop an integrated transport network. The CMA

state that they have "*reviewed the full assessment and supporting papers, but we do not comment on the detailed analysis conducted by the GMCA*". They do state, however, that "*the GMCA presents evidence of local bus market(s) that are not working in the interests of passengers*."

4.4.15 The CMA consider that partnership could deliver many of the benefits of franchising with lower risks. They acknowledge that the outcomes achievable from partnerships may be more limited and they also recognise GMCA's concerns over the deliverability of all aspects of the VPA given the lack of enforcement mechanisms, although they point out that, if a partnership does not deliver the desired outcomes, the authority could introduce franchising subsequently. This would avoid some of the risks, but delay realisation of the benefits anticipated from franchising.

4.4.16 The CMA state that it is not in a position to determine whether a franchising or partnership approach is the most effective way of delivering GMCA's multiple broader policy aims but that they "*recognise and accept that franchising could be the most effective vehicle for delivering these policies – with the basis for this view being set out in the assessment*" and that it "*could deliver significant benefits to passengers in Greater Manchester*."

4.4.17 The CMA recommend that GMCA should ensure that it has considered the risks that the CMA have identified with franchising fully before proceeding and they emphasise the risk of causing long term changes to the structure of the bus market that may not be fully reversible and which may adversely affect passengers in the long term.

4.4.18 Having noted this summary view the CMA explain that the focus of their comments in the consultation response concern how the Proposed Franchising Scheme might best be configured to ensure that there is a good level of competition 'for the market' as operators compete to fulfil franchise contracts. These points are considered in the response to the Commercial Case comments below at paragraphs 7.9.43 to 7.9.144.

4.4.19 Considering the consultation responses regarding competition and the nature of the market, it can be concluded that that the limited nature of competition in the deregulated market, as well as the disadvantages of having competing bus networks (in terms of the lack of integration in either the network itself or in terms of fares and ticketing) provide a basis for changing the nature of competition.

4.4.20 The risks associated with a change in market structure are recognised in the Assessment, and the Assessment and this consultation response explain how it has considered these and put in place appropriate mitigations. In is important to recognise, nonetheless, that the Proposed Franchising Scheme will involve a transfer of cost and risk to GMCA, and that his transfer must be regarded as long-term and not a responsibility that can be removed lightly. The Proposed Franchise Scheme is anticipated to benefit passengers and not have adverse impacts upon them in the long term. It is central to the franchising proposition that it is a long term market

change, and that it will enable further beneficial measures in the long term. However, while it should be regarded as long term, is not irreversible. The market was changed following the 1985 Transport Act to the current deregulated market (and to a franchised market in London). It could be deregulated at a later date, although this would be unlikely to benefit the incumbent operators who, in the meantime, would need to compete for franchise contracts.

4.4.21 The introduction of the Proposed Franchising Scheme would be a long-term change and is set out as a long-term intervention in the Assessment. The fact of the widespread use of franchising in bus markets, not only in London but more widely in Europe, Asia, the America and the Middle East, shows that competition 'for the market' can be effective, lasting and can bring benefits to passengers.

4.4.22 Some operators have criticised the record of London as a franchised market. Rotala claim in their answer to Q12 that London has experienced declining patronage in recent years compared to the rest of the country; in their answer to Q14 they note the average age of buses in London is 5.9 years (it is 8 years in Manchester); quote annual deficit numbers for 2019/20 of £722 million and say that passenger numbers have declined every year since 2014/15 to claim that the franchised market does not work well when compared with the deregulated market.

4.4.23 In recent years London has suffered some decline in passenger numbers alongside other jurisdictions. DfT's Annual Bus Statistics 2018/19 note (December 2019) states that passenger numbers fell in London between 2017/18 and 2018/19 by 1.2%. Numbers in metropolitan areas outside London were broadly stable (although there was a decline in Greater Manchester of 2.7% between 2017/18 and 2018/19.) However, the picture in recent years is different – the DfT note that between 2008/9 and 2018/19 numbers fell in London by 1.4% whereas in England outside London they fell by 11.9%, contradicting Rotala's assertion. Commercial mileage in metropolitan areas outside London fell during this period by 13.2%, whereas mileage in London rose very slightly (DfT Bus 0203a/0205a).

4.4.24 In terms of the deficit cited by Rotala, the Assessment acknowledged when citing London that it had received public support. Quoting a deficit figure for London without acknowledging deregulated markets also receive support from Government is misleading: in 2018/19 English metropolitan areas outside London received a net figure of 56.4 pence per passenger journey compared with London's 36.4 pence per journey (DfT Bus 0503b). Over the period 2008/9 and 2018/19 the total net estimated Government support for bus service fell by 34% in London and 19% in English metropolitan areas outside London (DfT Bus 0502b).

4.4.25 The relative performance of bus services in London and the rest of the country does not support the idea that London has performed worse, or that it has dealt with the pressures felt by all bus services worse than deregulated services in comparable metropolitan areas. In fact, following the huge success of franchising in the early

years of the century, the bus market in London has sustain itself better than elsewhere.

4. 5 - Theme 3: Franchising scheme proposition – approach to network

Approach to Network

4.5.1 OneBus, along with a number of incumbent operators raised a number of challenges to the franchising proposal in terms of how effectively it would be able to achieve GMCA's objectives in terms of the bus network. They have argued that there is little capacity for improvement in how the overall network is run, and that the political control of TfGM would not enable effective management of the network in any case. Points are also made about the extent to which the Proposed Franchising Scheme would improve the punctuality and reliability of the bus service.

Network efficiency

4.5.2 The Strategic Case identifies current inefficiency in the bus market being composed of a series of different and partially competing networks, and that this has the effect of not serving passengers in the optimal way possible. Planning the network as a single entity, in conjunction with rather than in competition with other public transport modes, would enable greater efficiency and more passengers to be served.

4.5.3 The OneBus response states in response to Q14 that this relies on "*latent market travel demand"* and that operators would have found all demand in the market because they are incentivised to do so. It would, they argue, be over-optimistic to believe that a franchised network could be more efficient and drive passenger growth. They also say that in terms of network planning principles that value both coverage (i.e. being more comprehensive) and simplicity and ease of understanding, "*it is certainly possible to have a network that is comprehensive and to have one that is comprehensible, but not both."*

4.5.4 Go North West, in their answer to Q35 argue that the redeployment of buses from busy corridors (where the Assessment states there may be over-busing) could disadvantage passengers. As suggested below in the Economic Case response at 7.5.13, they also argue the network would be less efficient and "*ossify"*. First in their response to Q16 (and their letter to GMCA) suggest that the Proposed Franchising Scheme would not mean any step change in frequency or investment. They also suggest that the contention that the network will be planned as a single network is inconsistent with the intention to award contracts replicating the current provision.

4.5.5 In section 4.5 of their response, Stagecoach suggest that reducing high frequencies because of any redeployment of buses would reduce bus patronage. They contend that current operators can be responsive and efficient while GMCA would be too slow in changing the network. They argue that the Proposed Franchising Scheme would amount to a "*prescribed specification*" that would not respond to changing circumstances because of the inflexible nature of franchise contracts.

4.5.6 The Assessment sets out the reasoning behind the idea that current network planning is inefficient at section 6.3, noting that it is planned as a series of different

and partially competing networks rather than as one efficient network – and that it would be possible to plan a network better and increase patronage with the same level of resource at section 9.2. Despite the assertions to the contrary, that improvements could not be made on the current network, the ability of GMCA to control the network planning process without the constraints of preserving an individual operator's routes, market share or profitability would enable a greater degree of improvement than a partnership. The areas for improvement identified during work to consider network improvements included improving the coordination of services on shared corridors, the removal of service variants and re-routeing services within corridors to redistribute resources from over-bussed sections to poorly served areas.

4.5.7 The Strategic Case sets out why there are inefficiencies in the current planning of the network. Any redistribution of resource would involve reductions as well as increases, but it is false to say that this would mean a worse service for passengers. An improved network, using the same level of resource, was tested using the TfGM's network model. This work was reported in the Economic Case and took account of all of the changes to the network, including any reductions in frequency, to see whether there could be a net improvement. The conclusion (as reported in section 14.5 of the Economic Case in the Assessment) is clear – when the type of changes set out above are tested a net improvement in outcomes for passengers is shown. It is not the case that the current market maximises demand from the resources available and improvement is not possible. It is wrong to claim that that there is not latent demand that a better bus service could not take advantage of – demand for any mode of transport will vary by the cost, convenience and quality of the service, and improvements to the bus service are shown to be able to increase demand. Thus, in contrast to Go North West's statement that planning would be less efficient, there is clear potential for it to be more efficient. In addition, there is no reason to believe the network would "*ossify*" as a process of continual improvement is envisaged.

4.5.8 Changes to the network using the same resources are, of course, limited, as First point out. Any further service improvements would be part of 'Phase 2' and would require further investment to achieve. While the Proposed Franchising Scheme provides a strong platform for such changes (as set out in the Strategic Case of the Assessment at section 8.7) it would not in itself extend the network in this way. The award of contracts in the first round of franchising would not, as First suggest, tie TfGM to the current network. Some smaller changes would be made in the award of contracts initially and the contracts themselves will allow for changes as the network is modified. The intention is that passengers should not notice large scale changes to their routes on day one, but that improvements are brought in in a considered way. The modelling in the Economic Case of the Assessment introducing the network benefits over a period of time to reflect this.

4.5.9 Planning the public transport network in a coordinated manner could also aid the implementation of mobility as a service (MaaS) by ensuring that the network would

not act as a competitor to other forms of public transport. This would not simplistically mean taking out buses where trams run, but making sure that the bus served a distinct market and was not set up to simply compete with the tram. Making decisions on a whole and integrated network basis would improve efficiency, and a set of potential changes designed to better match supply and demand were tested using TfGM's network model. This takes account of the loss of patronage from redeploying buses as well as any gains made elsewhere, and it demonstrated that it is possible to derive a net benefit from network changes.

4.5.10 Some operators have made similar points with respect to the network benefits ascribed to the Proposed Franchising Scheme in the economic analysis. These have been reduced as the shrinkage of the commercial network since the original analysis was done has meant that there is less scope for redeployment of resources. These points are discussed at section 5.4 of this response.

4.5.11 The OneBus assertion that "it *is certainly possible to have a network that is comprehensive and to have one that is comprehensible, but not both*" is contradicted by the example of the London bus network which is franchised and is both comprehensive and integrated, covering over 700 different routes, with a high degree of clarity about routes for passengers, high quality information across a number of media to help passengers navigate the system, and stability in the network with changes consulted on and planned in advance. This is complemented by the fact passengers are able to use one payment method across all bus routes as well as other modes of transport such as the underground. It is easier for bus services to be comprehensive in London than other metropolitan areas because of the density of population, but this does not mean that it is impossible to have a network that performs better than the current network in GM in terms of being comprehensive and comprehensible.

4.5.12 It is recognised, however, as argued by OneBus, that network planning principles are always to some extent in tension – for instance it would be possible to increase the coverage of a network by having more complex routes that served many passengers less well. However, planning the bus network in Greater Manchester as one unified network is more likely to get closer to each of these principles and to resolve trade-offs in the best way possible for passengers than the current system of separately planned networks.

4.5.13 In terms of the responsiveness of GMCA, the Assessment sets out in the Commercial Case how there would be a contractual change mechanism to enable changes to be made and that GMCA would be able to make changes to the bus network during the period of franchises (section 25.2). This mechanism would be able to absorb changes likely to be made during the term of the franchise. The contract would allow for increases or decreases in service on a cost neutral basis. For any level of potential foreseeable change in the level of service specified (due either to patronage decline or to new services that would increase the service), the operator would be able to

accommodate such changes without being left with unproductive assets or employees – for instance buses or drivers that were not needed. Thus, in any year, TfGM would be able to change the service and either reduce the service and save the direct costs of running those services, or increase the service and pay the additional costs without additional penalty. Over the longer term the Financial Case takes account of any costs that, while they would reduce as the network shrinks, would not do so in an even or directly proportionate way (for instance some of the costs of operating a depot).

4.5.14 It is true that a process, set out in statute, would be required for changes which would require changes to the Proposed Franchise Scheme. This process would require consultation. This would, it is envisaged, involve local stakeholders including local authorities. The extent of consultation required would be proportionate to their scale. Further, any changes would be informed by consultation itself, and TfGM would therefore expect changes to be of a higher quality.

Decision-making and management of the network

4.5.15 As well as points made about the effectiveness of TfGM management (discussed at section 8), OneBus and some incumbent operators have argued that there would be political interference in network planning that would decrease efficiency or increase costs under the Proposed Franchising Scheme. OneBus in their response to Q14 point to a tension between passenger needs and political interference, and say that meeting social needs could be difficult financially. They also criticise TfGM's management of the schools network and the Metroshuttle service.

4.5.16 Section 8.4 of the Assessment sets out how the Proposed Franchising Scheme would make improvements to the network and other areas. This recognises that there would be trade-offs involved in making changes. The decision-making process described there sets out how TfGM would be responsible for managing operators and for making recommendations based on evidence to the Mayor and GMCA, who would be responsible for setting the strategic direction and making key decisions.

4.5.17 Currently up to 40% of funding for the GM bus market come from public sources. It is therefore not inappropriate that there should be some democratic accountability in terms of how the service paid for is run. It is essential that any decisions made are based upon evidence. GMCA has over the past 30 years developed and run the Metrolink tram network, and made decisions on routes fares and operations based on evidence. There is therefore a strong track record to suggest that Greater Manchester will be able to run the bus network professionally, effectively and efficiently and take evidenced-based decisions on the network and other issues. As set out in the response to the Management Case questions (section 8) the points made by OneBus with respect to the schools and Metroshuttle service misrepresent those situations and do not vitiate the strong track record of TfGM in tendering contracts for bus services. All decisions under the Proposed Franchising Scheme would be made within the framework of that scheme and subject to the usual

constraints of how public authority is exercised. TfGM is satisfied that the components of decision making under the Proposed Franchising Scheme, should it be proceeded with, will greatly enhance the quality of the bus network in Greater Manchester.

Punctuality and reliability

4.5.18 OneBus in their response to question 15 say that "*the proposed scheme fails to address the causes of inconsistent bus journey times which are affected by highway issues.*" Operators make similar points linked to the points made on congestion and the issues of spending to alleviate this.

4.5.19 The Proposed Franchising Scheme does not directly change any of the highways issues that affect punctuality and reliability. As set out in the Assessment at section 8.4, the ability to specify the performance regime will mean that TfGM has some control of how reliable the service offered by franchise operators is. As set out in the Assessment at section 9.2, the commercial arrangements would ensure that operators were incentivised through franchise contracts to improve punctuality and reliability and therefore in the overall level of punctuality and reliability could be expected. However, without further funding or other measures it would be incorrect to assume that franchising alone would lead to extensive reliability benefits. The Economic Case does not do so.

4.5.20 While GMCA does spend money on road infrastructure including bus priority, GMCA is not the highways authority in Greater Manchester and some of the measures suggested – for instance on roadworks – are outside the scope of the consultation on the Proposed Franchising Scheme. To the extent there are practical measures to reduce congestion and improve journey times these would be taken forward under any market structure. GMCA does fund bus priority measures, and these, along with other measures that would improve reliability and punctuality, are discussed in response made to points about 'Phase 2' of the Proposed Franchising Scheme and the reliance of the case for the Scheme on benefits coming from 'Phase 2' (at section 4.12).

Conclusion

4.5.21 As set out above TfGM remains satisfied that being able to design the network in the long term without the restriction of the current market structure can result in benefits to passengers. The operators' points have been considered but do not contradict the point that planning multiple competing networks would be less efficient than one integrated public transport network.

4.5.22 There are challenges by respondents to the consultation on whether it is possible to better plan the network under the Proposed Franchising Scheme and whether TfGM and GMCA would together be able to do so. TfGM has carefully considered these responses in the context of the Assessment and the Proposed Franchising Scheme. TfGM's assessment is that none of the critical responses demonstrate that further

efficiency cannot be delivered from implementing one single integrated public transport network rather than having different, partially competing networks. They also do not demonstrate that GMCA would, as the franchising authority under the Proposed Franchising Scheme, be unable to do so.

4. 6 - Theme 4: Customer Service

4.6.1 The Assessment sets out in section 9.4 how the Proposed Franchising Scheme proposition delivers against the GMCA's customer service objectives. OneBus and incumbent operators have challenged the Proposed Franchising Scheme in terms of some of the customer service elements. They have argued that some elements do not differ between the Proposed Franchising Scheme and a partnership, and that the effects of branding have been overestimated.

4.6.2 Some incumbent operators (such First and Stagecoach), along with OneBus, have argued that there is not a great deal of difference between the franchising and partnership proposals in terms of customer service. In terms of the on-bus experience, both the Proposed Franchising Scheme and partnership proposals have measures to improve cleanliness and improve driver training. In both cases, improvement is more certain through the specification of these through franchise contracts. The proposals on driver training for partnership have been scaled down since the consultation was published (see Partnership Plus section 9.2.67). The Proposed Franchising Scheme does not contain any elements providing for significant improvement over the status quo in terms of vehicles available (other than that funded as part of a clean air plan); this is the same as the Partnership Plus proposal (which is considered in detail in Section 9 of this report). Further investment would be part of 'Phase 2' and investment in new vehicles is likely to be driven by clean air and decarbonisation rather than by customer experience of the interiors. Proposals on the safety of passengers, other than 'Phase 2' investment, do not differ between the different options.

4.6.3 Go North West, in their answer to Q35, argue that the existence of franchise contracts means that innovation is slow to arrive in franchise systems are rigid and slow to introduce new technology; and use an example Metrolink, which they say is not punctual has not introduced integrated ticketing. There is no evidence presented for this and indeed most franchise markets around the world show high levels of innovation. In the UK, London has used contactless and other forms of electronic payment for longer than the bus market in Greater Manchester, and has had integrated ticketing on bus and other modes for far longer through Oyster and contactless. It remains ahead of Greater Manchester in this regard. Metrolink has offered smart ticketing since 2019, while this has not happened in the bus market in Greater Manchester. The punctuality record for Metrolink is good, with 90.5% of trams departing less than two minutes late against a target of 90%. Issues affecting punctuality of Metrolink are discussed in the Metrolink Annual Performance Report (GMCA, October 2019).

4.6.4 Some operators focused on the issue of branding and information. TfGM believe there is value in making the bus network easier to understand and navigate through having a unified brand for the network, and a single point of contact that is maintained by and linked to the entity responsible for the network, together giving

customers confidence in using the network. This is reflected in the objective on information, branding and contact set out at section 7.4.1-7.4.4 of the Assessment.

4.6.5 Go North West in their answer to Q35 argue that having one brand on a network can make it harder to navigate and that different branding for different routes can make the bus service more legible, and they give several examples of these. Rotala in their answer to Q35 say "*there is no evidence that a degree of continued separate branding would be prejudicial to establishing a more integrated bus service across the whole of Greater Manchester*." They also question the basis of the branding value used in the Economic Case (this is discussed at section 5.5.16 onwards).

4.6.6 The benefits of unifying the GM bus service under a single brand are not simply associated with the idea of a specific single livery for buses and other visual branding. The benefits come from a combination of factors which together have value to customers and to the wider conurbation. The brand brings together and allows people to have confidence in a set of aspects of the bus service that will make them more likely to use it. These are:

- the simplicity and ease of use of the bus service, (in particular a single coherent and unified fares system and a single coherent and unified network) and its legibility to a range of potential users;
- confidence in the levels of customer service offered and the understanding that there is one place to go for information, complaints and suggestions;
- a sense of greater democratic accountability for the service and an understanding among customers of who is responsible for the network they use; and,
- a contribution to placemaking and an identity for the place covered by the service – as exemplified in London.

4.6.7 The Assessment (at section 9.4) argues that franchising is able to align a brand for Greater Manchester with the provision of information and a single point of contact for customers when they have issues, which would link directly to the body accountable for the running of the service. TfGM is satisfied this would be beneficial to customers and non-customer alike in their ability to understand and use bus services. It would increase the legibility of the network for those who are infrequent users or non-users. This aligns with the response from Stagecoach (section 4.6) who cite their experience in rail to point out that branding is not simply about vehicle livery but the complete customer journey. In contrast to the partnership options, the Proposed Franchising Scheme would be able to link the branding with accountability for the planning and operation of a unified service, which is what makes a difference to customers. It is also worth noting that London has flourished with one marketing identity, as have services in European comparator cities like

Gothenburg or Stuttgart.

4.6.8 Regarding the specific issues raised by the operators, the view that having one brand on a network can make it harder to navigate and that different branding for different routes can make the bus service more legible may reflect a confusion between the related but separate concepts of the route brand and the system brand. It is agreed that passengers must be able to differentiate between bus routes. A good starting point is to ensure each route has a unique route number which is not currently the case in GM. As an example, looking at bus routes numbered between 1 and 10 in GM, there are currently two unrelated Route 1 services operating in GM, two unrelated Route 2 services, two unrelated Route 5/5A services, two unrelated Route 7 services, three unrelated Route 8/8A services, and three unrelated Route 10/10A services. It is likely that strength of each individual route brand will improve under the Proposed Franchising Scheme because this type of duplication is likely to be eliminated. More generally, for a large city region such as GM with hundreds of bus services, it is impractical and undesirable to create unique route branding (in terms of livery) for each route and no city regions have attempted to do that.

4.6.9 In response to the issue raised by Rotala that "*there is no evidence that a degree of continued separate branding would be prejudicial to establishing a more integrated bus service across the whole of Greater Manchester*.", the Assessment does not argue that better integration and maintaining a degree of separate branding are mutually exclusive. However, the specific value of brand as defined in the Assessment can only be delivered under the Proposed Franchising Scheme as it relates to simplification of the system of a type that can only be delivered if there is a single democratically accountable authority responsible for the specification and delivery of the unified system. Through no fault of the operators, this benefit is simply not achievable under the partnership or deregulation options.

4.6.10 TfGM remains of the view that there is greater potential to improve the customer proposition under the Proposed Franchising Scheme. While there may be some areas where change will be more obvious than others, in areas such as branding and the provision of consistent unified services information to improve the usability and legibility of the network, there are clear advantages to the scheme.

4. 7 - Theme 5: Fares

4.7.1 OneBus and incumbent operators have raised some challenges on the fares proposition for the Proposed Franchising Scheme in relation to both the levels fares are proposed to be set at and also the objective of simplification of fares.

Fare levels

4.7.2 The proposition that was considered in the Assessment was that, under the Proposed Franchising Scheme, standard period tickets would be valid on all operators' buses across the whole of Greater Manchester and would be priced at the level of the lowest current major operator in Greater Manchester. It was assumed that corridor specific discounted products would be retained, though these would also be valid on all buses on that corridor, rather than one specific operator. At the time of the Assessment, both First and Stagecoach daily and weekly tickets were priced equally at, for instance, £16 for a weekly fare as opposed to £19 for an all operator ticket that would currently enable travel across all of Greater Manchester. Fares were set at this level.

4.7.3 OneBus in their answer to Q14 and Rotala in their answer to Q13 wrongly imply that the modelled fare increase of 1.4% above inflation is specifically part of the franchising proposition. There are also challenges to that figure: Rotala say it is not sustainable and Go North West say that this is higher than has been historically the case . Stagecoach make the point that this rise is greater than that of "*average fare yield"* (again implying that historically fares have not risen by this amount); this point and the difference between this and fares is addressed in the discussion on the Economic Case below at paragraph 5.5.28 onwards.

4.7.4 Transdev (trading also as Rosso) in their answer to Q14 point out that the price level set out in the Assessment (£16) would represent an increase (of 6.7%) for customers using Rosso's GM Saver ticket (currently £15). This is true, and there is potential for other fare increases for customers from smaller network operators such as Transdev. These effects are modelled in the Economic Case. However, the Rosso GM Saver ticket only allows passengers on Rosso buses in Greater Manchester along with other Transdev bus services within Greater Manchester (such as the Witchway and the Red Express). This is a very small part of the network (approximately 4.7% of mileage within Greater Manchester). The fare increase would give passengers access to the whole network rather than approximately 4.7% of it. The Ipsos MORI report notes that the Confederation of Passenger Transport UK (CPT) noted that passengers would still be subject to inflation related fares increases under franchising (12.2.2).

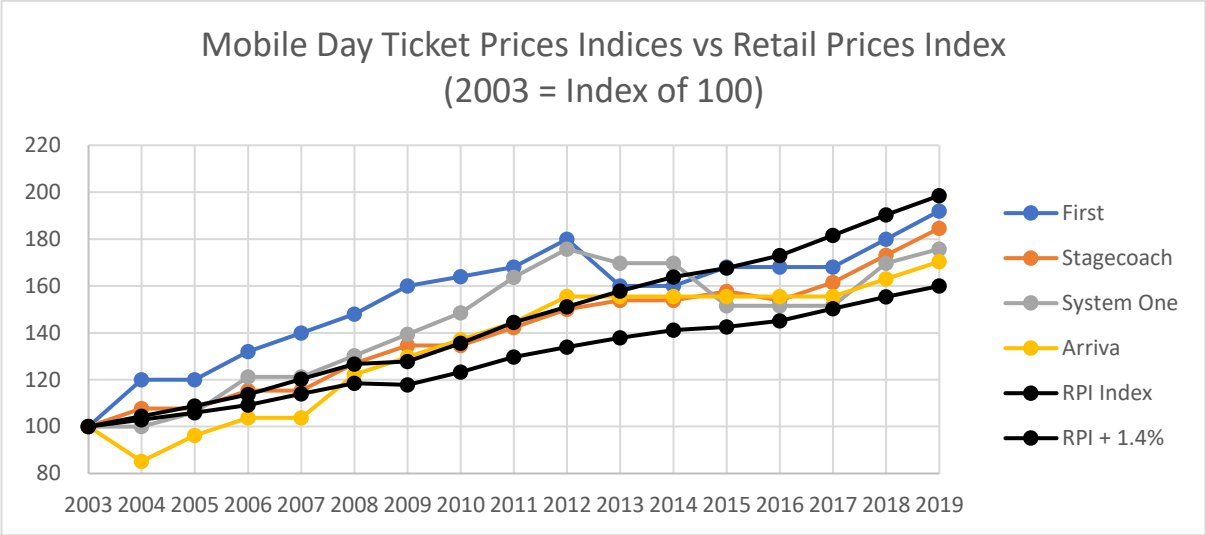
4.7.5 Salford City Council acknowledge that fares are a key issue for commuters and note *"it is encouraging that the proposed franchising scheme is forecast to result in no change or lower fares for the majority of passengers, with increased accessibility*

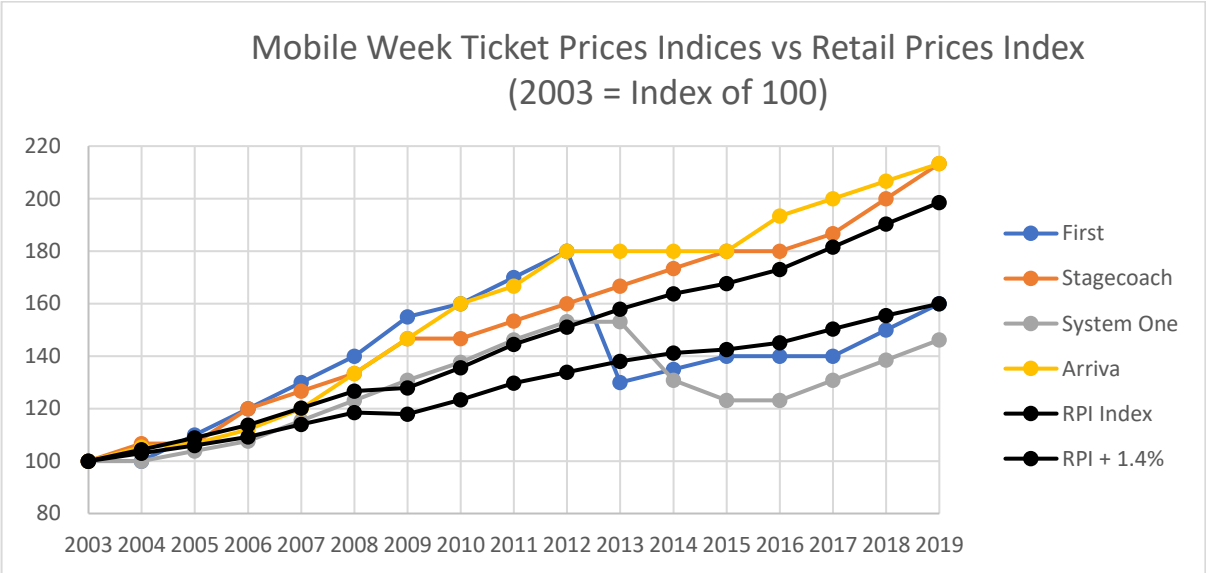
across the network."

4.7.6 The modelled rate of inflation for fares is 1.4% above inflation (RPI) for all of the options considered in the Assessment. OneBus and the operators were wrong to say that this inflation rise is considered to only apply to the Proposed Franchising Scheme because it was also applied equally to the other options considered too. The methodology for developing the assumption on fare changes was set out in section 14 of the Assessment and section 4.5 of the Economic Case Supporting Paper. It is further discussed below at paragraph 5.2.4 onwards of the response concerning the Economic Case. In brief, as the costs and revenues of the bus market in Greater Manchester were forecast forward, the increase in the costs of running the bus service, and the decline in passenger numbers meant that (as has historically been the case) operators would need to react through a combination of reducing the network and increasing fares above inflation. The figure of 1.4% above inflation approximates the extent to which costs are rising above inflation. If a lower rate of increase were assumed, then greater (and more damaging) cuts to the network would have to be assumed to compensate.

4.7.7 This assumption is given a degree of validity by the analysis of past fare increases in Greater Manchester set out in the Strategic Case of the Assessment. Updated charts

are shown below:





4.7.8 The charts show that an assumption that the market would increase prices by RPI+1.4%, while not simply an extrapolation from this trend, is not a radical departure from historical trends. The derivation of the 1.4% and its use across different options is discussed below in the Economic Case at paragraph 5.2.4 onwards. The reasons for this increase are associated with higher than inflation costs as the Assessment points out.

4.7.9 For the bus market to have a sustainable financial position in future years such an assumption was necessary: it applies to the reference case and all options. This is not to say that either private sector bus operators or GMCA would not seek to avoid such increases if possible. Above inflation fare rises are clearly undesirable, and it is it clear from the objectives set out at section 7.3 of the Assessment and the discussion of how the Proposed Franchising Scheme would work in section 8.4 of the Assessment that value for money for passengers would be central and it is GMCA's objective that

fare rises are kept to a minimum to ensure the funding of the service. Decision-makers would not, under the Proposed Franchising Scheme, simply apply an above-inflation fare increase unless it was necessary to do so to maintain the desired level of service.

4.7.10 It is not assumed, however, that the Proposed Franchising Scheme would make a difference to the basis of the costs of running the bus network (such as vehicles, labour and fuel), though operators would be incentivised to control costs to improve their returns from running bus services.

Fare simplification

4.7.11 A number of incumbent operators have suggested that the objective of 'simplified and integrated fares' (set out in section 7.3 in the Assessment) would not represent an improvement and that the level of simplification proposed under the Proposed Franchising Scheme would not be appropriate.

4.7.12 OneBus in their answer to Q14 argue that "*simplification can be detrimental*," and that flat fares can lead to people travelling different distances paying the same, which can lead to inequity, and that simplification leads to increased prices and declining patronage. First in their answer to Q15 argue that normalising prices to the lowest large operator would require subsidy from taxpayers.

4.7.13 The evidence that passengers value simplicity and ease of understanding in ticketing arrangements remains overwhelming. This is set out in the Bus Market Supporting Paper. Responses to the consultation also show this. The Ipsos MORI report at Chapter 7 notes that the academic institutions, action groups, charity and voluntary sector organisations, and non-incumbent bus operators such as Tower Transit, also acknowledge the need to address the complexity and lack of integration of ticketing.

4.7.14 As noted at section 7.2.3 within Chapter 7 of the Ipsos MORI report, there were 202 comments made that were in general agreement or support with GMCA's objectives and a further 47 comments that ticketing would be more simplified with resultant reductions in fares. Quotes from members of the public include "I *hope a simpler fare system can be achieved, with seamless transfer between modes and between operators*" and "*I agree with all the points especially making it easy to use and affordable*" as cited in the Ipsos MORI report. Section 7.1.2 of the Ipsos MORI report also notes that amongst those consultees that agreed with reform, the "*perceived or actual benefits included having a more integrated bus network, cheaper fares, and a more straightforward ticketing system*."

4.7.15 The Proposed Franchising Scheme includes the simplification of period fares, of which there are currently over 200 period products valid on services operating in Greater Manchester (which are used by the overwhelming majority of passengers),

and there would be a process of simplification to single fares.

4.7.16 It is not necessarily the case that a single flat fare would be appropriate for the Greater Manchester market, and GMCA would not put in place such a system unless there was evidence that it would be beneficial. TfGM's move to zonal on Metrolink is an example of where simplification for customers can be achieved without a single flat fare. The introduction of a zonal fare structure on the Metrolink network simplified the fares and ticketing offer for Metrolink customers in January 2019. The system introduced four concentric, ringed fare zones, largely based on the previous underlying fare structure on the Metrolink network. This new system is simpler and easier to understand and reduced the number of fares available per product from 8,556 to just ten. The introduction of ticket zones also allowed TfGM to take advantage of the next iterations of smart ticketing and introduce contactless PAYG on the Metrolink network.

4.7.17 The financial implications of fares changes are contained within the Financial Case presented in the Assessment. As would be expected, farebox revenue is forecast to reduce relative to the Reference Case as a result of the fares interventions alone (by 1.2% - assessment 42.1.3). However, the additional revenue forecast for other aspects of the scheme outweigh this and result in an overall farebox revenue increase of 3% relative to the Reference Case (see section 42.1.5 of the Assessment). It would therefore not be the case that further subsidy would be required as First suggest. No changes to single fares are assumed in the financial forecasts.

4.7.18 The current market has also exhibited some reductions in value for money for passengers. First tickets now allow passengers travel on a far smaller network than previously has not led to decreases in price (currently £17 for a weekly ticket). Similarly, Go North West and Diamond weekly tickets are a similar price (£16 vs £16.50 for Stagecoach in 2020) and also only offer passengers approximately a third of the network that they did before the sale of parts of First's operation.

Conclusion

4.7.19 In terms of the fares proposition, it is important to note that an above-inflation fare rise is not part of the Proposed Franchising Scheme but is a Reference Case assumption. Such fare rises would not happen unless they were necessary to fund the service. In the absence of additional funding, it would not be appropriate to assume lower fares for the Proposed Franchising Scheme and the Assessment has not done so.

4.7.20 Considering the points made by respondents, it is possible to be confident that fares simplification is an appropriate objective for GMCA to have. Many consultees consider customers find the complexity of the current fares difficult to navigate and efforts to make it easier would be welcome. The fact that the Proposed Franchising Scheme would lead to greater degree of simplification than alternatives is an

advantage of the Proposed Franchising Scheme.

4. 8 - Theme 6: Cross-boundary services – Permitting arrangements

Introduction

4.8.1 A service permit would be required in respect of that part of any cross-boundary service that is not franchised or excepted from regulation under the scheme. The Assessment describes (at section 33) the statutory tests (as set out in section 123Q(5) of the Act) that are required to be applied to the granting of permits, and how GMCA would apply those tests in practice. The tests are (i) that "*the proposed service will benefit persons making journeys on local services in the area to which the scheme relates,"* and (ii) that *"the proposed service will not have an adverse effect on any local service that is provided under a local service contract in the area to which the scheme relates."*

4.8.2 These tests would also apply to services that an operator would wish to run wholly within Greater Manchester. The CMA has stated that it would be important to allow operators to run permitted services within Greater Manchester if they can identify a market that the franchised service is not addressing. The statutory tests would allow such a service to access a permit and the process described in section 33 of the Assessment would apply to these cases.

4.8.3 The Assessment indicated that there were approximately 116 cross-boundary services, some of which are currently supported by TfGM and/or neighbouring authorities. It is anticipated that a number of these, insofar as the bulk of their route is within Greater Manchester, would be part of the Proposed Franchising Scheme. Others would not be anticipated to have any potential adverse effect and therefore would be likely to be granted a permit without any changes required. The Assessment considered that 24 services might be adversely affected by the permit regime, in that their route or boarding might need to change. This could mean some services would be less viable and operators might cease to operate them. The Assessment set out the engagement that had taken place with neighbouring authorities and how GMCA would work with neighbouring authorities to ensure that services could continue where needed.

4.8.4 There was some support for the arrangements set out in the Assessment. Abellio support the arrangements in their answer to Q26. HCT argue that social value of a service should be taken into account in the first statutory test. Go North West in their answer to Q3 suggest putting cross-boundary services within the scope of the Proposed Franchising Scheme to preserve or improve service to passengers (this is proposed as set out below).

4.8.5 There have been comments received from operators and local authorities (both inside and outside Greater Manchester) focused on the impact that franchising may have on services that serve areas both inside and outside Greater Manchester and

the disruption and changes to them that it may cause.

Challenges from, and concerns expressed by, local authorities, operators and operators' representatives

Sufficient information

4.8.6 Rotala in their response to Q5 have suggested there is not enough information in the consultation to properly explain the process for obtaining a service permit, and that a permitting process could discourage operators from applying for a permit for a service in the first place (which in turn would have an impact on passengers).

4.8.7 Some authorities express the desire to know more about how services will be affected prior to any mayoral decision. Cheshire East Council state in their answer to Q12, "*the conditions relating to cross-boundary services should be known at the time of any decision to adopt franchising*." Derbyshire express concern that the impact on passengers has not been looked at in sufficient detail in their answer to Q23. Cheshire East Council also point to a risk that the existence of franchises could distort local markets and ask what arrangements GMCA anticipate to monitor this situation.

Ticketing

4.8.8 Section 33 of the Assessment acknowledges that if cross-boundary services had for example to reduce the number of stopping points within Greater Manchester, this could damage their viability. This is because they may depend on revenue generated largely or wholly within Greater Manchester, rather than through the sale of tickets for cross-boundary travel or for travel outside Greater Manchester.

4.8.9 In their responses to Q5 and Q26, Rotala commented that the Proposed Franchising Scheme would have a negative impact on cross-boundary services because cross-boundary services would need to comply with the same standards as a franchised service to be able to obtain a service permit. In their response to Q26, Rotala also point to the potential for reduced income for cross-boundary services and suggest that there may be a "*reluctance*" to permit cross boundary services to stop, reducing their revenue and meaning passengers could not catch a bus. This concern concerns the application of the second statutory test, in ensuring that a proposed service should not have an adverse effect on any local service that is part of the Proposed Franchising Scheme.

4.8.10 Stagecoach (see section S6.2 of their response) point to the fact that any restrictions on services or stopping points could inconvenience customers and potentially lead to movement to other modes. In section 9.6 they point to the analysis presented in the Assessment of routes potentially affected, and argue that the proposals to work with operators and authorities on a pre-application basis are "non-*committal*" and that *"no real solutions appear have been agreed or costed"*. Transdev (p.7) list their cross-boundary routes and express concern that they could be adversely affected, making a distinction between new services and established routes they feel should

be treated with more leeway.

4.8.11 A number of Greater Manchester local authorities have emphasized in their responses the links between their areas and areas outside Greater Manchester and the importance of the bus services that link them. Rochdale Borough Council, Salford City Council, Stockport Metropolitan Borough Council, Tameside Metropolitan Borough Council, Trafford Council and Wigan Council have each mentioned the importance of these links and the need for GMCA to preserve these links.

4.8.12 For neighbouring authorities, the preservation of cross-boundary services is an important concern, with some stating that the viability of cross boundary services may be rendered uneconomic because of their dependence on revenue generated wholly within Greater Manchester, rather than through the sale of tickets for cross-boundary travel or travel outside Greater Manchester. Points are also made that passengers could be disadvantaged if the services were severely restricted in their operations to as to restrict travel options.

4.8.13 Blackburn and Darwen Council, Cheshire East Council, Cheshire West and Chester Council, Chorley Council, Derbyshire Country Council, High Peak Council, Lancashire County Council, Liverpool City Region Combined Authority, Rosendale Borough Council, Warrington Borough Council, and West Yorkshire Combined Authority have all expressed this concern. A number of authorities have set out specific services that passengers in their areas value. Derbyshire Country Council, Blackburn and Darwen Council and West Yorkshire Combined Authority expressed interest in being involved in the permitting decision-making process.

Fares and ticketing

4.8.14 OneBus point to the potential confusion if passengers' tickets are not valid on cross-boundary services. Although this is the case now for passengers who have a ticket for a cross-boundary service run by a company different to that running other services in Greater Manchester, greater simplicity and interoperability within Greater Manchester could potentially lead to a higher expectation that such services would accept tickets issues by the franchised authority. They also point to potential for increased costs to the passenger from ticketing arrangements, but this would not represent any change from the current situation where passengers need to pay to travel on another company's bus or buy a multi-operator ticket.

4.8.15 Neighbouring authorities are keen to take advantage of the possibility (set out in the Assessment at section 16) of the potential to put in place new cross boundary ticketing arrangement that would be of benefit to passengers, but also want to ensure that it would not inhibit broader 'pan-northern' initiatives. It is not clear why the permitting arrangements or cross-boundary arrangements would inhibit and further initiatives. It is possible to have overlapping initiatives.

4.8.16 The following sections address the concerns raised by operators and local

authorities.

Sufficiency of information and the permitting process & specific routes

4.8.17 The Assessment set out the process for obtaining permits and also the potential effects of the permitting arrangements on cross-boundary services. Taken together this amounts to a good deal of information even if the specific details of any permit conditions are subject to a further consultation. The Bus Market Supporting Paper at section 6 sets out the engagement that took place with neighbouring authorities to better understand the potential impacts on passengers in those areas of the Proposed Franchising Scheme proposals and any potential partnership. Details of the services that were potentially affected by the permitting arrangements were set out, along with plans for operating the permitting scheme.

4.8.18 The Assessment sets out the basis under which permits would be granted and is clear on the main restrictions the statutory test would impose. It considers the potential effects of the permitting scheme on cross-boundary services. While some consultees have requested further details on how the service permit process would work, it should be noted that there will be a further consultation as required by the Act on service permit conditions if a decision is taken to make the Proposed Franchising Scheme. Operators can object to those conditions as being too onerous separately if they feel them to be so. It is not anticipated that permit conditions would be so onerous that operators would find difficulty in meeting them.

4.8.19 It is not possible at the moment to anticipate the result of an application that has not yet been made for a particular service. It is not possible to 'grandfather' rights to a particular service as a permit can only be granted through the application of the statutory tests. While it is maybe more likely that services similar to those being run would be of genuine benefit to passengers, applications would need to be considered on an impartial basis. This is particularly true as this is a changing landscape: for instance, since the Assessment was completed the 130 service from Macclesfield into Greater Manchester has ceased operating. Transdev announced the cutting of the X41 service from Accrington into Manchester City Centre, although this decision was subsequently changed, and an altered service put in with public funding to support it. This new service has an altered stopping pattern because of the change in the nature of the funding (it cannot compete with services that are not subsidised).

4.8.20 It is considered that sufficient detail was given in section 33 of the Assessment absent a list of services for respondents to understand how this would work, as well as section 16 on the potential impact on passengers in neighbouring authorities. This was clear what types of services would potentially be affected. Section 33 of the Assessment set out how GMCA would approach the tests and the evidence that they would look at, as well as outlining the process for application including potential pre-application discussions with GMCA which in turn would help to reduce the risk of many of the issues raised by statutory consultees materialising, as early engagement

with GMCA should help to promote the successful operation of the service permit process. Section 16 of the Assessment set out potential effects on these services, as well as actions GMCA would undertake to ameliorate any effects on passengers, as is discussed above. Consultees also had the opportunity to seek further information about the proposals during the consultation period.

4.8.21 TfGM is confident that sufficient information on the proposed service permit application process was set out in the Assessment, so in absence of any specific issues having been raised by Rotala in particular then it is unclear which parts of that process were unclear.

The Permitting process and effects on services

4.8.22 As set out in section 16 of the Assessment, the importance of the cross-boundary services to passengers whose journeys originate both inside and outside of Greater Manchester is recognised. As a local authority GMCA has a responsibility for those who travel into the area from outside as well as to those who live in Greater Manchester. As such it is concerned to minimise the effects on services that benefit passengers and to replace any services that are unable to continue.

4.8.23 While a cross-boundary service cannot be brought into the Proposed Franchising Scheme in its entirety as suggested by Go North West (as the Proposed Franchising Scheme could only apply to services inside Greater Manchester), consideration would be given to let cross boundary services as a combination of franchise and secured service contracts, either in conjunction with neighbouring authorities or by TfGM alone. This could be done where compatible with local transport powers where passengers would benefit from such a service. This is likely to be done where services run for the most part in Greater Manchester and are unlikely to have adverse effects on services run outside Greater Manchester.

4.8.24 There was some confusion as to whether any cross-boundary services would be franchised. As set out below at Section 13 it should be noted that it is proposed that some cross-boundary services would be franchised within GM. To the extent that they operate outside of Greater Manchester then that portion of the route would be secured under other powers. Annexes 1 and 4 of the Proposed Franchising Scheme list the services which would be franchised and there are currently 12 services which are currently assumed would continue to operate outside of Greater Manchester. These are as follows:

- Cadishead – intu Trafford Centre – Manchester City Centre (which runs into Warrington);
- Standedge – Uppermill – Oldham – Manchester City Centre (which runs into

Huddersfield);

- Hollingworth – Stalybridge – Ashton (which runs into Glossop);
- Stanley Green – Cheadle – Stockport (which runs into Handforth Dean);
- Broadbottom – Hattersley – Hyde (which runs into Glossop);
- Strines – Marple – Stockport (which runs into Hayfield);
- Stockport – Hazel Grove – Disley (which runs into Hayfield);
- Standish – Wigan (which runs into Chorley);
- Rochdale – Healey (which runs into Wallbank);
- Bolton – Astley Bridge – Horrocks Fold (which runs into Belmont);
- Shevington Vale – Wigan (which runs to Wrightington Hospital); and
- Wigan – Shevington Moor Circular (which runs to Wrightington Hospital).

4.8.25 For those cross-border services that are not franchised within Greater Manchester, the Assessment sets out that the process for obtaining a service permit would be made as straightforward as possible so as not to create a burden on operators and create a hurdle to operators proposing cross-boundary services as Rotala suggest above. It is acknowledged that services may have to adapt in order to pass the test, which may mean not directly competing with franchised routes within Manchester. There is no intention to set prohibitive standards to exclude services from operating in Greater Manchester.

4.8.26 The Assessment proposes a pre-application process which would be used to consider the potential effects of a service (proposed either by an operator or a local authority) and to consider whether any aspects of that service may need to be changed in order for passengers to have a coherent service within Manchester and for the operator to be granted a service permit. While this could not commit TfGM to granting permit to a resultant application, it is seen as a reasonable step to avoid nugatory work and make the process easier for operator to navigate.

4.8.27 In administering the statutory tests, GMCA would:

- Look at the benefits to all passengers, including those whose journeys start across the boundary, in determining the benefits of the service for the first statutory test;
- Determine the totality of effects on any franchised service when looking at the second test to determine whether there would be an adverse impact. This would include potential negative effects (e.g. extensive revenue loss that would affect the viability of the service) as well as potential positive effects of the cross-border service on any franchise service affected in bringing in passengers who might interchange with it; or positive effects on any such services affected from

decongestion from modal shift; and

- Welcome the input of local authorities in providing information and evidence concerning services that would apply for a permit. TfGM would anticipate working with GM authorities and neighbouring authorities not only on supported services, but those promoted by private operators.

4.8.28 However, although neighbouring authorities would be able to make submissions as to whether the tests were satisfied, the ultimate decision would rest with GMCA (which would likely be TfGM on its behalf). There is not a 'reluctance' to allow cross-boundary services that are of benefit to passengers but instead an acknowledgment of the requirement on the GMCA to apply the two statutory tests to any services that operators would wish to run into the franchised area.

4.8.29 In terms of onerous standards, section 33.1.8 of the Assessment stated that "*Permit conditions would be used to help mitigate any adverse impacts from poor quality service within Greater Manchester*". There will be a separate consultation on such conditions before any service permit scheme is adopted, and one of the considerations would be their effect on the viability of any cross-boundary service.

Response to withdrawal of services

4.8.30 The key point from many of the operators appears to be that they will withdraw services if the Proposed Franchising Scheme is introduced, particularly if routes or boarding places have to be changed. This is possible where those services do compete with franchised services within the boundary and, therefore, may not be permitted in their current form. If services are withdrawn, there is opportunity to replace them with joint franchised and secured services. In those cases, it would be possible to extend the franchised service cross boundary with a secured service (either with the neighbouring authority or TfGM alone).

4.8.31 If the conditions that GMCA attached to a service were felt by an operator to make that service so unattractive that were to decide not to proceed with the service, GMCA would work with neighbouring authorities to consider replacement services if it was felt that there were benefits to passengers. There would be a number of funding and fares options available depending on the nature of the service and the extent to which it operated outside or inside the Greater Manchester boundary. The current basis for GMCA to work with local authorities (pursuant to section 9A Transport Act 1968 and Section 63 of TA 1985) would enable the GMCA to support these services, even if operating outside of Greater Manchester. There would be an opportunity, for example, to replace a withdrawn service with joint franchised/secured services by extending the franchised service cross boundary with a secured service (either with the neighbouring authority or TfGM alone).

4.8.32 Any supported service would need to pass the competition test (set out in Schedule 10 of the Act). This might lead to some restrictions on the portion of the service outside Greater Manchester and journeys undertaken wholly within that area, so as

to avoid the risk of the distortion of competition. However, in most cases it is anticipated that in the event that an operator or authority was unable to successfully apply for a service permit, a viable cross boundary service could be put on to serve the needs of passengers.

Ticketing

4.8.33 As set out above, the current situation is that passengers on cross-boundary services ticketing situation depends on the operator running that service. It may be their ticket allows them some access to services inside Greater Manchester run by the same operator, but these might not be particularly extensive.

4.8.34 The introduction of the Proposed Franchising Scheme is therefore unlikely to worsen the situation for passengers. In fact, the intention to introduce an 'add-on' ticket means that passengers would be able to get access to more of the Greater Manchester network at lower cost. Ticketing schemes that cover Greater Manchester and some or all of neighbouring areas could also be introduced.

Conclusion

4.8.35 The Assessment contained considerable detail on the permitting arrangements for cross boundary and other services not part of the Proposed Franchising Scheme. The analysis of services presented in the Assessment and shared with neighbouring local authorities as part of engagement prior to the consultation, is, in TfGM's view, sufficient to understand the nature and assessed effect of the arrangements.

4.8.36 It is not possible to comment in detail on how current services, that are in any event subject to change or cancellation in the current market, would need to be altered or otherwise to receive a permit. TfGM accepts, however, that the Proposed Franchising Scheme would impact on services, hence the need to apply for a service permit which in turn could lead to some services needing to change. It is important to note that the process set out in the Assessment would be run so as to facilitate services that benefit passengers, even where change is necessary for a statutory test to be passed.

4.8.37 GMCA would welcome further engagement from local authorities inside and outside Greater Manchester on these arrangements but as set out above.

4.8.38 TfGM value cross boundary services and the intention is that cross boundary public transport travel of all types, including by bus, increases with the implementation of the Proposed Franchising Scheme. The potential for new fares arrangements (including 'add on' tickets giving access to the whole Greater Manchester bus network for a reduced price) should encourage greater cross-boundary bus travel and mode shift from the private car. This will contribute to GMCA's objective set out in the Assessment (section 2.1.5) to increase the share of non-car modes to 50%.

4.8.39 Where a current cross boundary service is altered such that an operator no longer

wishes to run the service (for instance if the majority of the revenue were from journeys wholly within GM rather than cross-boundary journeys) then GMCA would be able to support a similar service to serve the needs to passengers in neighbouring authorities. GMCA, with local authorities would have the power to do so and takes seriously its responsibilities to passengers outside Greater Manchester for whom cross-boundary journeys are important.

4. 9 - Theme 7: Clean Air Plan

4.9.1 This section of the report considers the consultation responses relating to GMCA's proposed Clean Air Plan and its potential implications on the Proposed Franchising Scheme.

4.9.2 Although consultees were not asked any questions in relation to the Clean Air Plan, consultation comments on this subject area were received from operators, local authorities and transport user groups.

4.9.3 This chapter is structured into the following sections, responding to the main themes identified from TfGM's analysis of consultation responses and consideration of the Ipsos MORI analysis as follows:

- Level of detail provided in the Assessment regarding the Clean Air Plan
- Impact of the Proposed Franchising Scheme on the Clean Air Plan
- Impact of Clean Air Plan on cross-boundary services
- Implications for fleet requirements under the Proposed Franchising Scheme
- Implications for depot requirements under the Proposed Franchising Scheme
- Comparison between the Proposed Franchising Scheme and the various partnership proposals put forward by operators
- Other comments received

Level of detail provided in the Assessment regarding the Clean Air Plan

4.9.4 Responses from several operators stated that more information is needed on how congestion and air quality issues are to be addressed in order to reach the Clean Air Zone ("CAZ") requirements to meet Euro VI standards for buses by 2021. For example:

- OneBus stated that "*the assumption of the Clean Air Plan not being included in the Assessment will either see the Plan not delivered, or funding required from elsewhere*".
- HCT Group stated that "*CAZ investment costs have not [been] included in any of the reform options. GMCA need to provide clarity on who would bear these, if the business case were to be approved*"
- Go North West stated that there is "*no methodology set out for addressing the CAZ requirements*".
- Bus Users UK stated that "*there is scant attention paid to the environmental/air quality implications of the plan. Without the kinds of initiatives planned by York and Bristol, or an Ultra-Low Emission Zone or Congestion Charging aimed at removing or reducing private cars from the centre(s), substantial modal shift*

from cars to public transport will not be feasible in the short or medium term."

TfGM Response:

4.9.5 A number of operators, and OneBus, questioned why CAZ requirements and related matters are not covered in this Assessment. The Assessment set out that clean air was dealt with via a separate Clean Air Plan business case. To address these points TfGM sets out below an explanation of the rationale for separating out the two aspects.

4.9.6 The economic and financial cases in the Assessment did not consider the effects on the options or on the reference case of there not being sufficient Government funding for full reimbursement of the costs of upgrading or providing new vehicles to meet the Euro VI engine requirement to comply with any forthcoming CAZ requirements.

4.9.7 If such costs had been included it would have affected the Reference Case (i.e. the market without intervention) and hence both the partnership options and the Proposed Franchising Scheme equally in terms of a financial cost. The reason for excluding any such costs was that the decision on whether to apply any regulations that would incur costs for a bus operator in the absence of Government intervention would be dependent on GMCA's policy articulated in the Clean Air Plan / FBC. Two specific points about the process required by the Green Book are important:

- Only future year transport system interventions with "committed funds" should be included in the Reference Case.
- The specification of the appraisal in the economic and financial cases is based on the specification of the options.

4.9.8 At the time the Assessment was being drafted the Clean Air Plan OBC had been submitted to Defra, but work was ongoing to develop a more detailed plan and associated FBC which is not due to be completed until later in 2020. This necessarily meant that at the Assessment stage it was not possible to determine the costs in detail given there was still work to be undertaken as part of the Clean Air Plan business case to determine the numbers of vehicles that would meet the standards, the technical solutions to dealing with this and the approach to implementing a CAZ in terms of fines etc. The Clean Air Plan would also articulate the policy on whether local government (GMCA) funding would be available (potentially to 'top-up' central government funding) to private sector bus operators or (should any decision be taken to introduce the Proposed Franchising Scheme) via TfGM to franchise operators to aid compliance. It is therefore appropriate that the costs (and benefits) of the different kinds of interventions i.e. clean air and bus reform are counted within their own business cases to avoid double counting.

4.9.9 If costs were to arise, in the deregulated market operators would face a choice about how to comply and whether to absorb any costs through lower profits (assuming

they have the capability to do so). Similarly, under the Proposed Franchising Scheme, GMCA would have to determine how to approach the requirement to comply as part of the franchising arrangements, including how this would be funded. This choice was acknowledged in the Assessment.

4.9.10 TfGM notes the comments from OneBus that the Clean Air Plan will either not be delivered or will require funding from elsewhere. As described in the Assessment (Section 23.6.9). The Clean Air Plan Outline Business Case asked Defra to provide funding to upgrade the bus fleet, where possible, to meet Euro VI standards so that all buses would conform to the required Euro VI for buses standards if the CAZ is implemented. Funding is still subject to Ministerial decision following the Clean Air Plan Full Business Case ("FBC"). TfGM is currently producing an FBC to implement a Clean Air Plan on behalf of the 10 districts in Greater Manchester in coordination with GMCA. The costs and funding of intervention are included there, and therefore, these have not been included in the Assessment.

4.9.11 If the request for funding is successful, this would be applied to vehicles in the Proposed Franchising Scheme (to the extent that vehicles had not been upgraded prior to the implementation of franchising). The Clean Air Plan FBC is considering options including other funding sources if the request for funding is not successful.

4.9.12 TfGM notes the comments from Bus Users UK that without initiatives to remove or reducing private cars from the centre(s), substantial modal shift from cars to public transport will not be feasible in the short or medium term. TfGM is currently producing an FBC to implement a Clean Air Plan on behalf of the 10 districts in Greater Manchester in coordination with GMCA. Any such initiatives are considered there, and therefore these have not been included in the Assessment.

4.9.13 In summary, given TfGM is separately producing an FBC to implement a Clean Air Plan on behalf of the 10 districts in Greater Manchester in coordination with GMCA, and that this is neutral as to whether any form of bus reform is implemented, TfGM remains satisfied that the approach (i.e. to consider each of bus reform and the implementation of a Clean Air Plan separately) is the appropriate approach. TfGM remains of the view that this approach would not impact the successful implementation of the Clean Air Plan under the Proposed Franchising Scheme.

Impact of the Proposed Franchising Scheme on the Clean Air Plan

4.9.14 Several responses expressed support for the Proposed Franchising Scheme, stating that they believe it will help GMCA achieve its Clean Air Plan. For example:

- Salford City Council stated that "*the proposed franchising scheme offers the best opportunity to control the specification of buses in the fleet, which will ensure a regular renewal of vehicles and the provision of engines that meet the latest environmental standards - this is key to delivering on the aims of the Clean Air*

Plan."

- Trafford Council stated similarly and added that they believe that the Proposed Franchising Scheme "*should be used as a mechanism to address clean air and particulates through requiring the move to higher environmental standards for buses including electric powered vehicles.*"
- TravelWatch North West stated that franchising would "*allow co-ordinated investment and greater control over bus services, allowing low emission buses to be specified and thus contributing to the Clean Air Plan.*"
- The Peak District National Park Authority stated that "*the overall approach could help to reduce the number of vehicles driving into already congested urban areas.*"
- Warrington Borough Council commended "*the plans to enhance the operational fleet in terms of emissions allied to the CAZ*".
- Abellio stated that they believed "*the introduction of the Proposed Franchising Scheme would offer a great opportunity for the City Region to upgrade its fleet to new, low or zero emissions vehicles*".
- Bury Council stated that the Proposed Franchising Scheme supports the objectives of "*promoting modal shift from cars with the associated benefits in terms of emissions, contributing towards our tackling climate change*."
- Keolis stated that the Proposed Franchising Scheme "*is the best way to give TfGM the confidence to invest in an enhanced product offer which will deliver [amongst other things] …reduced congestion, …modal shift through network integration, …[and] reductions in harmful emissions*."

4.9.15 Conversely, a number of unfavourable comments were received, including:

- Go North West commented that they do not believe that the Assessment has considered CAZ obligations and associated timescales. In particular they state that "*bus operators are in the process of upgrading their fleets to Euro 6 standard in order to meet this deadline*" which "*requires operators not only to make investment (very little of which is underwritten by the Government) but to manage complex and significant upgrading projects*". It is "*not reasonable to propose making a decision regarding the Scheme in March 2020"* Instead they proposed that a "*better proposal would be for GMCA and bus operators to focus on achieving the CAZ obligations, and only once that is done, turn to considering the implementation of franchising or any other scheme*."
- Stagecoach stated that the Proposed Franchising Scheme does little to reduce the environmental impacts of vehicles on the Greater Manchester network. They state that there is "*criticism of operators in partnership schemes for their reliance on external funding, yet the same external funding sources (DEFRA) are relied*

upon for franchising." Stagecoach consider that a "*key principle of any clean air strategy must be to reduce car usage, and the franchising scheme is modelled to have the greatest effect on reducing car km, of 13.4m trips per year. With no journey time reductions and so many of the initiatives in franchising unfunded, this assumption does not feel credible*."

- Stockport Metropolitan Borough Council noted concerns regarding the meeting of its clean air targets "*especially with Stockport borough's date of entry into the franchise agreement not expected until at least 2023*" and stated that "*greater clarity is required on how improvements to the bus fleet for emissions to meet clean air requirements could be delivered before franchising commences in the area*." The Council also asked, "*how will the Clean Air Plan bus schemes and the franchising requirements for fleet renewal work and will this lead to the sub-areas A and B benefiting from more clear air funding for buses than sub area C?*".

TfGM Response:

4.9.16 TfGM does not consider it is necessary to postpone the commencement of the Proposed Franchising Scheme (should any decision be taken to introduce it), as suggested by Go North West, in order to achieve the Clean Air Plan. It should also be noted, as set out in Section 13.2.56 of this report, that the Proposed Franchising Scheme would not be made in March as commented on by Go North West (as that date has clearly passed). The Clean Air Plan does not assume any decision whether or not to make the Proposed Franchising Scheme and the achievement of either the Clean Air Plan or the Proposed Franchising Scheme is not dependent upon the other. It is also noted that the fleet residual value mechanism (described in Section 26.2.5 of the Assessment) will offer operators mitigation from the risk of stranded fleet, including any investment in new fleet required to meet CAZ requirements, at the commencement of franchising. It is therefore possible to achieve both the Clean Air Plan and any proposed implementation of the Proposed Franchising Scheme simultaneously.

4.9.17 It is not immediately clear what criticism of operators Stagecoach are referring to as the Assessment, at Section 9.2.27, recognised that the Clean Air Plan was dependent on funding from central government irrespective of any decision to make the Proposed Franchising Scheme. The point in relation to modelling is noted and the Economic Case of this report deals with operator critique of the modelling approach.

4.9.18 The concerns raised by Stockport Metropolitan Borough Council over the fact that the south of Greater Manchester is in the final round of franchising implementation are noted, and are considered further in Sections 7. 9 -and 13.2.33 onwards of this report. However, the Clean Air Plan FBC is neutral as to whether any form of bus reform is implemented, and therefore clean air obligations will apply to all bus operators, whether operating under franchise contracts or as commercial services. Similarly, the request made in the Clean Air Plan OBC that Defra provide funding to upgrade the bus fleet is made on a Greater Manchester wide basis and does not

distinguish between franchised and non-franchised operations.

Impact of Clean Air Plan on cross-boundary services

4.9.19 Cheshire East Council stated concerns that "*local authorities (and operators of commercial services) outside the GMCA may not be in a position to specify the same vehicle emission standards to match those that are part of the Franchise Scheme*"

4.9.20 Warrington Borough Council stated that care was required to ensure that "*such plans do not negatively impact on the availability of, in particular cross boundary, local bus services.*"

TfGM Response:

4.9.21 TfGM notes the points in respect of compliance requirements for cross-boundary services. As noted earlier in this section, future clean air requirements will be determined by the Clean Air Plan FBC and subsequent implementation, rather than the Proposed Franchising Scheme, which may impact on cross-boundary services. However, any such requirements would be independent of whether the Proposed Franchising Scheme is introduced or not. The impact of the Proposed Franchising Scheme on cross-boundary services are considered separately in section 4.8 of this report.

Implications for fleet requirements under the Proposed Franchising Scheme

4.9.22 Rotala refers to analysis performed by a Mr. Peter Nash, and states that:

- "*If fleet renewal took place at a rate to maintain average fleet age then, by the end of the first round of franchising, 58% of the fleet would not meet the required standard. The cost to convert the remaining feet would be around £23 million."*
- "*This sum is unlikely to be met by central Government in full so will have to be sourced locally with a risk of it being recovered from the tax payer*."
- "*It should also be noted that there is an increase in the annual cost associated with a fully Euro VI fleet (exhaust maintenance and ad blue additive consumption) and this has not been accounted for. This is likely to cost around £2.5 million a year (based on the annual cost of £1500 per vehicle). Again, this will have to be met locally and may well fall to the tax payer."*

4.9.23 Bus Users UK noted that "*investment in vehicles to keep the fleet green will be substantial and ongoing and this is glossed over in the plan. Again, CPT members have already committed to buy only ultra-low and zero emission buses from 2025 and the scheme adopted in Greater Manchester would need to set aside funds to do the same. As each vehicle costs around £300k, this is no small commitment.*"

4.9.24 Wigan Council noted that for "*smaller companies operating bus services in the Wigan Borough … it is highly likely that new, higher quality, low emissions buses would need to be purchased and they would need support in making that transition if, indeed, the*

buses are not in public ownership through the Proposed Franchising Scheme."

4.9.25 West Yorkshire Combined Authority stated that "i*t is likely that increased demand for zero-emission buses could extend the nine-month timescale*" and that it is *"important to engage operators with the Clean Air Plan in advance of franchising to ensure the fleet commitments are attainable within the given nine-month period between contract award and implementation."*

4.9.26 Stockport Council asks what consequences of clean air requirements will be for "*buses that previously have received or will receive funding for upgrade to a lower emission rating from the GMCA?*"

TfGM Response:

4.9.27 TfGM notes the analysis referred to by Rotala and the comments from both Bus Users UK and Wigan Council. However, as noted earlier in this section, future clean air requirements will be determined by the Clean Air Plan FBC and subsequent implementation, rather than the Proposed Franchising Scheme, and will be neutral as to whether the Proposed Franchising Scheme is introduced or not. As such the Proposed Franchising Scheme is not anticipated to impact either the cost or funding of compliance with the requirements of the Clean Air Plan.

4.9.28 TfGM notes the comments from West Yorkshire Combined Authority in respect of lead times for new fleet. However, as also considered in paragraph 7.8.21 of this report, it is currently satisfied that the proposed mobilisation period of nine months is adequate for the manufacture and delivery of both Euro VI diesel (typically six months) and ULEV (typically eight months) fleet, but would continue to review this, including via ongoing discussion with manufacturers, to identify any specific circumstances that require a longer mobilisation period.

4.9.29 The query from Stockport Metropolitan Borough Council regarding buses in receipt of funding for upgrade to a lower emission rating is noted. TfGM believes that this query applies regardless of whether the Proposed Franchising Scheme is introduced or not and is therefore not relevant to the Assessment specifically. It is anticipated that this will be considered in the Clean Air Plan FBC.

Implications for depot requirements under the Proposed Franchising Scheme

4.9.30 A number of responses were concerned about the implications for depots of a transition from diesel to alternative technologies required to meet the requirements of the Clean Air Plan. These included the following:

- Arriva North West stated that "*depots would need to be 'future-proofed' to ensure that the requirements of the franchise contracts can be fulfilled, such as the provision of appropriate charging or other infrastructure. If this is not done, the barrier to entry (significant investment in charging infrastructure as an example) would remain and not be removed simply by providing a generic bus*

depot."

- Abellio stated that "*options being considered by GMCA for future depot provision should include infrastructure to allow for the use of such vehicles*."
- Bury Council stated that the franchising proposal "*provides an opportunity for considerable action to be taken in terms of environmental (air quality) improvement, with a focus on an electric felt and EV Charging point infrastructure. Longer term this should include hydrogen fuel cell technology*."

4.9.31 Favourable comments were also received from the Liverpool City Region Combined Authority who stated that "*local control of bus depots may be an appropriate course of action under a variety of different delivery models in order to support a move to zero emission bus fleets.*"

TfGM Response:

4.9.32 Consideration has been given, in the depot strategy, to the future needs of depots in relation to changing technology, for example, to a move to electric vehicles. Consideration has been given to the extent to which the strategic depots could be adapted for electric vehicle charging and other relevant infrastructure requirements. This is both in the context of current depots acquired from GM bus operators and any depots constructed in the future for the steady state solution. This and the same in relation to small franchise depots is considered in paragraphs 7.3.24 to 7.3.27 of this report.

Comparison between the Proposed Franchising Scheme and the various partnership proposals put forward by operators

4.9.33 A number of comparative comments were received from the perspective of clean air, some favouring the various partnership proposals put forward by operators and some favouring the Proposed Franchising Scheme.

4.9.34 Favourable comments regarding the various partnership proposals put forward by operators include:

- Arriva North West stated that "*partnerships, voluntary or statutory, have been proven to deliver significant investment and improvements in city-wide bus networks, [amongst other things] reducing fleet age and emissions. We feel this has been overlooked throughout the assessment.*"
- Transdev stated that Operator Proposed Partnership option will "*increase investment levels rolling out new low emission buses faster than otherwise with resulting air quality benefits*."

4.9.35 Favourable comments regarding the Proposed Franchising Scheme include:

- Abellio stated that "*the environmental benefits of a franchising scheme (e.g. increasing use of sustainable modes, managing emissions from the bus fleet, and*

increasing public transport access to new areas of employment and housing) are likely to exceed those that any partnership option could deliver."

- Manchester City Council stated that the Proposed Franchising Scheme is "*likely to lead to a more stable network which can be marketed on a consistent basis to new customers and to visitors to Greater Manchester, thereby encouraging patronage growth. This growth can in turn help to drive healthier revenues while also tackling car dependency, emissions and transport congestion as more people choose to make use of an integrated transport network along with higher levels of walking and cycling.*"

TfGM Response:

4.9.36 The Assessment considers the proposals that were put forward by the operators under the Operator Proposed Partnership option to introduce 150 new vehicles each year for the first three years of the partnership and their commitment that each operator in the partnership will bring the average age of the fleet to under seven years over the term of the partnership agreement. Sections 4.1.8 – 4.1.13 of the *Partnership Option: Operators' Position and Modelling Implications Supporting Paper* considered these proposals in further detail and concluded that these proposals did not represent a departure from the "Do Minimum" case. For instance, TfGM would, under any model, work with operators to take advantage of DfT funding for the good of Greater Manchester residents, and operators would be expected to continue to invest in assets/asset renewals as part of their normal course of business.

4.9.37 Proposals that have been put forward in relation to fleet age and emissions have also been considered as part of the Partnership Plus and Stagecoach's South Manchester Partnership proposals within this report. Paragraphs 9.2.24 to 9.2.25 of this report consider the Partnership Plus proposals although these do not differ to those considered in the Assessment under the Operator Proposed Partnership. Paragraphs 10.2.29 – 10.2.36 of this report consider the proposals put forward by Stagecoach under their South Manchester Partnership proposal. The conclusions drawn in relation to this proposal are consistent with those for the main Operator Proposed Partnership, in that the Euro VI commitment from Stagecoach is dependent on government funding being available and agreed terms for retrofitting. It has been concluded, therefore, that these proposals do not bear a significant difference to what could be achieved under the "Do Minimum" option.

Other comments received

4.9.38 There were several responses that stated the need for low emission vehicles. For example, Bolton Council stated that "*much of the bus fleet across Greater Manchester is old and does not meet the latest greener emission standards. Older and inefficient fleet of buses contribute significantly to high levels of air pollution in towns. Buses have an important part to play in helping reduce carbon emissions by reducing the number of car journeys made. It is therefore imperative that a modern,*

environmentally friendly fleet is introduced."

4.9.39 Several responses noted concerns with the cost involved in delivering low emission vehicles. For example, Cheshire East Council stated that "*there is a significant incremental cost of new zero / ultra-low emission buses compared to diesel powered vehicles. Accordingly, Cheshire East recommends that the GMCA works in collaboration with other major transport commissioners, the bus industry and central Government to collectively commit to future zero / ultra-low emission vehicle orders to enable vehicle manufacturers to reduce the price based on better economies of scale. Such an approach would help bring forward such benefits in many other geographical areas, particularly those with air quality management issues. This concept should also be considered by central Government within the scope of a long-term Bus Strategy*."

4.9.40 Several operators stated concerns that th**e** current CAZ proposal excludes private cars, which GMCA should reconsider as this would have a much more positive result in achieving the clean air plan than only applying the CAZ to buses.

4.9.41 Rotala stated that "*the Assessment assumes that the Bus Services Operator Grant ("BSOG") will be maintained at current levels. However, BSOG is currently under review and there is in any event no entitlement for electric vehicles, thereby increasing operating costs*."

TfGM Response:

4.9.42 The comments received are not directly relevant to the Assessment or any decision on whether or not to introduce the Proposed Franchising Scheme. They are expected to be addressed in the Clean Air Plan FBC which is currently in development. TfGM is working with operators in relation to the Clean Air Plan and retrofitting of vehicles. TfGM has factored the risk around any future reduction in BSOG through its risk provision. TfGM recognises that BSOG is under review, and that in the future should there be investment into electric vehicles the implications of BSOG would be part of the analysis.

Conclusion

4.9.43 Although consultees were not asked any questions in relation to the Clean Air Plan, a range of respondents provided comments, both favourable and unfavourable, on this subject.

4.9.44 A number of unfavourable comments were received regarding the lack of detail on the Clean Air Plan contained in the Assessment. Given that TfGM is producing separately an FBC to implement a Clean Air Plan on behalf of the 10 districts in Greater Manchester in coordination with GMCA, and that this is neutral as to whether the Proposed Franchising Scheme is introduced or not, TfGM remains satisfied that the approach adopted (i.e. to consider each of bus reform and the

implementation of a Clean Air Plan separately) is the appropriate approach.

4.9.45 Similarl**y,** TfGM does not consider it is necessary to postpone the commencement of the Proposed Franchising Scheme (should any decision be taken), as suggested by Go North West, in order to achieve the Clean Air Plan.

4.9.46 A number of comments were received regarding the implications of the Clean Air Plan on fleet, in particular from a cost and funding perspective. However, as future clean air requirements will be determined by the Clean Air Plan FBC (which is neutral as to whether the Proposed Franchising Scheme is introduced or not) rather than the Assessment, the Proposed Franchising Scheme is not anticipated to impact either the cost or funding of compliance with the requirements of the Clean Air Plan.

4.9.47 Unfavourable comments received from operators when comparing the Clean Air Plan from the perspective of the scheme and the Partnership option have been considered. The Assessment, and our review of the partnership proposals submitted as part of the consultation process, have identified where operators were making commitments in relation to fleet investment at Euro VI and better. TfGM is satisfied that such commitments have been taken into account in both the Assessment and consultation response. The conclusions drawn are that the fleet commitments which would benefit clean air, from the various operator proposals are dependent on government funding being available. It has, therefore, been concluded that these proposals do not bear a significant difference to what could be achieved under the "Do Minimum" option.

4. 10 - Theme 8: Consideration of partnership proposals

Introduction

4.10.1 This section considers the theme amongst a number of the consultee responses that the partnership options, in particular the Operator Proposed Partnership, considered in the Assessment should be given further consideration and is preferred. Reasons given for this were:

- the partnership options considered in the Assessment were not complete/had not been tested with the operators;
- the benefits associated with the partnership options were underestimated;
- the costs associated with the partnership options in the Assessment are too high and that the value for money of the partnership options have therefore been underestimated, in comparison to the Proposed Franchising Scheme;
- there was a general lack of appreciation of partnerships considered in the Assessment;
- partnerships could be introduced more quickly, with less risk and cost to the taxpayer, than the Proposed Franchising Scheme and could achieve similar benefits; and
- those benefits could be further enhanced if the costs of implementing the Proposed Franchising Scheme were saved and used on Phase 2 measures.

4.10.2 It is important to note that the partnership proposals do not contain any further measures to address congestion than would be pursued by GMCA under a business as usual or the Do Minimum option. The Ipsos MORI report noted operator's support for partnership in their answers to Q38, including repetition of the points about how the partnership would come at less cost and risk to GMCA (12.4.1).

Operator engagement on partnerships and completeness of the option assessed

4.10.3 OneBus commented that the partnership option considered in the Assessment was not complete and that "*we are concerned that TfGM has picked a moment in time where a line was drawn and the Partnership proposal at that stage and was taken as being the best offer to be used for the Assessment without advising OneBus or the operators when that was*."

4.10.4 The Act requires the GMCA to compare the making of the Proposed Franchising Scheme to one or more courses of action. Various options were considered in the Assessment and in particular, two options were considered in detail throughout the Assessment for the partnership option. One option was referred to as the Operator Proposed Partnership and reflected the propositions that had been discussed with operators whilst TfGM was in the process of preparing its Assessment on behalf of GMCA, which was proposed to take the form of a Voluntary Partnership Agreement

("VPA"). The other option, the Ambitious Partnership, was one that reflected a more ambitious partnership and was modelled by TfGM to show what it believed could be delivered under a partnership and under an Enhanced Partnership Scheme ("EPS").

4.10.5 Extensive engagement with operators was carried out before the completion of the Assessment and first began in October 2017. To facilitate discussions, operators shared an initial partnership offer and TfGM shared information about the GMCA's Vision for Bus and other objectives. TfGM also shared the approach to the appraisal of options in the Assessment. As a result of this engagement, the operators shared, a consolidated partnership offer reflecting the outputs of discussions in January 2018. Having established that a number of specific commitments were more like 'commitments to commit,' it was agreed that further work was required to elicit additional detail from the operators with regards to their partnership proposals.

4.10.6 To develop further detail a number of working groups were established, involving the relevant TfGM officers. Terms of reference were agreed for each working group explaining the membership and purpose of each group, along with items to be discussed within each working group. A number of legal sessions were also running in parallel to the working group meetings. An output of this engagement was the ongoing drafting of a VPA. This highlights TfGM's serious consideration of the partnership option and the serious attempt to work with operators, over a period of almost two years, to develop their partnership proposal.

4.10.7 At the point the Assessment was completed, over 50 meetings had been held with operators and the nature of the partnership proposals were well developed when they were defined for appraisal in the Assessment. As noted above, engagement began with the operators in October 2017 and therefore operators had a significant amount of time to come forward with their "*best offer*." At the beginning of the engagement TfGM discussed the objectives for bus reform. The point at which the Assessment was completed, followed nearly two years of discussion with operators (October 2017 – June 2019). It cannot be claimed that the completion of the Assessment came as a surprise to operators.

4.10.8 Stagecoach criticized the inclusion of the Ambitious Partnership option as it said *"We had no discussions whatsoever with TfGM as to what an ambitious partnership could look like, and it has simply been created as a theoretical construct by officials and not operators, which allows one of the other contractual mechanisms under the Bus Services Act (an Enhanced Partnership) to be considered. It is therefore difficult to comment fully on the appropriateness of the commercial implications of the partnership options as set out in the Commercial Case."* As noted above, the Assessment also considered an Ambitious Partnership option which detailed TfGM's view of what more could be achieved with operators under a partnership. This was done to provide a more stringent test for alternatives. The reason for considering this option was to assess what could be delivered over and above what the operators were willing to agree to under the Operator Proposed Partnership, and hence did

not require further consultation. In fact operators have changed and improved the partnership offer, but in a different way to the Ambitious Option tested.

4.10.9 After June of 2019, while the Assessment was completed, audited and consulted upon, discussions with operators on partnerships have continued. There have been over 40 meetings between TfGM, operators and OneBus since the finalisation of the Assessment. The purpose of these meetings was to develop further detail to allow the VPA to be finalised, and most importantly, to allow the partnership to be implemented more quickly if the decision taken following the consultation were to pursue alternatives to the Proposed Franchising Scheme. In addition to this, the meetings have been used to develop the Operator Proposed Partnership itself and ensure the GMCA understands the complete picture of what a partnership could offer.

4.10.10 Engagement since completion of the Assessment has included understanding a number of key commercial principles for the VPA and how these would work in practice under a partnership, thus further understanding the governance structure and the corresponding resource requirements for a partnership, along with sources of funding and how funding mechanisms would work. The individual working groups have specifically focused on key performance indicators, revisiting the workflow approach for reviewing the network having completed a proof of concept review for Tameside, as well as discussing further detail from the proposals previously discussed, such as the marketing budget, driver training and in-service cleaning. Engagement has also continued with the respective parties' legal advisors as we have continued to update the VPA drafting to reflect discussions held to date with the operators and OneBus.

Overestimation of costs

Partnership cost development

4.10.11 The engagement with operators, noted above, has informed consideration of the costs incurred under a partnership, acknowledging that there are costs associated with administering and managing the partnership. The costs and resources were carefully considered, and TfGM determined that it would require incremental resource to that currently employed in order to properly resource its own commitments.

4.10.12 TfGM began by looking at the governance structure proposed by operators (including working groups looking at different issues, monitoring and data requirements, and senior level governance including a Partnership Delivery Board and a Partnership Strategy Board), along with the input into the cost and resource implications provided by the operators, to cost the resource TfGM believe is required to deliver the Operator Proposed Partnership. This includes resource consideration of people (for example, in terms of full time equivalents (FTE)) and also systems. This estimate was then looked at in terms of currently available resource to understand the

incremental resource necessary. TfGM is confident we have allocated the appropriate costs to the Operator Proposed Partnership based upon the information received from operators and the logical process followed.

4.10.13 Operators considered that they could manage and deliver their commitments within their existing resources. TfGM raised concerns over this, questioning whether this will lead to a properly resourced and enduring partnership.

4.10.14 It is worth noting, in response to Q31 with regards to comments on the affordability of the partnership options, Go North West reference a bond being part of the terms under the Partnership Plus proposal. They state*, "under the terms of this bond, any operator that sought to exit the partnership would be contractually obliged to make a payment that would be financially very significant*," with the intention of providing confidence to GMCA that the operators will deliver their commitments under Partnership Plus. There is however no bond being proposed under Partnership Plus. The Partnership Plus proposal has been analysed and considered in further detail later in this report and it has been made clear through engagement with operators that a bond is not intended to be used as a mechanism under Partnership Plus. Go North West in their response to the consultation also refer to the Nexus VPA as being an example of how this mechanism works in practice although there is currently no bond being used under the Nexus VPA.

Justification of partnership costs

4.10.15 Under the Operator Proposed Partnership considered in the Assessment, it was identified that six additional FTEs would be required within TfGM to support a partnership. Several operators have challenged that this resource is excessive and is not required, and could be absorbed into the existing TfGM Bus Services team. This is not possible, however, as the existing team will need to continue to manage the supported and the school's network. Managing a partnership would therefore require incremental resource, as has been the case during the development of the partnership to date and further highlighted by the proposed governance structure of the VPA.

4.10.16 In response to Q34 of the consultation, some of the statutory consultees acknowledged the need for resource in order to implement and continually manage the partnership. Rotala recognise that there would be no major procurement phase required under a partnership, there would be costs involved in developing the partnership model fully and introducing the necessary systems for implementation. Abellio, in response to Q34, note that "*if GMCA did decide to pursue a partnership option, the proposed approach for TfGM to implement and manage that option is reasonable."*

4.10.17 The Operator Proposed Partnership could have over 10 members all with their own competing commercial pressures. The risk of failure of the partnership is therefore high. The financial and other resources, such as the six full time equivalents, are

required to help seek to ensure that the benefits are enduring. Without such investment, it is more likely than not that any benefits of partnership would disappear. Without the investment TfGM would not be able to monitor the performance of the partnership against its commitments, actively take part in the governance of the partnership (including the proposed working groups) or take part in decision making. Without this active engagement the benefits of the partnership would definitely fall away to some extent and would be more like to reduce significantly.

General lack of appreciation of partnerships

4.10.18 A number of operators argued that the Assessment had not taken sufficient account of the potential for partnership to deliver passenger benefits and patronage growth, for example Rotala in response to Q36 of the consultation felt that the Assessment had understated the partnership option. In particular, the following partnerships were cited as positive examples of what could be achieved:

- Brighton and Hove (Rotala,)
- Greater Bristol (OneBus, Go-Ahead, Rotala)
- Lothian (Rotala)
- Merseyside / Liverpool City Region (OneBus, Arriva)
- Nottingham (Rotala)
- South Yorkshire Sheffield (Go-Ahead, Rotala) plus Rotherham, Barnsley and Doncaster (Rotala)
- Tyne and Wear (Go-Ahead)
- West Midlands (Go-Ahead, OneBus, Rotala)
- Go-Ahead also referred to the benefits of guided busways in Bristol, Cambridge, Greater Manchester, Gosport/Fareham, Luton/Dunstable and Fastway (Crawley, Gatwick Airport and Horley) (Go-Ahead), however guided busways are infrastructure and therefore not necessarily linked to the partnerships.

4.10.19 Partnership is not a new concept in Greater Manchester and dates back to the Integrate project, initiated in 1998, which involved partnership between the main public transport operators and the public sector. The current state of the bus market in Greater Manchester is one that reflects an open and positive attitude to partnership on behalf of TfGM.

4.10.20 TfGM has used various forms of partnership to attempt to improve the bus network and service quality on behalf of GMCA. This shows that TfGM and GMCA do not undervalue partnerships, but have historically tried to use partnerships to achieve

transport objectives. In particular, amongst other things:

- Using powers given in the Part II, sections 135-138, of the Transport Act 2000, Greater Manchester introduced a statutory Ticketing Scheme in 2003. This protected multi-operator travelcards offered voluntarily by operators through Greater Manchester Travelcards Ltd ("GMTL") from an existing operator leaving GMTL or a new operator entering the market and deciding not to join the GMTL.

- During work on the Transport Innovation Fund ("TIF") in 2008, TfGM worked with operator representatives to review the bus network. Although congestion-charging, a crucial element of TIF required by the Government, was rejected by a local referendum, discussions with operators on implementing the TIF network took place with operators, albeit with limited success. Although there have been no further wholesale network reviews, TfGM's service planners regularly engage with operators with the aim of maximising the effectiveness and synergy of the commercial and subsidised networks and ensuring that commercial opportunities are not missed.

- The introduction of a Punctuality and Reliability Monitoring System ("PRMS"), using heavily revised roadside monitoring from 2009, combined with regular meetings with operators and agreed performance improvement plans, has helped operators to monitor and improve punctuality and reliability.

- A countywide VPA and Code of Conduct for bus operators was introduced in October 2010 to raise service delivery standards. Seven operators, at that time collectively delivering 86% of Greater Manchester's network mileage, including Arriva, First and Stagecoach, committed to VPAs embracing this Code of Conduct. Under the agreement, TfGM undertook to work with the Greater Manchester Authorities to resolve highway performance and infrastructure issues, and to maintain publicity and bus stop infrastructure. There were also operator undertakings covering driver training and behavioural standards, customer complaint handling and fares and information display.

- In April 2012 following negotiations with Stagecoach, a statutory Quality Partnership Scheme (QPS) for the Manchester – Hazel Grove (A6) was introduced. The scheme was underpinned by a complimentary VPA setting out the framework for how all stakeholders would work in partnership to deliver the objectives of the QPS.
- Delays caused by opposition from a small operator meant that plans for a QPS on the Bolton – Leigh (A579) corridor were abandoned, since the age of infrastructure went over the 10-year limit for a statutory QPS. Nevertheless, in

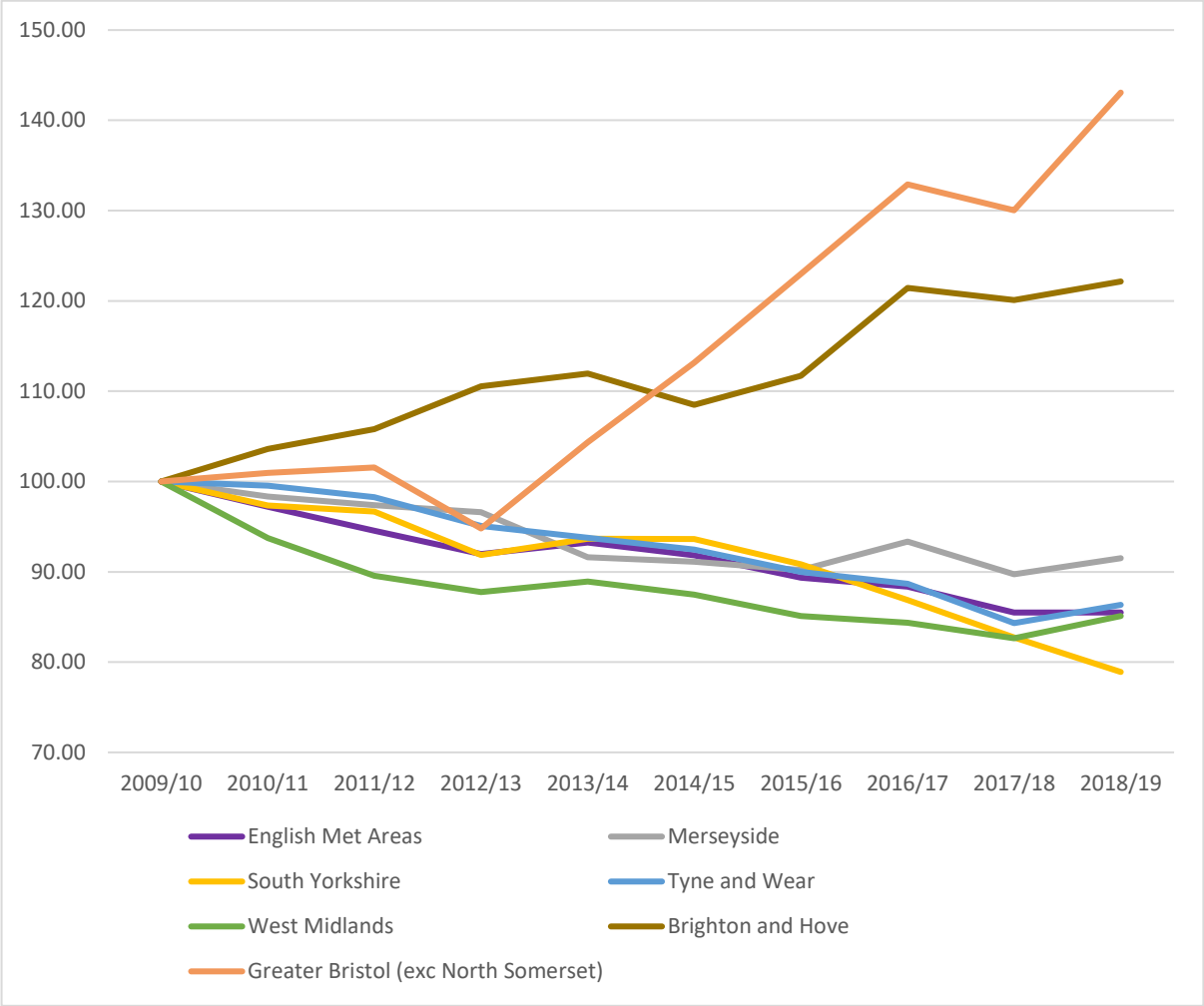
2013 a VPA was implemented in its place, covering many of the same performance criteria as the A6 statutory QPS.

- A supplier rating system for the general subsidised network was introduced from February 2012; this uses 15 measured criteria to assess operator competence and performance. Achievement of a specified standard is a pre-requisite for being a supplier of tendered services. The purpose is not to exclude operators from the tender process, but to improve standards and achieve consistency across the tendered network. The performance threshold has been gradually increased and is kept under review.
- The TravelSafe Partnership, which has its origins in the Integrate project referred to above. This is multi-agency initiative, set up to keep the public safe by deterring and preventing crime and educating young people on the dangers and consequences of antisocial and criminal behaviour.
- Investment in bus priority, including the Leigh – Salford – Manchester busway used by the Vantage service has been significant, as has investment in the waiting environment (Bus Stations, Interchanges and bus stop upgrades). GMCA has a track record of investing in such measures, spending approximately £275 million on bus priority measures, bus stations and interchanges since 2009.

4.10.21 Data from the DfT on patronage is available for the areas cited by operators, apart from Lothian. This data is from DfT Table BUS0109a, which is based on data provided by bus operators.

4.10.22 We have summarised this data from DfT into the graph below to show the change in passenger journeys between 2009/10 and 2018/19. The table below also shows

when partnerships were introduced in these respective areas:



Area	Partnership introduced
• South Yorkshire	Includes: • Buses for Sheffield – 2012 • Barnsley Bus Partnership - 2017 • Doncaster Bus Partnership - 2016 • Rotherham Bus Partnership - 2015
• West Midlands Bus Alliance	Includes: • Birmingham City Centre Advanced Quality Partnership Scheme (AQPS) - 2012 • Wolverhampton City Centre AQPS – 2018 • Solihull town centre AQPS – 2017
• Greater Bristol (excl. N Somerset)	• Metrobus QPS - 2017 • QPS on specific corridors - 2011/2012
• Merseyside	• Liverpool City Region - 2016
• Tyne and Wear	• East Gateshead Bus Alliance - 2017
• Brighton and Hove	• Re-launched in 2015

4.10.23 Of these partnership areas, only Brighton & Hove and Greater Bristol show sustained patronage increases. In the context of declining patronage in non-metropolitan areas, it should be acknowledged that flatlining is an achievement.

4.10.24 One factor that the two biggest success stories, Brighton & Hove and Greater Bristol, have in common is increasing population. Between 2009 and 2018, population in these areas rose by 9% and 10% respectively. Patronage on, the other hand, increased by 22% and 43% respectively, so while the population increases no doubt contributed to the patronage increase, they cannot fully account for it. Population increased in all the areas shown, and in Nottingham by 12%, more than either Brighton & Hove or Greater Bristol. However, it is worth noting that during this period Nottingham also had a second tramline built.

4.10.25 It is difficult to isolate the many factors affecting bus patronage, but it is worth noting the high population density of Brighton & Hove and the City of Bristol (although not the surrounding area). A significant number of people in both areas also have a green ethos, meaning that many residents will be favourably disposed to public transport, even if they belong to a demography that would, in other areas, be less favourably disposed. Nevertheless, it seems likely that partnership has been beneficial in Brighton & Hove and Greater Bristol. However, it is worth noting that there has been considerable public investment in Bristol, for example in 'Metro' services and in university bus services for the two universities. There has been over £230m of public

investment in metrobus. In Brighton, there has been implementation of extensive limitations on car use. Both of these are drivers of change, rather than the partnership itself, although partnerships can be useful and can help leverage such public investment.

4.10.26 One other factor that Brighton & Hove and Greater Bristol share (along with the West Midlands, Nottingham and to a lesser extent Liverpool City Region) is that there is a single dominant operator. In such circumstances, it is likely to be easier to negotiate a meaningful partnership than where there are two or more operators with a significant market share (there are five in Greater Manchester). However, where there is a single dominant operator, there is a risk that the partnership simply reinforces the dominant position of that operator, reducing competitive pressure and associated efficiency benefits.

4.10.27 It is also worth noting that Reading, where the dominant operator is municipally owned and where the local authority takes its dividend in better bus services, has also shown a sustained increase patronage increase. (The population in Reading has also increased, but not quite as much as in Brighton & Hove and Greater Bristol).

4.10.28 The success of the other partnerships cited by operators - Liverpool City Region, West Midlands, Nottingham and in particular South Yorkshire and Tyne and Wear – is less obvious.

4.10.29 Compared with the overall downward trend in metropolitan areas, patronage in the Liverpool City Region appears to have levelled off in the last five years, which – as in the case of Nottingham – can be regarded as an achievement. The Liverpool City Region reported a 16.2% increase in fare-paying patronage between 2016/17 and 2017/18. This is largely attributed to the introduction of My Ticket. This started in May 2014 as a £2 day ticket for 5-15 year-olds in Merseyside and was extended to 16-18 year-olds in July 2015. It was further extended to Halton in September 2015. It is understood that after some initial financial support (concessionary reimbursement) from Merseytravel, this is now an entirely commercial offer and there appears to have been a genuine increase in patronage by young people. The main conclusion that can be drawn from My Ticket is that reducing fares increases patronage, which is consistent with expectations. The price was increased to £2.20 and it is understood that this led to a fall in sales.

4.10.30 Between 2017/18 and 2018/19 there were patronage increases the West Midlands, preceded by a long-term downward trend. It is too early to say whether the increases represent the start of a sustained upward trend.

4.10.31 Another factor that makes it difficult to assess the success of partnership is that different areas start from different positions. As noted earlier, there has been partnership working in Greater Manchester for over 20 years, whereas in some areas such initiatives are more novel. Many of partnership initiatives elsewhere have also been implemented or tried in Greater Manchester: investment in bus priority and

the waiting environment (most partnerships); simplified ticketing and fare reductions (Bristol, Liverpool City Region); network reviews (West Midlands, South Yorkshire); and safer travel (West Midlands).

4.10.32 The evidence on the benefits of partnership in terms of patronage growth is at best mixed. It is likely to be easier to negotiate a partnership where there is a single dominant operator, but this does not guarantee success and risks losing the efficiency benefits associated with competition. Where partnership has been successful, this has involved extensive public action and investment. Also, as the sustained patronage growth in Reading demonstrates, partnership is not the only route to a successful bus network. Partnership can be a positive influence on patronage and, where combined with public investment, can help to sustain or even increase patronage, and can provide greater certainty of success than a 'Do Minimum' scenario for those planning such investment.

4.10.33 The Assessment did not take position, however, that partnerships were not beneficial or that they could not, combined with public investment, achieve some patronage growth. GMCA has pursued partnership working over a long period of time and the Assessment did not assume that a partnership would not be of benefit. It looked at the partnership offered by operators and its benefits and limitations to understand what it could achieve given where the starting point of the Greater Manchester bus network.

4.10.34 Operators have cited examples of partnerships and asserted that TfGM has, in general terms, underestimated the potential of bus partnerships, and therefore in some way underestimated the potential of the specific partnership proposed by operators. The evidence on the success of partnerships in the UK is mixed as set out above. Other than asserting the success of partnerships, no evidence is presented that TfGM have underestimated their potential in general or that such underestimation has prejudiced the analysis presented on the potential for a GM partnership. This was based on what operators in Greater Manchester were prepared to do.

Responses relevant to the advantages and disadvantages of the assessed partnerships

4.10.35 Sections 5. 4 - and 5. 5 - below look at the challenges posed to the economic analysis of monetised benefits in the Economic Case of the Assessment. This section notes challenges to how those potential benefits and disadvantages of the assessed partnerships were described in the Strategic Case. The Economic Case in the Assessment, at section 13.3.10-12, notes that the benefits of any partnership option are significantly more fragile and subject to erosion over time because they require multiple parties to enter VPAs. As has frequently been seen elsewhere, such as Sheffield, these agreements can erode relatively quickly over time.

4.10.36 It is acknowledged in the Assessment at section 8.5 and also in the section below on Partnership Plus (which considers the latest version of the Operator Proposed

Partnership option, submitted by OneBus as part of their consultation response), that one of the benefits of a partnership is that it would offer less risk to GMCA. This is mainly due to operators retaining revenue risk and therefore GMCA assuming less direct financial risk. Transition costs under a partnership would also be lower than the Proposed Franchising Scheme. A number of consultee responses from operators and others have also correctly pointed this out. For example, Stockport Metropolitan Borough Council *"recognises the limitations of the partnership options but also notes the lower financial risk that would be incurred should these approaches be taken."*

4.10.37 A number of consultees set out that a partnership would be easier to implement, OneBus in response to Q34 note that the "*implementation of the Partnership would not be as complex as for the Franchising Scheme and not require the major procurement phase.*" Tameside MBC recognise that, although it would not "*offer the full range of benefits which the document states will come from Franchise Contracts*", a partnership would "*appear easier to implement*." Bolton Council in response to Q38 note that the partnership option would result in little change and therefore would have limited impact on the operators as services, timetables and ticketing would continue to be decided by the operators, also highlighting that it would be easier to implement.

4.10.38 Stagecoach in sections 2.3 and 5.3 respectively of their response state that "*The Assessment appears to be overly favourable in attributing benefits towards franchising"* and that "*the economic case presents an overly optimistic view of franchising… Much of the Assessment, especially when considering the benefits offered in partnership, seems to place a view that private operators will simply deliver the legal minimum, and therefore any partnership initiative is credited with only a low level of benefit*." Stagecoach note that a partnership option would provide a more targeted approach at less cost and risk to the local taxpayers, with the ability to deliver a more sustainable and joined up bus network. They argue that the Assessment assumes that under a partnership, operators will degrade their quality of customer experience to a minimum level, which they feel is "*simply not credible or feasible."*

4.10.39 First claim in their answer to Q3 that Franchising does not provide significant benefits. In their answer to Q16 First argue that there are restrictions on the potential of a partnership – namely legal constraints on co-operation on fares and constraints on the ability to run routes that are not profitable. They then argue that these are not changes that the bus market "*should"* make: that there should not be integrated fares, and routes should not be funded that are not financially successful.

4.10.40 They then argue that a partnership has the necessary levers to make improvements to the bus service. They argue that there is no constraint on what an operator could offer in terms of changing the network. On fares they note the only constraint is that operators would need to keep their own single fares. They argue much could be delivered on customer service and that aspects of branding (livery on buses) could

be delivered by a partnership. Frist Manchester also claim that the idea of modelling the Ambitious Partnership is arrogant on behalf of TfGM. In their answer to Q42, First somewhat contradict their earlier statements and assert that there is no constraint on what could be agreed as part of a partnership.

4.10.41 Go North West set out some of the further detail of the Partnership Plus offer (pp. 24-5) that is additional to Operator Proposed Partnership, as well as reiterating some of the aspects of the original partnership, such as the potential fares freeze. As part of this they mistakenly claim that a bond has been offered and mistakenly claim that a bind was part of the partnership arrangements in the North East. They argue that the Assessment underestimated the effects of the partnership on punctuality and reliability. They argue that a partnership would be more innovative than a franchised market as operators would naturally innovate more. Elsewhere Go North West claim that deregulated markets are more innovative (discussed above at 7.2.25). They claim that partnership is more resistant to shocks to demand.

4.10.42 Rotala in their answer to Q14 set out some of the details of the Partnership Plus offer and claim that this is able to achieve GMCA's objectives for the bus service. In addition to setting this out, they make some further points in terms of these objectives. In terms of network, they claim that a partnership would achieve a great deal of change and cite the example of the West Midlands. They note that punctuality targets are enforced because of the enforcement of the Traffic Commissioner. They note that they have ordered new buses and that a Clean Air Zone could be implemented without franchising. On fares, Rotala cite the two year fares freeze that is part of the partnership proposal, and on customer service and able to put branding in place that would help customers. They also point to the profit share mechanism set out as part of Partnership Plus.

4.10.43 In response to Q28 of the consultation which considered the commercial implications of the partnership options, Stagecoach, Rotala and Go North West were amongst those that left favourable comments. Amongst the favourable non-statutory consultees were OneBus and Transdev. OneBus did not agree that the interoperability benefit would be reduced under a proposed partnership scheme, stating "*There is a range of multi operator and multi modal tickets available now and under the partnership proposal the operators have agreed that these products will be the prime products for targeted marketing."* Transdev stated that "*We believe the partnership can achieve similar levels of benefits at a lower risk to the public purse*."

4.10.44 Some of the points made by operators with respect to the Proposed Franchising Scheme are discussed above. Arguments adduced by operators that the transition to franchising would be more costly than is set out in the Assessment are discussed in the Commercial Case and the Management Case. The Commercial Case considers the operators' challenges in relation to depot related costs, the proposed RV mechanism and the procurement of ITS at sections 10.1.57, 10.1.74 and 10.1.101 of the Assessment respectively. These sections conclude that the Financial Case in the

Assessment includes a prudent estimate of the costs associated with acquiring control of strategic depots including an independently obtained valuation and a quantified risk assessment. It concludes that different courses of action by incumbent operators in relation to the RV mechanism are likely to have a neutral effect on franchise cost implications. The Commercial Case also concludes that the strategy described in the Assessment in relation to ITS equipment is not based upon a conclusion that GMCA would be able to negotiate contracts with greater value, given the operators' challenge that the private sector is able to do this. The response on the Management Case, at section 8.3, considers the challenge that the costs associated with the transition to franchising had been underestimated in the Assessment. It concludes that while the transition timescales are ambitious, GMCA believe that they are achievable and do not underestimate the cost. GMCA is satisfied that the approach taken in the Assessment balances risk with the need to implement timescales that benefit customers and minimise the uncertainty for the operators.

4.10.45 The contrast between the records of franchised and deregulated markets with respect to innovation is discussed above in paragraph 4.6.3. There is no reason adduced by Go North West or other operators to lead to a conclusion that a partnership would lead to greater innovation in Greater Manchester than the Proposed Franchising Scheme.

4.10.46 It is also clear from the Assessment that the Proposed Franchising Scheme is acknowledged in itself not to change the pace of fleet replacement or to change how the clean air zone would be implemented, albeit GMCA would be able to specify vehicles in franchise contracts. It is important to note that partnership would not make any significant progress in this regard, and investment figures quoted by operators are dependent on public funding coming forward which would be available under different market structures.

4.10.47 In response to the points made by operators on the assessment of partnerships it is important to note the following points. The partnership option does come with less cost and risk to GMCA than the Proposed Franchising Scheme as some operators point out. The decision to recommend the Proposed Franchising Scheme in the Assessment took account of this, and valued the potential benefit of the Proposed Franchising Scheme sufficiently to make this cost and risk worthwhile. While operators have emphasised this, they have not made arguments that would change the balance of view.

4.10.48 In response to the points made by Stagecoach that TfGM have only considered the minimum that a partnership could do, the partnership that is assessed in the Strategic Case and is modelled in the Economic Case was one that emerged from the discussions with operators and is not an 'minimum' assumption. The potential longevity of the benefits under a partnership are discussed in the Assessment, and it is noted that all such arrangements are subject to the commercial influences on

operators and have changed in other places, such as Sheffield. In this context, it was appropriate in the Assessment to point out the lack of certainty about the long-term nature of benefits from a partnership, and for decision-makers to take this into account. In the Economic Case, the benefits of the partnership are nonetheless assumed to last as long as those for the Proposed Franchising Scheme.

4.10.49 Similarly, the points made by First that there should not be a constraint assumed to what could be achieved through partnership are misplaced. They note some of the constraints as set out above. The partnership that is looked at in the Strategic Case is based on the discussion with operators that determined what operators in Greater Manchester were willing to come together and offer. While the Ambitious Partnership was posited without reference to operators, it was done in recognition of the possibility that the offer from operators could be improved. A new offer has come forward, and inevitably this differs from the Ambitious Partnership. This has now been assessed to see whether it would change the recommendation made.

4.10.50 In terms of what network changes are possible under a partnership raised by First, Transdev and Rotala, it is important to note that as well as the difficulty of co-ordinating a set of networks that continue to compete with each other, operators have set out limits to this process. As set out in the Assessment (S8.5 and S9.2), operators have not agreed to redeploy resource between operators or between different areas, and it is much harder in a deregulated network to achieve these types of changes. They have also rejected the idea of a statutory EPS, which would allow more co-operation on network design than would be permissible under competition law under a VPA or an informal partnership. The assessment of what could be achieved in the Strategic Case (and the value ascribed to this in the Economic Case) is therefore based on the reality of how operators would approach this question.

4.10.51 The detail of the Partnership Plus offer has been assessed in a separate section below (Section 9). The conclusion is that this does not offer a greater degree of benefit than the Ambitious Partnership examined in the Assessment. In some areas it is anticipated to perform better and in others less. For example, additional benefits would be gained from the additional revenue protection and customer service staff operators have committed to provide, the provision of 30 additional buses to the existing network and the proposal to allow acceptance of an operator ticket on a subsidised service for a surcharge of £1.00 (although in many circumstances this would offer no saving to passengers over and above buying a system one ticket). This is offset against a reduction in the commitment to provide driver training, with the assumption in the Assessment under both partnership options being an additional day of training, per driver, per annum, whereas under Partnership Plus this would form part of the annual CPC driver training. The assessment of the profit share mechanism that has been proposed under Partnership Plus shows that this is unlikely to be of great value to GMCA or in enhancing bus services. The amounts arising from the profit share scheme would be dependent on the level of funding available to

make specific highway interventions in the first instance (as it is proposed that the share of profits would be derived from the increased profits as a result of specific interventions into the bus network e.g. infrastructure). It would be extremely difficult to ascertain whether any increase in profit was down to an intervention; where some funds to be agreed, only 50% would be able to be put toward new schemes. By contrast under franchising all further income would be able to be deployed on further measures, if this were the best way of using the funds.

4.10.52 In terms of Rotala's objection that no credit is given to partnership to improve bus services, it is worth noting that they point to the Traffic Commissioner as enforcing standards. This would, however, not represent a shift from the status quo. In the Economic Case it is not assumed that the Proposed Franchising Scheme would improve punctuality, despite the fact that there would be contractually enforced contracts. It remains the case that the Proposed Franchising Scheme would have a greater chance of improving punctuality, but in either case significant improvement would require some level of increased investment.

4.10.53 It is possible to conclude that despite the points made by operators, the assessment of the potential for a partnership to achieve GMCA's objectives did not underestimate its potential to do so, and that the comparison with the Proposed Franchising Scheme set out there is appropriate. The Proposed Franchising Scheme carried more cost and risk than a partnership, but is significantly more likely to deliver better outcomes for the bus network in Greater Manchester.

Positive statements on partnership from local authorities

4.10.54 There were some further positive statements on partnerships made by other respondents to the Consultation. Stockport Metropolitan Borough Council also acknowledge some of the benefits that partnership would bring, noting in response to Q16 that "*previous partnership working has provided improvements in the borough on key routes.*"

4.10.55 As Lancashire County Council also point out in their response to Q36, "*the partnership approach may have less risk of a negative impact on neighbouring authority cross boundary services than the franchising scheme, as there would be no permitting process in place – status quo*." Although some of the current pressures may remain which have seen some services cut or being alternatively run as a subsidised service, with a partnership there would be no change to the ability to operate cross boundary services under a partnership.

Speed of the partnership proposal

4.10.56 A number of the large operators currently operating in the Greater Manchester bus market set out in their responses that a partnership could be implemented, and in turn deliver benefits, more quickly and efficiently than the Proposed Franchising Scheme. TfGM fully supports the need to ensure benefits are delivered as quickly as possible in order to improve the customer experience; this is evident in the Vision

for Bus objectives set out in the Strategic Case of the Assessment whereby the majority of the objectives are to be met within one to three years of intervention. However, it is not just about delivering change quickly, but also ensuring a quality service is delivered and maintained, offering long-lasting benefits.

4.10.57 Amongst the operators' consultation responses, some of the comments in relation to partnership include Go North West in response to Q15 who feel that a "*Partnership Plus VPA would enable GMCA to achieve its objectives, more quickly and at much lower risk*." This was also echoed in their response to Q36 where they stated that a partnership would deliver benefits at a lower cost and lower risk. OneBus also state in response to Q45 that under a partnership "*the customer improvements needed to make buses better can be delivered much quicker*." Stagecoach in paragraph 1 of their response, as noted above, have also made it clear that their view is that a "*partnership offers a more economic, efficient and effective alternative to franchising*." First in response to Q41 state that a partnership based approach would allow "*greater advantages to be gained, more quickly and at lower cost and risk.*" CPT in response to Q36 state that the partnership approach would allow for timescales to be expedited. These views that any benefits would be realised quicker under a partnership were reflected in the Assessment and the Economic Case assumptions.

4.10.58 Although a VPA (i.e. the legal mechanism for a partnership put forward by operators) could be entered into relatively quickly on a practical basis given where the VPA drafting has got to, the engagement with operators to date suggests otherwise. TfGM have engaged extensively with operators to discuss how a partnership could be used to meet the GMCA's objectives, since October 2017. There are a number of commercial aspects still to be agreed, and a number of commitments that are in effect 'commitments to commit'. This means that many commitments will not be agreed upon when entering into the VPA and that there remains some significant doubt as to exactly what would be delivered and when.

Comments on partnership and employees

4.10.59 Rochdale Borough Council and Stockport Metropolitan Borough Council state the effect that bus reform may have on employees involved in the bus public transport system across Greater Manchester. Stockport Metropolitan Borough Council acknowledge the lower impact of partnership on staff but that any form of bus reform needs to focus on protecting staff. First, in response to Q29, note that "*a partnership-based approach led by shared objectives will better guarantee the long-term future of operator employees as it helps reduce the potential "shocks" to the system that Franchising would deliver."*

4.10.60 As noted in section 9.12 of the Ipsos MORI report, 26% of the 174 consultees that responded to Q29 (the potential impact of partnership options on the employees of operators) responded with favourable comments. This included many statutory consultees agreeing that a partnership would not impact employees and would not

affect job security, for example Abellio state in their response to Q29 "*Abellio does not believe there would be any major impact on employees from a partnership or the Proposed Franchising Scheme. In both cases, employees would work for private suppliers*."

4.10.61 In response to Q29 in relation to the impact of the partnership options on employees of operators, the majority of unfavourable comments came from members of the public (87 out of 92 unfavourable comments) whose main concern was around job security under a partnership approach, with one member of the public stating "*Under a partnership scheme, employees would still be subject to the bus operator's commercial whims. If one of the operators pulls out of bus operations, there wouldn't be the same safeguards you get from transitioning to another operator, as under a franchised structure*."

Comments on disadvantages of partnership

4.10.62 The disadvantages of the partnerships were also commented on. As noted above, a partnership could be entered into relatively quickly via a VPA however the extent to which this would improve the current bus system and deliver benefits is limited. The Economic Case set out below, addresses the theme amongst consultee responses that question whether the appropriate benefits were associated to the partnership options. Many of the consultee responses acknowledge the limitations of the partnership option to the extent that it would deliver positive change and benefits.

4.10.63 Bolton Council in response to Q38 consider that very little would change under a partnership "*The Partnership options will have a limited impact on the operators as they will continue to run services and retain farebox profits. They will also continue to determine the timetables, ticketing, etc. meaning that very little would change*." This highlights the fact that GMCA would have less control under a partnership. Manchester City Council state that "*an enhanced partnership model is unlikely to alter the current situation."*

4.10.64 Q28 of the consultation asked consultees whether they have any comments on the Assessment of the commercial implications of the partnership options as set out in the Commercial Case. As noted in section 9.11 of the Ipsos MORI report, of the 166 consultees that responded to this question, 30% answered favourably towards the partnership option. The majority of the statutory consultee responses were unfavourable. Bolton Council felt that "*The partnership options do not offer the same controls as the proposed franchise scheme in terms of services to be run, uniform and integrated ticketing that can be used across all modes of transport."* Amongst other non-statutory consultees that left unfavourable comments in their response to the consultation were The Chartered Institute of Logistics and Transport and Steady State Manchester Collective. As mentioned in section 9.11.2 of the Ipsos MORI report, Steady State Manchester Collective note the limitations of the partnership options, stating that they would *"deliver less of the needed systemic change than the franchising option [and] …are based on incumbent operators and could,*

paradoxically, be anti-competitive in that they could act as a barrier for new entrants."

4.10.65 Rochdale Borough Council in response to Q28 note "*the Partnership Options offer few new ideas that enhance current service provision under the existing tender processes and there are few promises of step-change service improvements*." The amount of change possible under a partnership would be limited. As noted by Salford City Council in response to Q16, the network would not be considered as a whole and therefore "*redistribution of resources that are currently in competition between operators would be limited. Opportunities for common ticketing and fare products would also be limited*." Salford City Council also note that partnership does not allow for a central planning function which is the core of developing a good bus network. Stockport consider that the economic benefits are greater under the Proposed Franchising Scheme and a partnership would not "*provide the flexibility to manage the network to support the wider Greater Manchester Objectives*."

4.10.66 Other consultees have acknowledged that the partnership option does not address the demands and priorities that passengers want to see and agree with the conclusions reached in the Assessment on partnership. Rochdale Borough Council note in response to Q16 that "*the Partnership Options offer less appeal to potential new passengers or those people considering a switch from less sustainable modes. The chance to integrate bus services with those of other sustainable modes of travel are also less deliverable through the Partnership Options."* Rochdale Borough Council note that although the partnership options are considered affordable, they do not generate sufficient benefits in terms of service improvements for passengers.

4.10.67 Q16 of the consultation asked respondents for comments on how a partnership option might contribute to GMCA's objectives for bus services as set out in the Strategic Case. The response was mixed. Of the participants that responded, section 7.3 of the Ipsos MORI report indicates that more than twice as many participants answered with unfavourable comments compared to those that answered with favourable comments. The positive statements about partnership by the operators involved have been set out above. Other statutory consultees favoured the Proposed Franchising Scheme, this included Travelwatch North West and Bolton Council who, in response to Q16 felt that "*a partnership agreement is unlikely to bring about the changes required to improve the system*." In relation to the responses from a total of 25 non-statutory consultees, 18 responded with unfavourable comments in response to Q16. With regards to members of the public 110 responded with favourable comments compared to 261 responding with unfavourable comments. 52 of the unfavourable comments were due to thoughts that the Proposed Franchising Scheme would be a better option than a partnership and 41 respondents stated that a partnership would not result in objectives being realised. As noted in section 7.3.3 of the Ipsos MORI report, one member of the public stated "*I don't feel partnerships will offer the best value for buses as operators still dictate routes, fares*

etc."

4.10.68 Having considered the advantages and limitations of a partnership alongside the consultee responses, this does not change of the Assessment of partnerships or differ from the analysis that was set out in the Assessment. The positive points for a partnership should be noted – the relatively low lost in the short term of a partnership option and the fact that GMCA would not take on revenue risk, as well as partnership not creating any issues with cross-boundary services (although by the same token not offering any improvement or innovation in this regard). In particular, analysis in the Strategic Case of the Assessment set out how far a partnership would go in delivering the objectives and ensuring these are continued to be delivered through to 2040, and concluded that this was not as far as the Proposed Franchising Scheme would go.

4. 11 - Alternative proposals

4.11.1 As part of the consultation responses, GMCA has received three separate partnership proposals. Stagecoach have submitted a proposition for consideration envisaging a partnership in the South of Greater Manchester while a franchising scheme would be implemented in the North of Greater Manchester; OneBus have submitted their Partnership Plus proposal, which would see the whole of Greater Manchester operating under a partnership via a VPA, and First have put forward a proposal to pilot a partnership in Oldham. These proposals have been considered in further detail in Section 9, Section 10, and Section 11 of this report.

4.11.2 A summary of OneBus' Partnership Plus, Stagecoach's South Manchester partnership proposal and First's proposal is provided below. The continued engagement with OneBus and its members, and the resulting consultee responses from the large incumbent operators, has illustrated that the operators have not come together to offer the best possible partnership as GMCA are now faced with three different partnership proposals, as opposed to one.

Partnership Plus

4.11.3 Since October 2017 there has been ongoing, extensive engagement with the operators in order to consider what could be achieved under a partnership option. As part of their consultation response, OneBus have now come forward with *"an improved Partnership offer*," referred to as Partnership Plus. This is an updated version of the partnership offer previously discussed with TfGM. TfGM have reviewed the Partnership Plus offer in detail, which has involved consideration of the Partnership Plus commitments against each of the five cases in the Assessment. TfGM have also sought clarification on a number of matters given that, in the main, the level of detail provided for the new commitments is relatively low and a number of the commitments at best could be described as 'commitments to commit'.

4.11.4 As part of the review undertaken for Partnership Plus, TfGM confirmed with OneBus which commitments were re-statements of previous commitments that had been considered and therefore were included within the Assessment, and which commitments were the new, "plus" elements:

- Profit share schemes will be set up to allocate a share of benefits derived from increased profits as a result of specific interventions into the bus network (e.g. infrastructure) back into improving services further.
- Young people who no longer benefit from Our Pass can sign up to half-fare discounts for up to six months as a transitional period.
- 30 extra buses are being provided by operators to allow for new routes.
- If an operator fails to deliver a commitment or potentially fails to meet an agreed set of KPIs then there will be some financial implications via a liquidated damages

mechanism.

- A review of the bus stops will be completed to ensure they are close to Metrolink and rail stations.
- OneBus to recruit a total of 14 additional staff – primarily staff that will both provide revenue protection and customer service.

4.11.5 TfGM have also considered any commitments developed further through the continued engagement with OneBus and its members since the Assessment. This includes a proposal that where a secured service is let as a supplement to an existing commercial service, for example to extent that service later into the evening or earlier into the morning, the operator running that secured service would be able to sell a £1.00 add-on ticket to the day ticket of the operator running the commercial service. This would allow customers to use the supplementary evening or weekend service without further charge.

4.11.6 The review of the Partnership Plus proposal results in an increase in benefits compared to the Operator Proposed Partnership considered in the Assessment. In particular, the benefits would be greater as a result of the additional revenue protection and customer service staff, the acceptance of an operator ticket on a secured service for an add-on fee of £1.00 and the 30 additional buses which may be used for new services. However, the analysis and review of these commitments has demonstrated that the benefits arising are expected to be small relative to the difference between the current franchising and partnership options.

4.11.7 TfGM is confident that sufficient consideration has been given to Partnership Plus to come to the view that overall it is expected that the proposal would deliver no greater benefits than the Ambitious Partnership modelled in the Assessment.

Stagecoach South Manchester Partnership Proposition

4.11.8 TfGM has received a proposal from Stagecoach to set up a partnership in the South of Greater Manchester that is intended to "*complement any decision to franchise the North*". In its proposal, Stagecoach puts forward 35 initiatives over the key areas of network, fares, fleet investment and customer, and a governance structure to coordinate the market.

4.11.9 The proposals can be summarised as follows:

4.11.10 <u>Operations & fleet investment</u> – Investment in fleet to deliver a reduction in the average age of Stagecoach's fleet in the South of GM to 7 years, investment in fleet to deliver Euro VI compliance by September 2021 (subject to funding from Defra).

4.11.11 <u>Network planning & performance</u> – Improved consultation on changes made to services including the provision of additional data on unprofitable routes, the establishment of key performance indicators including a performance regime. Stagecoach notably also proposes to commercialise a portion of the currently

subsidised services in the South of GM and has calculated that this would represent a saving of approximately £1.8m to GMCA per annum.

4.11.12 Customer – Various initiatives to improve customer experience (eleven in total) including a proposed unified brand and a proposed single point of customer contact.

4.11.13 Fares, Ticketing & Retail – Initiatives aimed at simplifying the fares and ticketing proposition including reducing the number of fare bands to four on its services, the creation a single suite of period tickets for its services in the South of GM by January 2021, extending the introduction of carnet ticketing, introducing a flat fare in the evenings and rolling out fare capping on its services in the South of GM by the summer of 2021.

4.11.14 Financial proposals – A proposed profit-sharing mechanism that would split any profit generated by Stagecoach above an agreed "*target level of profit*" between GMCA, a 'South Manchester Partnership Fund' and Stagecoach. The money received by GMCA could be spent across the whole of GM on initiatives that benefit the bus network. Stagecoach proposes that the money in the partnership fund would have two thirds specifically for reinvestment in the bus network in the South of GM. GMCA would be obliged to put £1.8 million per annum into this fund.

4.11.15 Community & Employee – Stagecoach intends to continue to enhance the role that it plays in the community throughout the duration of the partnership.

4.11.16 Section 10.2 of this response analyses whether the proposals would enable GMCA to achieve the Vision for Bus as part of its 2040 Strategy. The Strategic Implications finds that overall, whilst Stagecoach intends that its proposal will create a "*seamless"* market in Greater Manchester, under the scenario proposed, GMCA is likely not to be able to achieve its objectives on simplicity, integration and in a number of other key areas including on network (in terms of the network, GMCA would not have control to be able to make its own decisions for the South of GM, unlike in the North). Furthermore, there remains a risk around the longevity of any intervention (one of GMCA's objectives) as the partnership is voluntary in nature. The value of the profit share mechanism is also in doubt.

4.11.17 The Economic Implications section of this response concludes that the NPV and BCR of the Stagecoach Partnership and a franchise in the North, both when considered individually and when combined, are likely to be substantially lower the Proposed Franchising Scheme. The NPV of the Stagecoach's partnership, as well as the combined franchising scheme in the North, may even be lower than the Operator Proposed Partnership as Stagecoach's proposal would not result in the existing premium between the individual and multi-operator tickets being reduced (this has been assumed and therefore modelled for the partnership despite this only being offered "*following a review"*.)

4.11.18 The implications of the proposals from a commercial perspective are considered in

Section 10.4 on the Commercial Implications section explains that whilst in theory Stagecoach's proposals result in a combination of two options already considered in the Assessment, the proposal would mean allowing two different regulatory frameworks for the bus network in GM and this leads to some complications (particularly for services at the boundary between the North and South of GM) and potential inefficiencies in managing the network. This means that, as the Management Implications section at Section 10.6 explains, whilst the incremental operating costs of operating a combined partnership and franchising network could be less than operating the Proposed Franchising Scheme, it is likely that the overall scenario would be less efficient to manage as TfGM would be effectively monitoring the bus network in GM under two different regulatory frameworks.

4.11.19 The impact on affordability for TfGM is considered in Section 10.6 The Financial Implications section analyses how the overall funding requirement would likely change and finds that funding needed for franchising the North only would not reduce in proportion to the scaled down revenues and costs in a franchised area and there would be costs to manage the partnership. There also remains a risk that the smaller franchise area in the North would be commercially weaker as the North is currently commercially weaker than the South.

4.11.20 Overall, given that GMCA may not be able to achieve its objectives under the proposals and the Economic Implications section concludes that the proposal would deliver an NPV that is likely to be substantially lower than the Proposed Franchising Scheme, the conclusions in the Assessment remain valid. Having a unified livery and, ostensibly, a unified network, risks confusing passengers as there would still be different tickets available for different operators and franchised buses and different organisations would be accountable for the network. While the CMA noted that partnerships do not necessarily fall foul of competition rules, a partnership where potential competitors have been removed from the market (as franchise operators would not be able to run services outside of those in their contracts from depots supplied by TfGM) does risk a substantial reduction in the level of competition for Stagecoach in the south.

4.11.21 The Stagecoach proposal for the South could be combined with a partnership in the north of Greater Manchester instead of franchising. This would lower transition costs. It is unlikely to deliver a greater level of benefit than the Proposed Franchising Scheme or the partnership options examined in the Assessment as the measures in the partnership in the north would not be enhanced and those in the south do not deliver significant additional benefits. In addition, there would be disbenefits for passengers and TfGM in running two separate partnership structures within Greater Manchester with implications for branding and consistency of customer service.

First Proposal

4.11.22 TfGM received a proposal from First to adopt a pilot based approach for both franchising and partnership in Greater Manchester. More specifically, First have

proposed that a local partnership (LP) should be run as a trial in one area, in parallel to any new franchising or similar scheme being piloted in another. First consider that the LP approach would be "particularly amenable" to the local circumstances in Oldham where First have their operational base and depot in Greater Manchester.

4.11.23 In terms of First's proposal there is very little detail provided and that is why a proportionate approach has been taken to consider the proposal under the four areas of the GMCA's objectives (Network, Fares and Ticketing, Customer and Value for Money). The commitments within the proposal are similar to those put forward under Partnership Plus. In summary the main differences are that First are proposing a ring-fenced time limited "emergency" tender fund, greater integration of tendered and commercial services, fleet investment of a minimum 22 new vehicles per annum for 3 years, a continued process of fare simplification (e.g. there would be only 4 standard single fares), early adoption of "tap and cap" ticketing, and a localised livery would be applied following local agreement.

4.11.24 This proposal would require a significant amount of further engagement with First to elicit the details of what is being offered. It is therefore only possible to review at a high level, what marginal benefits this may deliver over and above what the Partnership Plus might deliver, if combined with it or implemented alongside any new franchising or similar scheme being piloted in another area of Greater Manchester.

Conclusion on the alternative partnership proposals

4.11.25 As part of the consultation response process, GMCA has considered the alternative partnership proposals received. The level of detail provided within the Partnership Plus and Stagecoach proposals has allowed TfGM to perform a detailed review of these proposals against each of the five cases included in the Assessment, a summary of which is provided above, and further detail is considered in Section 9 and Section 10. The First pilot partnership proposal, along with the suggestions to trial franchising and the possibility of combining these proposals, for example, implementing the Stagecoach partnership in the South alongside the OneBus partnership in the North of Manchester, have also been considered.

4.11.26 The analysis of the Partnership Plus proposal concludes that it would deliver benefits no greater than the Ambitious Partnership considered in the Assessment. The analysis of the Stagecoach proposal concludes that this proposal would deliver benefits substantially lower than the Proposed Franchising Scheme. Similarly, the analysis of the First proposal concluded that this proposal could not be shown to deliver a higher benefit than the Proposed Franchising Scheme and would come with considerable implementation challenges. For these reasons TfGM is confident sufficient consideration has been given to these alternative proposals and concludes

that they do not impact the overall conclusion in the Assessment.

Partnership conclusion

4.11.27 A number of the consultee responses raised a concern that the partnership option had not been given enough consideration in the Assessment. TfGM is satisfied that there has been extensive and meaningful engagement with the operators and other stakeholders, including over 90 meetings between TfGM and operators since October 2017 to discuss their partnership offer and it is considered that operators had considerable opportunity to come forward with their best offer. Operators were aware of the timetable and had ample time to develop and agree a strong partnership proposal. The Operator Proposed Partnership appraised in the Assessment was a fair reflection of what TfGM understood to be the potential for partnership. Subsequent proposals (assessed at Section 9 onwards) have been carefully considered by TfGM in the context of the consultation, and appear to be reactive to the Assessment. They cannot be taken as evidence that the partnership proposal included within the Assessment was insufficiently developed by TfGM.

4.11.28 Considering the challenged offered by operators on partnership costs, TfGM is confident that the allocation of costs to the partnership option in the Assessment are relevant and appropriate. The partnership costs were developed based upon information received from the operators, the proposed governance structure and by following a logical process. The costs reflect the value of the partnership and are required to ensure the benefits are enduring over the life of the partnership.

4.11.29 The arguments that the Proposed Franchising Scheme does not deliver the benefits that are set out in the Assessment are dealt with above. The conclusion of this analysis is that the analysis of how effectively the Proposed Franchising Scheme would achieve GMCA's objectives was appropriate and that the Proposed Franchising Scheme remains the option that has the better chance of achieving those objectives. As set out at section 64.1.4 to 64.1.7 of the Assessment, TfGM were aware that the cost of the Proposed Franchising Scheme is higher and the associated risk is also higher than the partnership options. As to points made that the Proposed Franchising Scheme comes at greater risk (particularly during transition), these points are dealt with in the examination of the Management Case at section 8 of this response. Other than simply asserting that this risk exists, operators have not shown that it is underestimated in the Assessment or that the mitigations set out are inadequate. While there is greater cost and risk with the Proposed Franchising Scheme, the clear difference in the ability of the two interventions to achieve GMCA's objectives mean that it can be an appropriate choice to implement the Proposed Franchising Scheme in preference to a partnership.

4.11.30 Having considered the responses, TfGM is satisfied in the robustness and quality of the account assessed in the Strategic Case of the advantages of a partnership and the extent to which they would achieve GMCA's objectives. Such an assessment needs to be made on the specifics of the partnership proposed by operators, and

none of the points made by operators on how this would affect the network, fares or customer service show that the analysis made in the Assessment of how effectively these achieve the objectives is flawed. It is also the case that the Assessment did not ignore the fact the partnership could be put in place more quickly than the Proposed Franchising Scheme, and this is accounted for the in the benefits set out in the Economic Case. While partnerships can be positive, and can be particularly useful where there is extensive public investment in deregulated markets, there is no evidence that without such investment they have a dramatic effect on patronage. Further analysis of the improved option put forward by operators during the consultation period (set out below at Section 9) shows that this is not likely to deliver a far greater level of benefit. As set out below at section 4.12, TfGM do not consider that implementing a partnership would create more scope for anti-congestion measures. By contrast, the Proposed Franchising Scheme would enable a wider range of phase 2 measures and would improve their value for money.

4. 12 - Franchising and the place of further ('Phase 2') measures to improve the bus service

4.12.1 A number of incumbent operators and operator representative organisations have argued in their responses to the consultation that the Proposed Franchising Scheme is weak because some of the benefits of the Proposed Franchising Scheme relate to items that would be part of 'Phase 2' and are therefore uncertain. For instance, Bus Users UK say "*there is no timescale for this (phase 2), nor is there any mention of budget being set aside*"; Stagecoach say that there are major "*step change interventions*" but that they only appear as part of Phase 2, and would only be implementable after 2025. Go North West argue that GMCA's objectives cannot be realised through the Proposed Franchising Scheme unless measures such as congestion charging, "*red routes"* and infrastructure investment are undertaken. First and Rotala each make similar points in their responses.

4.12.2 A number of respondents to the consultation suggested areas where further measures might be of advantage to the bus network in Greater Manchester. Some changes that respondent wanted to see, such as consistent fares, would be part of the Proposed Franchising Scheme, whereas others would be part of a Phase 2. These included fares measures such as extending concessions, or making fares more affordable across the board. Suggestions were also made in terms of extending the network both in reach and times of operation, for instance aligning times more closely with Metrolink services or introducing more orbital and express services. Some thought there should be more local consultation about potential routes and where demand might be stimulated.

4.12.3 Bus infrastructure and the introduction of further bus lanes or other traffic management measures was also suggested to improve punctuality, as well as holding operators to a high standard, as would be done under franchising. Suggestions were also made around improving the perception of bus services to encourage a broader range of users to take the bus. A significant number of respondents suggested that further measures be taken in pursuit of clean air and abatement of CO2, for instance introducing electric buses or other solutions.

4.12.4 It is right to say that the Phase 2 measures set out in the Assessment are not currently funded and do not currently have a timetable for implementation. This is appropriate for a set of measures that would potentially be implemented over a long timeframe and in changing circumstances. Some of these changing circumstances would be associated with the bus services themselves – for instance extra resource to improve punctuality – while others would be separate to it, such as changes to infrastructure. However, within the proposed approach, section 15.4 of the Assessment sets out the potential economic value for further investment in the bus system. It points to a rigorous system of evidence-based assessment in order to understand the best interventions and how those interventions could be value for

money.

4.12.5 Sections 8.7 and 8.8 of the Assessment set out how the different types of measures would be able to be implemented under different market structures – a deregulated market with a partnership in place and the Proposed Franchising Scheme. While some measures, such as the types of investment that have taken place in bus priority measures available to all operators, are possible to undertake under all market structures, other measures, such as support for resource to improve reliability of services or support to reduce fares outside of statutory concessions, are much more difficult to implement legally in a deregulated market.

4.12.6 Some of the measures that can be implemented are also better value for money when undertaken under the Proposed Franchising Scheme. Where an authority invests public money, and this results in increased patronage, the resulting profits are realised by operators in a deregulated market, but would revert to GMCA under the Proposed Franchising Scheme and benefit the people of Greater Manchester, and facilitate further investment, as well as benefitting GMCA and the people of Greater Manchester (a discussion of profit share mechanisms proposed by operators during the consultation period as part of different revised partnership proposals are set out at Section 9 and Section 10) The table below reflects the analysis set out in the Strategic Case of the Assessment at Section 8.7.

4.12.6.1 Investment in Bus under Alternative Market Structures

Intervention Group	Intervention Details	Deliverability		
		Deregulation	EP/VP	Franchise
Network expansion	Additional links; routes or frequencies: currently limited under 1968 Act to where the commercial service doesn't run.	Mostly not possible	Mostly not possible	Deliverable
Fares	Phase 2 could include fare reductions across the board or freezes and greater integration across modes.	Mostly not possible	Mostly not possible	Deliverable
Quality of Service Provision	Operating resource to improve reliability (scheduled, standby, engineering).	Mostly not possible	Mostly not possible	Deliverable
	Investment in bus priority and wider infrastructure.	Possible but poorer vfm	Possible but poorer vfm	Deliverable
	Enforcement and monitoring measures: parking and bus lanes, roadworks.	Deliverable	Deliverable	Deliverable
	Fleet measures: for passengers or for environmental e.g. Euro VI or Electric.	Possible but poorer vfm	Possible but poorer vfm	Deliverable
	Information, customer service and marketing.	Possible but poorer vfm	Possible but poorer vfm	Deliverable
	Use of technology: e.g. 'mobility as a service' partnerships.	Possible but poorer vfm	Possible but poorer vfm	Deliverable
	Waiting environment: especially perception of safety.	Deliverable	Deliverable	Deliverable

4.12.7 While it is not possible and not appropriate to count on positive benefits from Phase 2 measures in the forecasts of improved patronage under the Proposed Franchising Scheme, it is right to point to the potential benefits they could bring. TfGM remains

satisfied that its Assessment adequately accounts for Phase 2 interventions with sufficient flexibility in the Proposed Franchising Scheme to allow for those interventions to be developed in a variable policy and economic environment. The case underpinning the Proposed Franchising Scheme is not dependent on any realisation of some or all of the Phase 2 interventions, but it is right to highlight that particular Phase 2 interventions may give rise to future opportunity, and therefore realisation of future potential value.

Phase 2 measures and the opportunity cost of franchising

4.12.8 Operators have challenged TfGM's analysis of the causes of decline, and, in doing so, have focused on the issue of congestion as the key challenge facing the bus service. As explained above, however, it is wrong to say that congestion is the only issue facing the market. This is to ignore the issues that arise from the nature of the deregulated market itself, such as the efficiency of the network and the complexity and level of fares.

4.12.9 Some operators contend that it would be better to address congestion before addressing bus reform. For instance, First Manchester in their answer to Q16, state that "*surely the correct approach, as adopted in many areas of the UK already, is to address these issues first, thereby providing an environment where bus operators are able to maximise their operational efficiency and provide a higher standard of service that passengers need*."

4.12.10 Some incumbent operators suggest that measures that would be part of 'Phase 2' should be considered alongside a partnership. They contend with the benefits of a partnership together with the benefits that could be secured with Phase 2 measures by using the money saved in the costs of implementing franchising is a better option than the Proposed Franchising Scheme (with its attendant transition costs). This is linked to their arguments on the primacy of congestion as a cause of the current decline in bus patronage discussed in section 4.3. These arguments are considered below when considering the choice between franchising and a partnership.

Priority of spending on anti-congestion and other Phase 2 measures versus bus reform

4.12.11 It is important to recognise that the Proposed Franchising Scheme is not proposed as an alternative to measures that would reduce congestion or improve the reliability of the bus service.

4.12.12 GMCA has a view of what bus schemes should be taken forward irrespective of the decision on the Proposed Franchising Scheme, and franchising has not been viewed as an alternative to such a capital programme. The 2040 Strategy Delivery Plan (GMCA, January 2019) established a forward programme through the establishment of Quality Bus Transit Corridors, particularly along core routes between adjacent town centres. Such schemes will need positive value for money case to be made to

be taken forward.

4.12.13 Where spending would tackle congestion GMCA would consider this and seek to take it forward regardless of whether the Proposed Franchising Scheme was taken forward. It should be noted that there has been public sector investment in bus priority in Greater Manchester for a 20-year period, since the first LTP established the 200km Quality Bus Corridor network. Since then, we have delivered the Cross City Bus Network, dedicating further core priority to buses, and we are currently delivering the Salford/Bolton Bus Network programme. Throughout this era, there has also been promotion of junction priority, utilizing SCOOT and MOVA UTC technology, and delivery of a range of 'pinch-point' schemes to support bus movements. TfGM works with operators through the Control Centre to provide a co-ordinated response to issues as they arise. Local authorities have also undertaken highways works to combat congestion. The decline in patronage seen in recent years has occurred despite this public investment. It is anticipated that such investment would continue whether or not the decision to implement the Proposed Franchising Scheme is taken.

4.12.14 The options considered in the Assessment were those that had the potential to address the full range of objectives that GMCA had to improve the performance of the bus market of Greater Manchester. In doing this, GMCA did not ignore the potential for other investment in bus infrastructure alongside that in the interventions. Indeed, it was expressly recognised that there were other measures that could be taken under any option which may also support achievement of objectives. As stated at paragraph 8.6.2 of the Assessment "*There are a wide range of further measures that can play an important role in improving the performance of bus services in Greater Manchester. The measures taken, (which would include things like public investment in infrastructure and bus priority) could be implemented in a piecemeal fashion and some of these could be undertaken under a variety of market structures. They do not therefore amount to separate options for reforming the bus market and are therefore excluded from the shortlist of overall bus reform options. However, the ability to take such actions is an important part of the consideration of the shortlisted options*." Nothing in the Assessment therefore would stop such additional investment being made in conjunction with the introduction of a partnership option, and indeed the Partnership Option was progressed on the basis that it would, potentially, allow for such investment, where appropriate, as would other options considered.

4.12.15 These full options to reform the market were considered because there was a case for change, identified in the Assessment, to reform the market and not continue with the current market. GMCA has invested historically in bus priority, but the need to make broader changes, hence the consideration of the Proposed Franchising Scheme and a partnership that addressed issues across Greater Manchester. For this reason, there is not an either/or decision to choose between continuing to invest, as GMCA

has done, in measures to reduce congestion versus implementing the Proposed Franchising Scheme. The programme can and will be pursued regardless of any decision to proceed with the Proposed Franchising Scheme, but is likely to be stronger under the Proposed Franchising Scheme.

Partnership and Phase 2 measures financed by savings from not introducing franchising

4.12.16 Some operators have suggested that measures that would be part of Phase 2 should be considered alongside a partnership. In opposing the Proposed Franchising Scheme, Stagecoach commented that:

> *"Our overarching view remains that delivering the proposed franchising scheme will absorb £134 million of public money, for no ascertainable improvement in journey times and service quality or provision, and will limit new vehicle investment and innovation. It seems evident that investing over £134 million of public money into infrastructure projects alongside private investment and innovation through a partnership with bus operators (which encourages bus use) would be a more optimal investment for the local and national taxpayers, and would not compromise investment in other vital, publicly funded services."*

4.12.17 Given the range of choices available for public spending, spending choices are made by developing appropriate policies and strategies, and then by developing the business cases for options that are designed to address specific problems and support the delivery of strategic objectives. The Five Case Business Case framework is the universal framework used to structure the evidence. It seeks to ensure scheme promoters have followed due process when selecting and assessing options, and that they thoroughly examine and understand the strategic importance and value for money of those options in the context of affordability and deliverability. In this case, GMCA has identified the structure of the Greater Manchester bus market as an impediment to the delivery of strategic objectives. Options for intervention have been selected and assessed to address this issue, and the full range of objectives identified by GMCA.

4.12.18 Alternative views will always exist with regards where best to spend public money, in this case, specifically, the potential opportunity costs of spending more money on congestion relief. However, the issue of opportunity cost is inherently considered when doing any economic appraisal. If the VfM rating for a project is poor, the implication is that the "*potential benefits to society of alternative options foregone"* (the DfT definition of an "opportunity cost") could well be expected to be higher for alternatives. The VfM rating scale used by Treasury and DfT is designed to make sense of this issue across multiple types of public spending. For bus reform, the rating for franchising is "High" suggesting that there are few alternative spending options that would return greater value per pound spent. It is not typical, nor would it be appropriate or reasonable, to seek to "level up" the financial cost of each option under consideration in a business case assessment study of this type. Solutions

considered in business cases almost always have different costs and different benefits, and they are considered against common standards of strategic fit and value for money in order to determine the best way forward.

4.12.19 Stagecoach's contention that, if a partnership were to be pursued rather than franchising, GMCA could "save" £134m which could be devoted to Phase 2 measures, is in any event flawed. The Assessment found that, in the transition period up to 2024/25, there would be forecast net costs of £122 million for the Proposed Franchising Scheme and forecast costs of £13.8 million for the Operator Proposed Partnership; a difference in the transition costs of approximately £108 million in cash terms (less than the £134.5 million identified by Stagecoach). But this comparison only relates to the transition period. It ignores the period after 2024/25 and the ongoing costs of Partnerships, which the Assessment found would be approximately £83.6 million for the Operator Proposed Partnership, compared to a forecast cumulative net *surplus* for the Proposed Franchising Scheme of £94.4 million over the same period. The spending for the different options over the full appraisal period is in cash terms and is incurred over different timeframes and so cannot be directly compared on a pound for pound basis. However, a high level exercise to 'discount' the cash costs of the Proposed Franchising Scheme and the Operator Proposed Partnership to current, (approximately 2019/20), prices would result in a cost difference or "saving" to

4.12.20 GMCA in the order of £56million in current prices[1], significantly less than the £134.5 million referred to by Stagecoach, which could potentially be spent on Phase 2 measures over the relevant appraisal period. In practice, any spending and funding availability would also depend on (i) the balance of capital and revenue funding required for bus priority interventions (and whether GMCA would be liable for any ongoing lifecycle costs) and (ii) the timing and associated funding profile for the same proposed interventions. It would also depend on whether there were other projects, not necessarily related to buses, that GMCA might choose to spend any "savings" on.

4.12.21 As well as the amount of funding there are a number of points to make about Stagecoach's proposal in terms of the practicality of the proposals and how they would fit with addressing GMCA's overall objectives for the bus service, and what assumption could be made about their potential value for money.

4.12.22 Stagecoach have not proposed any specific interventions for which any savings could be used. Its claim that investing any savings from introducing a partnership rather than franchising together with a partnership would produce better value for money than franchising is purely an assertion, with no explanation as to what would be

- [1] The discounted cost difference including the availability of the forecast cumulative net surplus after the transition period for the Proposed Franchising Scheme would be further reduced (to the order of £26 million).

funded, over what period or with what benefits.

4.12.23 In fact, as part of the discussions on partnerships with operators over the past few years, TfGM has discussed with operators, including Stagecoach, the need to consider bus priority measures and other congestion measures which would improve journey speeds, journey time variability and passenger infrastructure. Whilst over a period of over a year a process for identifying such schemes was developed with operator input, these discussions did not progress to the extent that any specific schemes were identified and ready for implementation. While viable schemes could no doubt be developed, they would require proper development before introduction. Even if schemes had been identified, then where more significant intervention is required, there would be a need for engagement with many stakeholders, including operators and the relevant highway authorities, who would need to be involved in the development of such schemes. It would also be necessary to develop those schemes in the context of the wider GM 2040 Strategy which requires wider considerations to be taken into account. It would also be necessary to take into account the needs of other road users and the overall effect any schemes could have on congestion.

4.12.24 It is obviously impossible to carry out an economic assessment of Stagecoach's contention in the same way as franchising and the partnership options were considered in the Assessment in the absence of any details about, for example, the specific schemes in any programme of measures and when they might be carried out. Given the amount that

4.12.25 GMCA would "save" is in the order of £56 million in current prices with a partnership rather than a franchising scheme, it is likely that the number of bus priority schemes that could be progressed using this money would only cover a relatively small subset of the overall bus network. The range of parameters that could apply to such schemes mean it is very difficult to make any reliable assumptions as to their likely value. There is no reason to assume, as Stagecoach appears to do, that, when their value is added to that of a partnership, it would exceed the likely value of franchising. If it were to be assumed that the economic performance of such a programme of bus priority would be consistent with the programme averages quoted by a Greener Journeys report[2] and if the full allocation of the £56 million "saving" was spent on bus priority measures, for example, then the resulting derived NPV when added to that of the partnership option would be less than that of the Proposed Franchising Scheme over the appraisal period.

4.12.26 The value for money of any Phase 2 measures taken in conjunction with a partnership is also likely to be lower than such measures taken in conjunction with the Proposed Franchising Scheme, as there would be a narrower range of options available for

- [2] Greener Journeys - A National Statement on Local Bus Infrastructure, 2014

spending and those that could be undertaken under either option would be likely to have poorer value for money with a partnership than with franchising because revenue generation associated with the improved service would not accrue to GMCA to offset investment costs.

4.12.27 It may not be desirable to spend any available funds solely on bus priority in any event. While congestion is important, it is not the only determinant of bus performance. Bus operators seek to downplay structural issues with the market (e.g. fares and network) and also other operational issues such as the resources devoted by them to operate and control the service. Even in terms of bus journey times which directly affect customers, issues other than congestion, such as how bus exit and boarding is handled and how ticketing works (e.g. extent to which cash is handled), are significant. This narrowing of the potential issues faced from the bus service does not accord with reality of the situation, and implies that the main solution to the problems facing the bus market are about public spending.

4.12.28 As well as aligning the incentives of the operators and passengers, good service performance requires more interventions than simply reducing the impacts of congestion on bus services through bus priority measures and this is not merely a spending issue. Poor bus service performance is the result of a complex set of endogenous and exogenous factors that interact with one another and of which congestion is only one. Explanatory factors that are not in the control of operators include congestion, temporary roadworks and road closures, and ad hoc disruptions for other causes including passenger actions and force majeure. Explanatory factors that are in the control of operators and that affect performance are often the result of the commercial imperative that operators face and include the inadequacy of the resources employed to operate and control the service, structural issues with the way services are scheduled and delivered, and staff retention and motivation problems that affect the reliability of service delivery. This is not an exhaustive list. All of these factors are prevalent to a greater or lesser degree across Greater Manchester and greatly affect the service passengers receive. It is therefore inappropriate to focus on bus priority measures alone, as explained within the assessment. A broader range of interventions would necessarily allow for greater impact and better value for money, and the ability of franchising to support such a range of measures is one reason that it better meets GMCA's objectives for the bus service in Greater Manchester.

Conclusion

4.12.29 Franchising is not proposed as an alternative to Phase 2 measures but as a reform of the bus market which will enable a greater variety of Phase 2 measures to be implemented. The need for reform demonstrated in the Assessment means that it would not be appropriate, as First Manchester suggest, invest in bus priority measures before considering the Proposed Franchising Scheme. This would be to continue with the current policy of implementing bus priority measures without

reforming the market which the Assessment shows has left significant challenges unaddressed. Investment in such measures and reform are complementary measures as the GM 2040 Strategy sets out.

4.12.30 In terms of the challenge from Stagecoach that combining a partnership with investment of money "saved" from not implementing franchising would deliver better value for money, a number of points should be made.

4.12.31 First, the options in the Assessment were chosen to meet the full set of GMCA's objectives for improving the bus service. It is not typical, nor would it be appropriate or reasonable, to seek to "level up" the financial cost of each option under consideration in a business case assessment study of this type. It may not be desirable to spend any available funds solely on bus priority.

4.12.32 Second, the figure quoted by Stagecoach of the money available (£134 million) does not take account of the costs of the different options over the appraisal period. In cash terms the partnership would cost GMCA more than franchising over the whole period. On a discounted basis, taking account of the greater value of spending in the near term, there would be a 'saving' of not introducing the franchising scheme in the order of £56 million (ignoring any forecast surplus from franchising after the end of the transition period).

4.12.33 Third, efforts to develop schemes with operators have not yielded a viable set of schemes. Even if schemes had been identified, then where more significant intervention is required, there would be a need for engagement with many stakeholders, including operators and the relevant highway authorities, who would need to be involved in the development of such schemes.

4.12.34 Fourth, because there is no detailed programme specifying which measures would be carried out and when to appraise, it is not possible to make confident predictions about the value of such schemes. There is no reason to assume, as Stagecoach appears to do, that, when their value is added to that of a partnership, it would exceed the likely value of franchising. Thus, even if the money were spent on schemes that achieved the high value for money set out for such schemes in the Greener Journeys report, the NPV over the appraisal period for the Proposed Franchising Scheme would remain higher than that of the partnership.

4.12.35 Fifth, the value for money of any Phase 2 measures taken in conjunction with a partnership is likely to be lower than such measures taken in conjunction with the Proposed Franchising Scheme, as there would be a narrower range of options available for spending and those that could be undertaken under either option would be likely to have poorer value for money with a partnership than with franchising because revenue generation associated with the improved service would not accrue

to GMCA to offset investment costs.

4.12.36 Thus, although it may reduce the commercial risks associated with franchising, combining a partnership with Phase 2 measures that might be financed by “savings” to GMCA over the appraisal period if franchising were not introduced may well provide less value for money, would not represent the best platform for implementing Phase 2 measures and would not best achieve GMCA’s strategic.

4. 13 - Insight from the qualitative research on Strategic Case issues

4.13.1 There were two parts of the qualitative research that are relevant to the Strategic Case. There was a discussion on the current performance of the bus network and a discussion on the options for reform. More detail can be found in a separate report on this as discussed above.

4.13.2 In terms of the discussion of the current performance, a number of points were noted:

- Most participants thought that **buses are an important part of the public transport system in Greater Manchester**, but current provision varied greatly depending on the operator and area;
- There was very **limited awareness of the current deregulated model**, with many believing there was already central co-ordination of provision through other bodies such as GMCA of TfGM. There was **an appetite for a more centralised model**, as the high level of variation in standards, and the complexity of current pricing, were considered problematic for bus users and potential bus users;
- Participants identified that the **variation in service provision across Greater Manchester** meant that some routes were well catered for by a number of bus operators whilst others were serviced infrequently, if at all;
- One of the key barriers to using buses was their perceived **unreliability**. Most had examples of buses not arriving as scheduled, infrequent buses being over-full and not stopping and buses stuck in traffic. Many compared this with trams where the service was perceived to be much more reliable, with better, **real-time information** about how long a journey would take. Online data about buses was also perceived to be unreliable;
- Overall, there was broad **support amongst participants** that the bus network was not performing as well as it could do.

4.13.3 These points chime with the themes coming through from the consultation itself. In the discussion on the options for reform (including partnership and the Proposed Franchising Scheme) the following points were made:

- There was **general support for moving away from a commercial model** and participants were quick to appreciate the improvements they might experience as a result of the proposed changes;
- People **liked the idea of an integrated transport system** where modes and connecting buses work together more efficiently to connect people in a reliable way;
- The **proposed changes to a standardised pricing strategy, and simplified ticketing to be used across all buses were welcomed** by participants, who said it

would make their lives easier. Alongside this, participants welcomed the potential for better routes. Businesses overwhelmingly agreed that employees would approve of the proposals and that both employees and employers would benefit from them;

- However, there were **reservations from individuals about the finances and costing of the proposal**. Beyond the initial reservations, participants raised concerns about how the service would be affected, the impact on the cost of a ticket and the potential for 'monopolisation' of a few operators versus the current deregulated system, as well as risk to employees of bus companies, particularly the potential for job losses;
- Businesses expressed concerns about operators adhering to standards that they should already be aiming for under current systems. In other words, they were already starting from a low bar and providing a sub-standard service.

4.13.4 Again, this feedback from participants also chimes with the consultation response. It provides support for the Proposed Franchising Scheme in general and the view that it would be able to improve key aspects of the service.

4. 14 - Conclusion to Strategic Case issues

4.14.1 The consultation document asked a number of questions relating to the Strategic Case. These included the challenges facing the local bus market, the extent to which reforming the local bus market addresses these challenges, and GMCA's objectives for the future provision of bus services and how far the Proposed Franchising Scheme and a partnership goes in contributing to achieving these objectives. Respondents answering these and some of the other questions in the consultation commented on the Strategic Case for reform made in the Assessment and the assessment of which of the options for reform would have the best chance of meeting GMCAs objectives and which should be taken forward.

4.14.2 The consultee responses can be grouped into a number of recurring themes in relation to the Strategic Case. The themes include responses on the market analysis and the causes of decline within the local bus market – the Assessment set out a number of reasons such as congestion and the effect of Metrolink on demand. A number of other themes from the consultation response focus on the Proposed Franchise Scheme itself. These included the challenges associated with the franchising proposition on fares, network planning and customer service, as well as the process and capability to govern the Phase 2 measures, and the challenge that money spent on franchising transition costs could better be spent on Phase 2 measures to reduce congestion. Finally, this section of the report considers a number of challenges received on the analysis of partnership option, specifically, whether enough consideration was given to this option in the Assessment and whether the value of a partnership has been underestimated.

4.14.3 While there were many stakeholders and members of the public who were supportive of the analysis presented in the Strategic Case, and the conclusion that implementing the Proposed Franchising Scheme would best meet GMCA's objectives, there were also challenges. These principally came from incumbent operators in Greater Manchester. They argued that the main cause of problems with the bus market was not how it functioned but externally from increasing congestion and from competition from the expanded Metrolink service. They concluded from this that the Proposed Franchising Scheme would not solve the main problems with the bus service and so a partnership with operators should instead be implemented, along with a public spending to reduce the effects of congestion on the bus service.

Market Update

4.14.4 The market update demonstrates that the loss of patronage in the Greater Manchester bus market has continued in the latest figures available, from 189.1m in 2017/18 to 184.3 million in 2018/19. Commercial mileage run by operators has also declined significantly by a further 5.2% between 2018 and 2019, and subsidised mileage has declined by 2.2% over the same period. This means the bus network in

Greater Manchester is nearly 5% smaller than a year previously.

4.14.5 The sale of two of First's depots and associated business to other operators has potential increases the level of competition in the north of Greater Manchester. This has not so far led to any significant changes to how any of these parts of the network have been run (apart from the overall declines noted above). The fares arrangement that initially allowed passengers with an operator ticket to travel across all three areas has now ended. There are now passengers who would need to pay a premium for a System One ticket for a journey they would have been able to undertake previously with a First ticket, therefore highlighting that interoperability has reduced in North Manchester as a result of this.

Causes of Decline

4.14.6 A number of incumbent operators who responded to the consultation challenged the account in the Assessment of the causes of decline of the bus services. They argued that the discussion of the challenges facing the bus services in the Assessment placed too much emphasis on issues with the bus services themselves – lack of co-ordination in the network, fares and ticketing issues etc., and too little weight on the other factors that influence demand such as the effects of congestion. Given the multiplicity of factors affecting bus patronage over the medium term, positively as well as negatively (the economy and population of Greater Manchester have grown over this period, which will have a positive effect on patronage), it is not possible to be definitive about the causes of decline in patronage. It is also important to recognise that while it is important to understand the causes of declines in patronage, the case for change does not rest on there being a decline but rather there could be a strong case for reform and improvement even were patronage level or increasing.

Congestion

4.14.7 The Assessment acknowledges the effects of congestion both in the analysis of the market and in the way that forecasts include in the increased costs that this causes. The Assessment also acknowledges that further measures to address congestion (and the disruption it causes to services) may be desirable as part of a 'Phase 2'. However other factors are also important. The importance of congestion does not mean that it is not also important to address other issues with the market such as network inefficiency or overly complex fares.

Metrolink and cuts to subsidised mileage

4.14.8 However, TfGM is confident that is has set out effects of the key factors of congestion and Metrolink abstraction adduced by operators in the Assessment; the figures quoted in the Assessment on abstraction from bus to Metrolink are an overestimate of the likely effect of new lines and increased patronage. Operators' discussions of the role of the expansion of Metrolink and cuts to funding of subsidised services do not reflect the scale of those challenges and the basis of their calculation in this

regard is flawed. Cuts in subsidised mileage are far less than those in the commercial network – 1.2 million against 5.9 million. Operators challenge that decline is caused almost entirely by Metrolink expansion and reduction in subsidised mileage do not stand up to scrutiny.

4.14.9 TfGM is confident that the Assessment takes account of these factors in its consideration of the bus market and how it is likely to evolve in the future on the basis of fundamental variables. There is no evidence that TfGM has omitted significant factors affecting demand and comments about TfGM negativity are misplaced given the track record of TfGM in encouraging bus use

Competition, network inefficiency and fares

4.14.10 In terms of comments on the challenges arising from how the market operates, operators challenged the competition analysis and points made on the network and complex fares and ticketing. Competition in Greater Manchester has changed since the Assessment was completed as the sale of former FirstGroup depots has meant more operators. As set out above, this has not yet led to a great deal of change and passenger suffer from higher fares for journeys that used to be possible without a 'System One' ticket.

4.14.11 While operators suggested the network could not be improved, this is untrue in theory and practice. Having several competing networks do create inefficiency, and the Assessment presented analysis presented show that this is the case in Greater Manchester. Operators suggested that having a broad range of tickets including operator-own tickets offering travel on a limited range of buses, was preferable. Evidence from passengers, including responses to this consultation, suggests otherwise and complexity in the range of fares and tickets is confusing.

Objectives

4.14.12 Responses from other consultees such as local authorities and bus users overwhelmingly support TfGM's analysis concerning factors influencing decline, and support the Proposed Franchising Scheme. Finally, the objectives set out by TfGM for bus reform are generally endorsed, including by those who oppose the Proposed Franchising scheme.

Competition and the change to a franchised market

4.14.13 Some respondents commented on the change from a deregulated to a franchised market, where the public authority takes revenue risk and specifies the service. There was support for a franchised model from a variety of stakeholder and also members of the public. Two reports that argue in favour of a franchised bus model were cited as part of statutory consultee responses. Abellio referenced a report published by Centre for Cities in November 2019, entitled "*Delivering change - improving urban bus transport",* which provides analysis that supports Abellio's view that a franchised scheme would deliver the greatest benefits to GMCA. Unison cited

a report by Transport for Quality of Life, 'Building a World-class Bus System for Britain', which supports their view that franchising enhances service provision through increased public control.

4.14.14 The CMA (and some incumbent operators) indicated in their responses a preference for 'on-road' competition in a deregulated market. While the CMA acknowledge that competition in bus markets is limited, they point out to the risks of changing to franchising and that it represents a change in market structure that is hard to reverse if there are no benefits to passengers. The Assessment was predicated on the idea that the change to a franchise market should be considered as a long term one, and one which transfers risk and responsibility for the bus network to the public sector.

4.14.15 TfGM's analysis in the Assessment pointed to the disadvantages of limited competition, and also the inefficiencies the current market structure can cause. It is not believed that the recent market entry through the sale of some of First's operations makes a fundamental change to the challenges facing Greater Manchester from the operation of the bus market. Passengers have been disadvantaged by now be required to pay a premium for some journeys on more than one bus that previously would have been possible with a single operator ticket. It is important to acknowledge the need to have a competitive market for franchises (discussed under the Commercial Case) and the CMA commented positively on some of the provisions to ensure a competitive franchise market.

4.14.16 Some operators criticised the record of London since the market there was franchised rather than deregulated. In fact, over the long term, London has been the only place in the UK to buck the trend of declining patronage. In recent years, while there have been cuts to the subsidy offered to London, that performance has held up. DfT note that between 2008/9 and 2018/19 numbers fell in London by 1.4% whereas in England outside London they fell by 11.9%, contradicting operators suggestions that the franchised market in London has performed less well than deregulated markets.

Franchising Proposition – network

4.14.17 There are challenges from OneBus and incumbent operators on whether it is possible to plan the network better under the Proposed Franchising Scheme and whether TfGM and GMCA have the skills and capability to do so. TfGM has carefully considered these responses in the context of the Assessment and the Proposed Franchising Scheme. The responses do not provide any detailed evidence that GMCA would not be able to effectively plan the network or contradict the point that planning multiple competing networks (as is currently the case) is be less efficient than one integrated public transport network. Other consultees, notably members of the public, are however very supportive of the principle that the network is planned and coordinated by one party.

4.14.18 Some operators argued that political interference would mean that network

planning would not be optimised. However, many respondents to the consultation felt that a degree of democratic accountability given the high degree of public funding for the bus service currently would be appropriate. GMCA has a track record of running both bus and Metrolink services and properly optimising the service for the funds available. There is no evidence that the interference would weaken a franchised service.

4.14.19 Operators also argue that the Proposed Franchising Scheme does not change some of the determinants of the reliability of the service. The Proposed Franchising Scheme contains a performance regime to hold operators to standards in terms of their operations. While operators will be incentivised to run a reliable service, the Proposed Franchising Scheme will not change highway conditions. This is why further 'Phase 2' measures are envisaged notwithstanding the market reform option chosen. As set out above Proposed Franchising Scheme would enable a wider range of Phase 2 measures and they would be value for money.

Franchising Proposition Customer

4.14.20 OneBus and incumbent operators have challenged the Proposed Franchising Scheme in terms of some of the customer service elements. Some incumbent operators (such First and Stagecoach), along with OneBus, have argued that there is not a great deal of difference between the Proposed Franchising Scheme and partnership proposals. GMCA remains of the view that there is greater potential to improve the customer proposition under the Proposed Franchising Scheme.

4.14.21 The Assessment (at section 9.4) argues that the Proposed Franchising Scheme is able to align a brand for Greater Manchester with the provision of information and a single point of contact for customers, which would link directly to the body accountable for the running of the service. This would be beneficial to customers and non-customer alike in their ability to understand and use bus services, and goes beyond liveries and physical branding on other. Considering responses, TfGM believe that such the Proposed Franchising Scheme would allow a far stronger overall branding proposition to be put in place, because it requires a number of elements to be brought together:

- the simplicity and ease of use of the bus service, (in particular a single coherent and unified fares system and a single coherent and unified network) and its legibility to a range of potential users;
- confidence in the levels of customer service offered and the understanding that there is one place to go for information, complaints and suggestions, and that those responsible will be accountable for the service;
- a sense of greater democratic accountability for the service and an understanding among customers of who is responsible for the network they use;

and,

- a contribution to placemaking and an identity for the place covered by the service – as exemplified in London

4.14.22 There is no evidence that franchised markets are less innovative than deregulated markets, as one operator argued. While there may be some areas where change will be less significant, in other areas such as branding and the provision of consistent, single source information to improve the usability and legibility of the network, there are clear significant advantages to the Proposed Franchising Scheme. Again, this view is endorsed by GM local authorities and the majority of the members of the public.

Franchising Proposition Fares

4.14.23 OneBus and incumbent operators have raised some challenges on the fares proposition for the Proposed Franchising Scheme in relation to both the levels fares and also the objective of simplification of fares. Some respondents have falsely represented the RPI +1.4% assumption for future fare rises as a feature of franchising. All assumptions on fare increases are consistent across the different options assessed – TfGM is of the view that it would not be appropriate to assume lower fares rises for franchising than the options with which it is being compared; however, such fare rises would not happen unless they were necessary to fund the service. There is no evidence that this is not a sensible assumption for future fare rises or that it is out of line with what has happened in the past.

4.14.24 Fares simplification was strongly endorsed by members of the public who responded to the consultation who largely agreed with TfGM's analysis that fares are complex in Greater Manchester. The fact that the Proposed Franchising Scheme would lead to greater degree of simplification than alternatives is an advantage of the Proposed Franchising Scheme. It also means that the objectives in terms of unified branding and a single point of contact have added importance.

Cross Boundary Services

4.14.25 Contrary to some assertions by operators, the Assessment set out sufficient material in the for respondents to understand and respond on arrangements for cross-boundary services. It is not legally possible to 'grandfather' rights to operate or to say precisely what individual services might be affected when franchising is implemented and when permits are applied for. Since the Assessment was completed, some services have ceased operating and one major cross- boundary service has become a publicly supported rather than a commercial service, and as such could be supported through the Proposed Franchising Scheme alongside the neighbouring authority. Sufficient information was given in the Assessment and supporting material for respondents to understand how the permit scheme might affect series and what measures GMCA would take to avoid passengers losing out.

4.14.26 A number of authorities in Greater Manchester and also neighbouring authorities

raised concerns about the effects on cross-boundary services that they felt were valuable to passengers in their areas. TfGM accepts that the Proposed Franchising Scheme would impact on services, hence the need to apply for a service permit which in turn could lead to some services needing to change. It is important to note that the process set out in the Assessment would be run so as to facilitate services that benefit passengers, even where change is necessary for a statutory test to be passed. In carrying out the test, it is important to note that TfGM would, first, take into account the interests and benefits to all passengers that use the service including those that are resident outside Greater Manchester; second, in looking at the impacts on any franchised service take account of any positive as well as negative impacts; and third, welcome the involvement of local relevant local authorities.

4.14.27 TfGM value cross boundary services and the intention is that cross boundary public transport travel of all types, including by bus, increases with the implementation of the proposed franchising scheme. The potential for new fares arrangements (including 'add on' tickets giving access to the whole Greater Manchester bus network for a reduced price) should encourage greater cross-boundary bus travel and mode shift from the private car. This will contribute to GMCA's objective set out in the Assessment (section 2.1.5) to increase the share of non-car modes to 50%.

4.14.28 Where a current cross boundary service is altered such that an operator no longer wishes to run the service (for instance if the majority of the revenue were from journeys wholly within GM rather than cross-boundary journeys) then GMCA would be able to support a similar service to serve the needs to passengers in neighbouring authorities. GMCA, with local authorities would have the power to do so and takes seriously its responsibilities to passengers outside Greater Manchester for whom cross-boundary journeys are important.

Consideration of partnership proposals

4.14.29 A number of the consultee responses raised a concern that the partnership option had not been given enough consideration in the Assessment. In general, operators argued that the consideration of the partnership proposals overestimated their costs and underestimated their costs. They argued that insufficient time had been given to working through a partnership and the Assessment came as a surprise to them. There has been extensive engagement with the operators to discuss their partnership offer whilst the Assessment was developed (including over 50 meetings on different aspects of this), and it is considered that operators had considerable opportunity to come forward with their best offer. TfGM has continued to engage with operators since the Assessment and further development of their partnership has been given consideration as part of the development of the consultation response.

4.14.30 Operators challenged the costs ascribed to partnership in the Assessment, arguing that it could be absorbed as business as usual. However, the governance proposals require a great deal of active participation and engagement in order to work. This is

appropriate – to be confident of any benefits arising a partnership would require commitment of resources. The partnership costs were developed based upon information received from the operators, the proposed governance structure and by following a logical process.

4.14.31 Operators offered that challenge that TfGM did not consider partnership because of a prejudice against partnerships, citing examples of partnerships in the UK. The record of these partnerships is mixed. TfGM's Assessment was based on the best understanding of what partnership could achieve in Greater Manchester rather than the general notion of partnership.

4.14.32 Some operators asserted that a partnership could achieve more than was set out in terms of achievement against each of GMCA's objectives. While it is accepted in the Assessment that partnership comes at less cost and risk than the Proposed Franchising Scheme, no evidence was presented that would show the partnership proposed by operators in GM would achieve more than set out in the Assessment. A partnership, as is acknowledged in the Assessment, could be put in place in more quickly than the Proposed Franchising Scheme. Considering the responses from those operators advocating a partnership. TfGM does not believe that the assessment failed to properly consider its merits. They did not cite credible benefits that has been overlooked.

4.14.33 There have been subsequent (mutually exclusive) partnership proposals, and the potential for these to deliver greater benefit than that considered in the Assessment is considered elsewhere (Section 9 and Section 10) and None of these proposals were found to bring significantly greater benefits or achieve GMCA's objectives to a much greater extent than the partnership in the Assessment.

4.14.34 Although it is recognised that a partnership could be entered into relatively quickly, there remains doubt over what could be delivered and when. It is not just about delivering change quickly, but also about offering long term benefits. There is little assurance that the benefits would continue to be delivered over the long term, given the initial term of the partnership would be five years. As set out at section 64.1.4-7 of the Assessment, TfGM were aware that the cost of the Proposed Franchising Scheme is higher, and the associated risk is also higher than the partnership option. It is also the case that the Assessment did not ignore the fact the partnership could be put in place more quickly than the Proposed Franchising Scheme, and this is accounted for the in the benefits set out in the Economic Case.

Franchising and the place of further ('phase 2') measures to improve the bus service

4.14.35 Franchising is not proposed as an alternative to Phase 2 measures but as a reform of the bus market which will enable a greater variety of Phase 2 measures to be implemented. The need for reform demonstrated in the Assessment means that it would not be appropriate, as First Manchester suggest, invest in bus priority measures before considering the Proposed Franchising Scheme. This would be to

continue with the current policy of implementing bus priority measures without reforming the market which the Assessment shows has left significant challenges unaddressed. Investment in such measures and reform are complementary measures as the GM 2040 Strategy sets out.

4.14.36 In terms of the challenge from Stagecoach that combining a partnership with investment of money "saved" from not implementing franchising would deliver better value for money, a number of points should be made.

4.14.37 First, the options in the Assessment were chosen to meet the full set of GMCA's objectives for improving the bus service. It is not typical, nor would it be appropriate or reasonable, to seek to "level up" the financial cost of each option under consideration in a business case assessment study of this type. It may not be desirable to spend any available funds solely on bus priority.

4.14.38 Second, the figure quoted by Stagecoach of the money available (£134 million) does not take account of the costs of the different options over the appraisal period. In cash terms the partnership would cost GMCA more than franchising over the whole period. On a discounted basis, taking account of the greater value of spending in the near term, there would be a 'saving' of not introducing the franchising scheme in the order of £56 million (ignoring any forecast surplus from franchising after the end of the transition period).

4.14.39 Third, efforts to develop schemes with operators have not yielded a viable set of schemes. Even if schemes had been identified, then where more significant intervention is required, there would be a need for engagement with many stakeholders, including operators and the relevant highway authorities, who would need to be involved in the development of such schemes.

4.14.40 Fourth, because there is no detailed programme specifying which measures would be carried out and when to appraise, it is not possible to make confident predictions about the value of such schemes. There is no reason to assume, as Stagecoach appears to do, that, when their value is added to that of a partnership, it would exceed the likely value of franchising. Thus, even if the money were spent on schemes that achieved the high value for money set out for such schemes in the Greener Journeys report, the NPV over the appraisal period for the Proposed Franchising Scheme would remain higher than that of the partnership.

4.14.41 Fifth, the value for money of any Phase 2 measures taken in conjunction with a partnership is likely to be lower than such measures taken in conjunction with the Proposed Franchising Scheme, as there would be a narrower range of options available for spending and those that could be undertaken under either option would be likely to have poorer value for money with a partnership than with franchising because revenue generation associated with the improved service would not accrue

to GMCA to offset investment costs.

4.14.42 Thus, although it may reduce the commercial risks associated with franchising, combining a partnership with Phase 2 measures that might be financed by “savings” to GMCA over the appraisal period if franchising were not introduced may well provide less value for money, would not represent the best platform for implementing Phase 2 measures and would not best achieve GMCA’s strategic.

4. 15 - Overall conclusion on the Strategic Case for franchising

4.15.1 Considering the responses and both support for the evidence and arguments present in the Strategic Case, as well as challenges and comments from consultees, TfGM is confident in the evidence presented in the Assessment and the conclusions it came to. Much of the analysis concerning the challenges faced by the bus network was endorsed by respondents to the consultation – both individuals and statutory consultees, as well as the assessments of how effectively the different options for reform were likely to perform in terms of meeting GMCA's objectives.

4.15.2 The greatest challenge came from incumbent operators, who argued that TfGM had underplayed the importance of congestion in terms of the current decline in bus services, and consequently should have given greater consideration to a partnership options accompanied by greater spending on anti-congestion measures. partnership does not achieve GMCA's objectives as effectively as the Proposed Franchising Scheme. This does not change even considering the higher cost of the Proposed Franchising Scheme and its opportunity cost – this is included within the value for money assessment. Rather, while partnership would help to improve the efficacy of many measures to reduce the effects of congestion on bus services, more could be achieved through the Proposed Franchising Scheme. The partnership proposed by operators was supported by dedicated TfGM work and properly considered in the Assessment, but not found to be as go as far to achieve GMCA's objectives as the Proposed Franchising Scheme.

Section 5 - Economic Case Response Themes

5. 1 - Introduction

5.1.1 The Economic Case of the Assessment sets out the findings of an economic appraisal, following an approach recommended by government, of the impacts of the reform options compared with a "business as usual" or "reference case" scenario. The benefits and costs to the public purse (including allowances for risk) were appraised over a 30-year period. The appraisal assessed impacts to passengers of investing in improvements to the bus system through franchising and partnership arrangements which result in quicker journeys and time saved for passengers due to a wider choice of services, simpler fares, an easier to understand network and centralised information and improvements to other quality of service attributes. It also assessed impacts to operators, wider society and GMCA. The level of benefits was set out for each option, and then also compared against the capital and operating costs to the public purse of the options, to derive an understanding of how well each option performed economically.

5.1.2 Consultees were asked to consider the following question in relation to the Economic Case of the Assessment:

Q17. The Economic Case concludes that the Proposed Franchising Scheme provides the best value for money compared to the partnership options because it would:

i. offer a 'high' ratio of benefit to the cost to GMCA, which is broadly comparable with the partnership options,

ii. provide the most economic value (Net Present Value), and

iii. create the best platform from which further economic value could be delivered.

Do you have any comments on this?

5.1.3 In addition, consultees were asked the following questions which do not relate to any specific case but overlap multiple cases, and therefore include comments which are relevant to the Economic Case.

Q35. Do you have any comments on the impacts of the Proposed Franchising Scheme on passengers as set out in the sub-section Impacts of the different options?

Q36. Do you have any comments on the impacts of the partnership options on passengers as set out in the sub-section Impacts of the different options?

Q37. Do you have any comments on the impacts of the Proposed Franchising

Scheme on operators as set out in the sub-section Impacts of the different options?

Q38. Do you have any comments on the impacts of the partnership options on operators, as set out in the sub-section Impacts of the different options?

5.1.4 Responses in relation to questions 35 and 36 are in general included under the Strategic Case section of this report. However, many of the comments received on the impacts on passengers were the same points made in response to question 17 (on the Economic Case) and as such they are addressed in this chapter, with appropriate references made within the Strategic Case section. Responses to questions 37 and 38 are addressed in the legal section of this report, which can be found at Section 13.

5.1.5 Ipsos MORI's report concluded that for the Economic Case, overall there were 2,693 participants who provided comments about the conclusion of the Economic Case of which 2147 (80%) were favourable. The most frequently-cited favourable comments were general support/agreement with the conclusion of the Economic Case (1,119). Participants tended to reiterate comments made elsewhere in the consultation which focussed on the outcomes which the Proposed Franchising Scheme would deliver, with cheaper and better value bus fares one of the most commonly mentioned positive outcomes (266). Specific to the Economic Case, the opinion that bus services should serve the public and not be run for profit (133) and that the Proposed Franchising Scheme provides best overall value for money of the options presented (130) were other commonly cited favourable comments.

5.1.6 On the other hand, of the 480 participants providing unfavourable comments, 139 disagreed with the conclusion of the Economic Case. The main reasons for this included concern about the costs and associated affordability of the Proposed Franchising Scheme (110) and the lack of evidence to support the conclusion (97).

5.1.7 As noted by Ipsos MORI in their report, most statutory consultees who provided a response to the Economic Case made a favourable comment in support of the conclusions of the Economic Case. Positive comments were generally received from local authorities and unions, plus a minority of bus operators. Negative or unfavourable comments were received from bus operators, bus industry groups and some customer representation groups.

5.1.8 Of note, Jacobs were employed by OneBus to review the Economic Case in detail. Their report was referred to by OneBus, Stagecoach and Rotala in their responses to the Economic Case. Although OneBus are not a statutory consultee, for convenience the report prepared on their behalf by Jacobs has been treated as such.

5.1.9 This chapter responds to the main themes identified from TfGM's analysis of consultation responses and consideration of Ipsos MORI's consultation analysis. It is grouped into the following sections:

- Section 5.2 – Appraisal Specification Themes. This section sets out those issues

raised that relate to the way the forecasting and appraisal has been undertaken

- Section 5.3 – Reference Case Themes. This section sets out those issues raised that relate to the reference case forecasts.
- Section 5.4 – Partnership Option Themes. This section sets out those issues raised that relate to the economic performance of the partnership options.
- Section 5.5 – Franchise Option Themes. This section sets out those issues raised that relate to the economic performance of the Proposed Franchising Scheme.
- Section 5.6 – Risk Analysis Themes. This section sets out those issues raised in relation to the risk analysis.
- Section 5.7 - Wider Economic Impact Themes. This section sets out those issues raised with regards both the approach to, and results from, undertaking the Wider Economic Impacts analysis.
- Section 5.8 – Conclusions.

Consistency with Ipsos MORI findings

5.1.10 There is consistency between the themes identified by TfGM and the themes identified in Ipsos MORI's report. TfGM in this report have categorised the themes into groups that are in line with the structure of the economic case chapter of the Assessment, whilst Ipsos MORI aggregated comments by the type of consultee. For a particular theme, this report draws relevant comments from all types of consultees together, including relevant comments from members of the public.

5.1.11 In general, Ipsos MORI's report goes into more detail on positive or favourable comments than is the case in this report, which focuses more on providing responses to substantive issues raised, most of which tend to be negative or unfavourable in nature.

5. 2 - Appraisal Specification Themes

5.2.1 The specification of the appraisal, including the forecasting tools and techniques to be employed, the input parameters and assumptions used, and the methods by which impacts are valued, is the primary basis of the Economic Case.

5.2.2 In their consultation analysis report, Ipsos MORI note that "*on the whole, commentary from local authorities accepted the methodology used to arrive at the Economic Case conclusion without challenge and in line with best practice*", indicating that the responses received from local authorities were supportive of the approach to appraisal specification.

5.2.3 Responses received from GM bus operators were not favourable. These are summarised in this section by theme.

(i) Fares growth assumption

5.2.4 A number of consultees felt that the assumption regarding the rate at which fares would grow was unrealistic and too high. This included responses from the following:

- Reference Case Fares rises (RPI+1.4%) is flawed and wrong – Rotala
- RPI+1.4% fares rise is a higher rate than has been observed in the market in the past – Go North West
- Fares growth of RPI+1.4% is too high given average fare yield growth across Metropolitan areas since 2004/5 has been at a rate below RPI and the likelihood of political pressure to limit any such increase, but in any event it should be applied only to single tickets - Jacobs
- RPI+1.4% for fares growth is high given that average fare yield growth across English Metropolitan areas since 2004/05 has been at a rate below RPI. – Stagecoach (replication of Jacobs observation)
- The fares growth assumption would lead to fares growth of 64% over a ten-year period assuming RPI of 3.7%, and this is not a credible assumption - Jacobs

5.2.5 All of the respondents listed above claimed that the growth rate of RPI+1.4% was too high, unrealistic, or out of line with historic evidence. None of the respondents suggested an alternative assumption, although Stagecoach and Jacobs did claim that since 2004/5 fare increases have increased at a rate below RPI. To support this claim, Jacobs made reference to the DfT Bus Statistics which they claimed showed that "*average fare yield growth*" has been at a rate below RPI. The definition of this term, and how it differs from actual ticket prices, is explored below. No further evidence was offered to support either the claim that RPI+1.4% is unrealistic, nor that historically fares have increased at a rate below RPI.

5.2.6 The fares growth of RPI+1.4% was derived though an iterative calibration exercise that took account of historic rises in GM fares, though this was not the only factor

under consideration and the rate of future growth has not simply been selected based on historic precedent alone. It also depends on the forecast changes in revenue and costs into the future and the implications of these on operator Earnings Before Interest and Taxes (EBIT). Further details were provided in the Economic Case Supporting Paper (or "ECSP", which was published during the consultation as one of the supporting papers to the Assessment) at section 4.5.6. Nevertheless, contrary to the view expressed by some consultees (that fares have grown at a rate of less than RPI since 2004/5), a review of DfT data series BUS0405a shows that non-concessionary fares in UK Metropolitan areas (excluding London) have increased on average by 93% between 2005 and 2019 whilst RPI has increased by 50%. Fares have therefore increased at a rate significantly more than RPI+1.4% over this period.

5.2.7 Further evidence, specific to Greater Manchester, is also presented in the Strategic Case of the Assessment (section 6.3, charts 7 and 8) which shows that ticket prices have increased faster than inflation over the last 15 years.

5.2.8 It appears that the consultees who contend that the rate of historic fares growth has been lower than RPI have incorrectly based their contention on a review of the operating revenue per trip data in the DfT bus statistics (table BUS0402a) rather than the local bus fares data (table BUS0405a). As the name suggests, the revenue per trip data measures the operating revenue per trip that operators receive per passenger trip made. However, a trend in operating revenue per trip is not the same as a trend in actual fares for several reasons:

- It is sensitive to the proportion of passengers in each passenger group - for example the proportion of concessionary trips has increased since 2004/5 which means that average revenue per trip has decreased, but this does not mean that the fares charged for a particular ticket type have reduced;
- It is sensitive to the mix of tickets purchased - for example on a per trip basis daily and weekly tickets offer a cheaper fare per trip than single tickets, so if the proportion of trips made using period tickets has increased then the average revenue per trip will reduce – but this is not the same thing as ticket prices reducing; and
- The revenue per trip index includes Bus Service Operators Grant payments ("BSOG" – payments made to operators from government to help recover some of their fuel costs) which have not increased in line with fares.

5.2.9 These issues are important considerations in determining the overall revenue to operators and how those revenues change over time. All these factors are reflected in the Assessment. However, it is the change in actual ticket price experienced by each market segment that is important when deriving a demand response and when calculating farebox revenue generated by that market segment, and it is that specific rate that is presented in the appraisal.

5.2.10 Jacobs also state that RPI+1.4% should *"only be applied to single tickets and not day*

or season tickets". It is not clear why they suggest that a different rate of fares growth should be applied to the different ticket types. The fares index reported in DfT table BUS0405a (as discussed above) represents an average across all ticket types, and the historic data presented in the Strategic Case of the Assessment (section 6.3, charts 7 and 8), which demonstrates historical above RPI fare increases for GM, is based on daily and weekly ticket prices, and not single ticket prices. There is no evidence that future fare increases should be assumed to be different for period and single tickets.

5.2.11 Finally and possibly of most relevance to this issue, whilst there is undoubtedly uncertainty associated with the derivation of future fares growth, and it is reasonable to take an alternative view as a consultee, it is not reasonable to assert that the selected method (which is well evidenced and appropriate as explained in detail above and within the Assessment) would favour the Proposed Franchising Scheme because the method has been applied equally to all options (including the reference case) and therefore is not a differentiating factor between options.

5.2.12 Indeed the opposite might be argued. TfGM have explicitly acknowledged the uncertainty on this issue within the Assessment and to reflect that position, have carried out two sensitivity tests using lower rates of fares growth to explore the implications of this uncertainty. The results of these tests, reported in tables 10 and 11 of the Assessment, show that for the Proposed Franchising Scheme, the lower rate of fares growth results in a higher level of benefits and a higher NPV. This is because a lower rate of growth means a larger bus market in all cases and therefore more passengers to gain benefits. The value of those benefits per trip remain unchanged. However, for the partnership options, the lower rate of growth has the opposite effect and reduces the NPV very slightly. This is because despite the market being slightly larger due to lower fares growth, the partnership proposals include a two-year fare freeze for System One tickets, which is one of the main drivers of benefit in the partnership options. This two-year freeze represents a smaller reduction relative to the reference case if the rate of fares growth is lower, hence the benefits are reduced. It is therefore the case that a lower rate of fares growth would in fact increase the differential between the franchising and partnership options in favour of the franchising option. This can be considered an example buried deep within the analysis where TfGM have carefully considered the merits of alternative approaches and selected an approach to analysis that is robust and defensible, rather than one which yields the best for the Proposed Franchising Scheme.

5.2.13 Given the evidence presented above, it is concluded that the contention made that the rate of fare growth is inconsistent with historic rates of fares growth is not well founded, nor that the approach taken could bias the outcome of the economic

analysis in the way that the consultees suggest.

(ii) Historic impact of Metrolink and inclusion of future schemes

5.2.14 Several issues were raised by some consultees regarding the extent to which past and future year changes to the transport system had been reflected in the appraisal. For example:

- The do minimum excludes unfunded public transport schemes and it may be unrealistic to assume that no further interventions are made – Stagecoach
- The impact on bus patronage of hypothetical future Metrolink expansion and other potential public transport improvement in line with GMCA's 2040 Strategy, should have been included – Jacobs
- Forecasts have not been adjusted to reflect the extent to which Metrolink has taken passengers from bus, and the impact of reduced financial support for bus services – Jacobs

5.2.15 Adoption of the suggested alternative approaches (i.e. incorporating the potential impact of unspecified hypothetical future schemes) to derive the future year reference case would require TfGM to depart from DfT's Transport Analysis Guidance (TAG) . TAG is a suite of documents written to provide transport analysts with a common set of guidelines to assist with analysing and appraising the impacts of transport schemes. It is generally considered good practice within the industry to follow these guidelines, and indeed this is a requirement if submitting business cases to DfT. TAG is very clear on this issue in unit M4 paragraph 3.2.4 which states that, when defining a reference case core scenario, only schemes which are committed or near certain should be included. The rationale for this recommendation is that the core scenario should *"represent the best basis for decision making given current evidence*". This means that it is reasonable and not unrealistic for GMCA to not consider, as part of the analysis of the options, any unfunded public transport schemes which may or may not be introduced in the future.

5.2.16 Notwithstanding the above and aside from the guidance offered by government, the inclusion of additional Metrolink schemes in the reference case would have an almost equal effect on both the reference and franchising/partnership cases and would reduce the benefits of all reform options due to the impacts on the reference case market for bus which would be smaller than has been forecast in the Assessment. Further, due to the hypothetical and undefined nature of any such additional schemes, it would be very difficult to specify them and quantify their impact, requiring the use of assumptions that could not be validated. Scheme specification is a step that is a pre-requisite to any forecasting exercise intended to predict what the impact of these schemes would be on bus patronage. Finally, if it were possible and appropriate to include them, it would also be appropriate to consider what investment might possibly be made in bus infrastructure over the same period, out with the franchising or partnership options. This would act to

counter the impacts of any Metrolink schemes but would further render the reference case more uncertain.

5.2.17 It is also worth noting that several sensitivity tests were carried out which, although not directly changing the assumptions regarding Metrolink expansion, had the same effect that assuming more long term Metrolink expansion would have, i.e. a smaller bus market. Examples include the lower population and employment test and the increased uptake in cycling test. Neither of these tests had an impact on the conclusions of the Economic Case since, as noted above, they have an equal impact on all the options considered in the Assessment.

5.2.18 Regarding the point made by Jacobs about the inclusion of the historic impact of the Metrolink system on buses in Greater Manchester, these step change improvements to the rapid transit system of Greater Manchester are a matter of historic record and are fully reflected in the Assessment. The impact that Metrolink has had on historic bus patronage changes is explored in the Strategic Case chapter of this report in section 4.3.

(iii) Other Miscellaneous Comments on the Specification of the Reference Case

5.2.19 Various other comments were made regarding the way in which the reference case was created. These included how:

- No quality assurance checks were carried out on the 16/17 base year population and employment data to check that they were not outliers - Jacobs
- The modelling appears to "*net off*" city centre dwellers - Jacobs
- The relationship between patronage and bus service mileage included in the modelling is not appropriate - Jacobs

5.2.20 No substantive evidence, or references to materials in the Assessment, has been supplied to support these contentions but they do potentially impact the Economic Case and therefore require response.

5.2.21 As documented in the ECSP at section 4.3, the population and employment forecasts are derived from a combination of the Greater Manchester Forecasting Model (which is GMCA's bespoke demographic forecasting tool for Greater Manchester) and the National Trip End Model (DfT's standard national forecasting model, recommended in DfT's guidance). These forecasts are locally and nationally recognised, have been through thorough vetting processes and are considered robust. The data for the base year of 2016/17 was checked to ensure it was not anomalous and it is therefore not correct to suggest, as Jacobs commented, that no quality assurance checks had been carried out on the data.

5.2.22 Regarding the suggestion that the model "*nets off*" city centre dwellers, it does not in fact do that. The ECSP explains that the growing number of people who live in the regional centre tend to walk and cycle more and take less mechanised trips (including

by bus), and that this needs to be reflected in the bus market forecasts where significant population growth is forecast for the regional centre. A damping factor which is applied to the city centre employment and population forecasts to reflect this impact has been derived empirically as described in the ECSP and that adjustment is made equally in all options. This is a conservative assumption, since higher growth would give a larger market and therefore higher benefits for all options. This is explained in the ECSP at paragraph 4.3.9.

5.2.23 Regarding the relationship between patronage and bus service mileage, Jacobs state that "*Patronage is assumed to fall indefinitely in a 1:1 ratio to reductions in capacity service levels*". The ECSP does not state that patronage is assumed to fall indefinitely in a 1:1 ratio to reductions in mileage. Rather it sets out a guiding principle that supply must be broadly matched to demand and, when either supply or demand changes, the other is likely to move in a broadly proportionate way. However, the mechanism by which supply and demand within the modelling system are kept broadly speaking in alignment is considerably less simplistic. Patronage is sensitive to many factors as modelled in the DRM, not just mileage. These factors are fully documented throughout the ECSP, for example at paragraph 4.5.7 which states that an initial forecast was run with no mileage cuts which showed a decline in patronage but also a steep decline in operator EBIT over time to unsustainable levels. Therefore, mileage cuts were assumed which matched the patronage decline in that initial forecast, which in turn have a further knock-on impact on patronage (but not 1:1): see paragraph 4.5.7 of the ECSP for further details.

(iv) Appraisal Period

5.2.24 Stagecoach and Rotala raised concerns regarding the length of the appraisal period. Both stated that the 30 year appraisal period has the potential to favour franchising, as it has the longest operational timeframe in the Assessment compared to the partnership options. Stagecoach suggested applying a 10 year limitation to frame an operator's ambitions and to assume that operators would not continue to invest to keep their product compelling and relevant is unrealistic. Rotala suggested that sensitivities should have been run by modelling the Proposed Franchising Scheme over a shorter period or by assuming that the partnership options are renewed during the appraisal period.

5.2.25 Jacobs recognised that the benefits of the partnership option had been appraised over a 30 year period but suggested that its selection biases the analysis against the partnership options and that its adoption was not necessarily conservative, as another partnership structure would be put in place during that period that might deliver higher benefits, as the market consolidates and new ticketing payment technology becomes available, with lower costs of renewal. It suggested assuming an improved partnership would be negotiated after 10 or 15 years.

5.2.26 Rotala, suggesting that a partnership renewal should be assumed, appear not to have recognised that the benefits of the partnership option are assumed to endure for the

full 30 year appraisal period without any decay.

5.2.27 In the context of a major reform to the bus system that is intended to be long term and the strategic vision for transport in GM which is anticipated to require several decades to fully implement, the 30-year appraisal period was considered to be both appropriate and consistent with TAG guidance. Applying the same appraisal period for all options has ensured a level playing field between options, and given the doubts about the durability of the partnership option, is in fact likely to skew the results in favour of partnership because full benefits are assumed to be realised throughout this period for all options tested, despite TfGM's concerns that a partnership scheme may not endure for the full 30 years. Given this view, it was not deemed appropriate to carry out a further sensitivity test which reduced the appraisal period further. In fact, a sensitivity test was carried out which used a 60 year appraisal period (and still assumed no deterioration of benefits for any option), in line with most other transport appraisals.

5.2.28 In response to the Jacobs point that a renewal of the partnership options should have been assumed, whilst this may be feasible after 10-15 years, it would not be appropriate to assume any additional interventions in the appraisal for the same reasons that potential Phase 2 interventions are not included. This is because such further interventions are not defined, agreed or costed.

(v) Elasticity model and/or elasticities used not appropriate

5.2.29 Several issues were raised regarding the use of an elasticity-based model and the choice of elasticities used. These included how:

- An elasticity model approach may not be appropriate given the scale of proposed changes to the bus network, as elasticity-based modelling is normally used for smaller-scale interventions such as revisions to existing timetables, and, if it is to be used, a modelling approach should be employed to test its robustness and the specified elasticities for the larger impacts – Jacobs
- The fares elasticity for the leisure market at -2.08 is substantially higher than the relevant range in Wardman (2014) – Go North West
- The GMPTM (Greater Manchester Public Transport Model) is not appropriate for modelling new bus routes or large "*step changes*" in supply – Jacobs
- The network benefits are overstated because the disbenefit of redeployment is not accounted for – Go North West

5.2.30 The use of elasticity models to appraise transport interventions is a standard approach recognised across the transport industry. The changes to passenger generalised costs under both franchising and partnership options are within the normal limits for which these types of models are considered appropriate. Elasticities

are derived from empirical data and it is more common to collect data for small incremental changes rather than large transformational changes. For this reason, the Passenger Demand Forecasting Handbook (PDFH, the rail industry guidance document for modelling rail schemes) and other guidance such as DfT TAG recommend caution when using models that are calibrated and validated with data that reflects small incremental change for interventions that represent transformation change. In this case, while reform is expected to act as the platform upon which the future year grand vision for bus in GM is delivered, the comparatively modest scale of change to passengers during the first phase of reform (as presented in the monetised components of the Assessment) is entirely consistent with the tools that were used, and the empirical basis of those tools. Therefore, whilst Jacobs assert that the scale of proposed changes to the bus network are large and that elasticity approaches are normally used for smaller-scale interventions, this contention is not considered to be reasonable. To further support the TfGM position, Jacobs themselves write in section 3.4.2 of their report, that table 8 of the Assessment shows that the franchising scheme delivers on average a 1.3 minute generalised time saving per trip, and that that change represents a fairly modest change and well within the bounds appropriate for applying elasticities.

5.2.31 Go North West challenged the specific elasticity used for fares for leisure trips – stating that a value of –2.08 is too high. This argument reflects a misunderstanding of how the elasticities are defined. The fare elasticity is the parameter that determines how sensitive patronage is to changes in fares. The -2.08 figure needs to be read in conjunction with the cross-price elasticity for the competing ticket. This is documented and explained in the ECSP at section 4.5.4. The combination of own and cross price elasticities leads to an overall fare elasticity equivalent to a value of -0.85 for leisure. This cross-price elasticity functionality is not used for commute trips, hence a single elasticity of -0.65 is used for that market segment. As stated in Appendix 1 of the ECSP, the elasticity values were based on a review of evidence and subsequent recommendation by Professor Mark Wardman. They reflect his career experience undertaking meta-analysis of such values over many decades, a field of academic research in which he has pre-eminence. TfGM therefore has confidence in the applicability and appropriateness of the values used.

5.2.32 Jacobs also suggest that the use of the GMPTM may not be appropriate for modelling changes to the bus network and in particular the addition of new routes, based on an understanding that GMPTM is an elasticity-based model. Specifically, they state in section 4.3.4 of their response:

> *Our understanding is that the GMPTM is an elasticity-based model. The proposed services changes are significant. Where large 'step-changes' in service provision are proposed, applying the rule-of-a-half may not be suitable. An example of this is for new railway stations. The Government's Passenger Demand Forecasting Handbook (PDFH)9 clearly states that an elasticity-based modelling approach should not*

be used for new railway stations as it is not appropriate to use elasticities to model the impact of new services. There are clear parallels between the opening of new train stations and the creation of new bus routes. We would therefore recommend reconsidering the use of this approach.

5.2.33 Firstly, it is not clear why Jacobs refer to the rule-of-a-half theory in relation to the application of elasticities. The rule-of-a-half is the method by which user benefits are calculated in the cost benefit analysis, with new users gaining half of any benefit that accrues to existing users, hence the term. This is not relevant to a discussion on whether using elasticities to forecast a demand response to changes in service provision is an appropriate technique. The rule-of-a-half method should be used in appraisals regardless of how the demand has been forecast, whether that is using an elasticity model or not.

5.2.34 It seems this point is specific to GMPTM and modelling the proposed network changes, as opposed to the more general concern around the use of elasticities noted by Jacobs and responded to above. As noted in the ECSP at section 2.5, GMPTM is a network assignment model, designed specifically to model changes to the public transport network, for example changes to timetables and routes. It also has an elasticity-based forecasting function to reflect the impacts of changing the generalised costs of travel for public transport users. The impacts of the proposed network interventions have been modelled in GMPTM as noted in ECSP at section 5.2.

5.2.35 The reason PDFH states that elasticity techniques are not appropriate for modelling demand to new stations is because elasticity models rely on pivoting from an existing representation of demand, and if a station is added to a new location there is no existing demand represented in that geographical area from which the model can pivot. GMPTM however has a representation of all public transport demand across GM and therefore adding a new rail station, for example, allows it to redistribute demand onto that rail service which was perhaps formerly using the bus. However, aside from this, the scale of network changes proposed under Phase 1 of the Proposed Franchising Scheme should not be considered on a par with a new rail station. The Network Supporting Paper at section 7 outlines the types of interventions proposed and these are not completely new routes - they are rationalisation of existing services, more direct versions of existing services, additional connectivity to other modes etc. Where a new route is proposed it is very similar to an existing service and does not serve a new geographical area.

5.2.36 With regard to the Go North West point on dis-benefits not being accounted for where the proposed network changes result in an increase in journey time for some passengers, this is indeed reflected in the Assessment. As set out in section 5.2 of the ECSP, the generalised cost change of the network revisions is used to derive ridership and benefit forecasts for the interventions. This includes all generalised cost impacts and not the subset of impacts that reflect improvements. If the appraisal had been

done in the way that the operators contend, it would have been biased and not fit for purpose.

(vi) Double counting of interoperability benefits

5.2.37 Several issues relating to interoperability were raised. These included how:

- Interoperability will benefit users by reducing journey times and ticket prices but the effect of these on demand is calculated separately. There is insufficient evidence that interoperability acts a demand driver above and beyond journey time and fare improvements. - Jacobs
- Although the issue of interoperability is important to users as its introduction may provide public transport users with more convenient options to get to their destination, no evidence is presented as to the number of people who currently suffer due to lack of tickets which are accepted by different operators. It is not clear how issues around double counting between the demand drivers is dealt with. - Jacobs
- There is a lack of evidence presented to describe the volume of passengers likely to benefit from interoperability - Jacobs
- It is not clear how interoperability has been included in the analysis, how it is separate from changes to service frequency, fares or improved accessibility, and in what form the benefits of interoperability materialise – OneBus
- The approach to forecasting interoperability may double count benefits – Stagecoach

5.2.38 The Proposed Franchising Scheme includes the following interventions:

1. Unification of period fares at the level of the current major operator own fares, i.e. no premium for System One fares;

2. With the exception of discount corridor tickets (which would remain valid on the routes they are currently valid), all standard period tickets would be valid on all operators buses across Greater Manchester;

3. A set of network improvements with changes to some service frequencies and routes; and

4. A set of service quality improvements including accelerated roll out of WiFi on all buses, improved driver standards, increased presence of ticket inspectors and a unified brand for buses in Greater Manchester.

5.2.39 The concerns raised by Jacobs, OneBus and Stagecoach noted above appear to relate to items 1 to 3 in this list and specifically how these are related and whether they overlap and double count some impacts. The impacts due to each intervention and how these are modelled is documented in the ECSP at sections 5.2-5.4 which fully describe the “fares”, “network” and “interoperability” impacts on passengers. These

sections are summarised below with an emphasis on describing how each impact is separate and unique.

5.2.40 Fares benefits accrue almost exclusively to trips using System One tickets, since these passengers will gain a fare reduction in line with the reduction in fare from a current System One ticket to the fare level of an operator own ticket as noted under intervention 1 above. The scale of this reduction is reported in ECSP table 3. These passengers gain no interoperability benefit since they already had access to all buses via their System One ticket.

5.2.41 Interoperability benefits (as labelled in the Assessment) accrue to trips made using operator own standard corridor period tickets. These passengers do not gain any fare reduction but instead gain the flexibility to use all operators' buses rather than buses run by a single operator, as noted in intervention 2 above. Whilst in practice this may result in a reduction in wait time (because the passenger would be able to board any bus), or a small reduction in total fare paid (e.g. if an additional single ticket is no longer required for an occasional trip with a second operator that doesn't currently warrant a System One ticket), the value of this benefit to passengers was assessed via a survey, as documented in ECSP section 5.4, which sought to uncover the value of this benefit to operator own period ticket holders in the form of a Willingness to Pay valuation. As would be expected, some passengers placed no value on interoperability, since all the buses they are interested in are currently run by a single operator, whilst others did place some value where interoperability might improve their journeys (albeit not enough to warrant purchasing a System One ticket). The study derived average valuations across all operator own period ticket holders appropriate for use in the model. The method by which this valuation is applied in the model is documented in ECSP section 5.4. It is important to note that this benefit only applies to operator own period ticket holders, and hence there is no double counting with the fares reductions discussed above that apply to current System One ticket holders.

5.2.42 Finally, a set of network changes (intervention 3 as listed above) were also proposed which consisted of changes to certain service routes and frequencies. These are independent of any change in journey time due to ticket validity (e.g. a reduction in wait time) as discussed in the preceding two paragraphs, and the impacts on passenger journey times of these specific service changes were modelled using GMPTM, as discussed further in ECSP section 5.2. Any changes in journey times resulting from the proposed network changes are equally applicable to all passengers.

5.2.43 Given the distinct nature of the different interventions modelled, as described

above, it is clear that there is no double counting of interoperability benefits.

(vii) Use of Willingness to Pay (WTP) values

5.2.44 The Assessment makes use of WTP values to determine the impacts of some interventions on passenger demand, and to calculate user benefits. In relation to these a number of comments were made:

- Service quality improvements are assumed to have a significant impact on levels of demand but this is only backed up by limited evidence from other studies. There is, therefore, a risk that soft factor values have been over-estimated for the franchising option – Stagecoach; Jacobs
- Predictions based solely on Stated Preference surveys should be treated with caution – Go North West
- The details of how the value for improved driver standards has been derived and the rationale for applying 50% of the benefit for the entire period are not clear – OneBus
- Customer Service and Contract Management Benefits – would be helpful to understand the scale of these benefits and evidence of effectiveness from other similar operations in the UK - OneBus

5.2.45 The method by which WTP values have been used in the modelling is documented in the ECSP at section 5.4 (interoperability) and 5.5 (service quality). The methods applied are industry standard and the values (as set out in Appendix 1 of the ECSP) are consistent in terms of scale with those published elsewhere for similar interventions (for example in the DfT "*Soft Factors in the Bus Industry*" report from 2009 and within the TfL Business Case Development Manual). The appraisal of these impacts has been undertaken in a way that reflects a detailed understanding of the mechanism by which the benefit will be realised, and the resource and management plans required to deliver change.

5.2.46 With regards the use of a 50% scaling factor for the WTP value applied to driver related benefits, this was applied based on professional judgement and considered to be commensurate with the cost of the programme envisaged to improve matters in this area. It is also the case that identical costs and benefits were assigned to both partnership and the franchise options. Therefore, whilst the professional judgement applied could reasonably be questioned, it is the case that any alteration to this part of the case would affect all options in broadly equivalent way (eg – it is not a differentiating issue between options). Finally, it is worth noting that, as part of their review in section 4.6.4 of their report, Jacobs stated that they considered the 50% figure to be a conservative assumption:

"A conservative approach has been taken in monetising these [service quality]

benefits (e.g. only 50% of benefits accruing from improved driver standards and have been included in the assessment, and benefits from Wi-Fi provision are assumed to taper away from 20% of passengers benefitting during the implementation period down to 0% of passengers benefitting after 10 years of franchising".

5.2.47 As stated in the ECSP at section 5.5.7, the benefits of customer service and contract management staff are commensurate with the number of staff employed as set out within the management case for reform. Customer service staff and contract management staff alike work at the front line of service delivery. They help to ensure that intelligence and insight regarding network performance and customer feedback is assembled to support the optimisation of resource allocation decisions, whilst simultaneously working as (or, in the case of contract management staff, with) front line staff to promote the delivery of a service that reflects core values to passengers. The role of both groups of staff has been a pivotal part of the successful TfL approach to cooperative working with operators to improve the customer experience within available resources. While specific evidence of economic value has not been published that directly attributes economic value to these roles, it is the case that a value at least equivalent to the costs of employment is implied through the continued existence of these roles within the TfL organisation.

5.2.48 For these reasons, the derivation of benefits attributable to these interventions is considered appropriate.

(viii) Accounting for Environmental and Social Impacts

5.2.49 Several comments were received by members of the public who raised the point that the appraisal should place more weight on environmental and social impacts as well as economics.

5.2.50 Section 8.4 of Ipsos MORI's report states that of the 366 suggestions made by members of the public, 79 suggested that "*Consideration should be given to more than just economic value or the cheapest bid*" and 31 suggested that "*Further consideration should be given to the environmental value*". It also reports that of 158 comments in relation to the conclusion of the Economic Case, the main comment (56 responses) "*concerned the priority given to social value within the Proposed Franchising Scheme, and the need to focus on the contribution of the bus network to community cohesion*".

5.2.51 With regards the priority given to the appraisal of societal impacts beyond those that impact the financial bottom line of public and private sector business, the appraisal has been undertaken in line with DfT guidance. It seeks to understand the full societal impacts of our actions on the quality of life of citizens and their environment, as well as their economic well-being, using a "welfare economics" approach to the quantification of economic value. Environmental benefits are calculated using the method set out in DfT's Transport Analysis Guidance (TAG) unit A5.4, Marginal

External Costs. In summary, this method involves using the difference in bus trips between the reference case and scheme options to calculate a change in car kilometres relative to the reference case for each option. This change in kilometres is used to calculate economic benefits under the following headings:

- Decongestion;
- Accident reduction;
- Carbon emission reduction;
- Air pollution and noise reduction; and
- Infrastructure (a lower expenditure on infrastructure required due to fewer car kilometres)

5.2.52 The value each of these aspects contributes to the total benefits is documented in Table 6 of the ECSP. Whilst one may argue that the DfT guidance should place more weighting on these aspects of the case, TfGM has followed government guidance as would be expected.

5.2.53 The term social benefits can have a wide-reaching definition, but many of the economic benefits included in the Assessment accrue directly to the public in ways that it is expected will improve their quality of life, and which could be categorised as social benefits. These include:

- Fare benefits to passengers due to lower fares (included in the appraisal as "user fare benefits");
- Journey time benefits to passengers where services are improved such that their generalised journey time (GJT) reduces (included in the appraisal as "user time benefits");
- Improved air quality and reduced congestion (as discussed above);
- Improved safety, for example through accident reduction (as discussed above) or through improvements to security on public transport, for example through additional ticket inspectors as included in the Assessment (included in the appraisal as "user time benefits"); and
- Improved journey quality such as on board WiFi or improved driver performance as included in the Assessment (included in the appraisal as "user time benefits").

5.2.54 It would appear from the comments in the Ipsos MORI report that members of the public interpreted the economic benefits to be representative only of actual monetary impacts due to the different options. As noted above, it is actually the case that many of the elements that make up the total economic benefit are in fact "social" benefits that accrue directly to passengers in the form of journey time savings, fare reductions or service quality improvements, or to wider society in the form of reduced congestion and improved air quality. With regards to the emphasis

placed on the different elements, particularly the environmental aspect, the methodology to apply in order to carry out the cost benefit analysis is documented in DfT guidance with appropriate valuations provided, and adherence to this guidance was necessary in order to carry out a fair and robust appraisal.

(ix) Other Issues Relating to the Specification and Approach to Forecasting and Appraisal

5.2.55 Other issues raised by consultees included that:

- GMCA has inappropriately modelled its analysis on TfL's approach, as Manchester is not London: trip density and complexity is substantially greater in London (where the benefits of integration are likely to be greater) and it is also "*not a particularly drivable city*" (which makes the value of better integrated public transport much greater) – Go North West.
- Uncertainty over whether Phase 2 benefits are included in Economic Case - Jacobs
- Request for information as to why fare evasion, operational performance of buses at rush hours, frequency and reliability and bus capacity across the service route have not been included in the modelling - Jacobs
- Question regarding whether reliability is included within the GJT formulation - Jacobs
- Assuming that bus journey times increase in line with car journey times has the potential to underestimate the level of future bus demand, given proposals in the Greater Manchester Transport Strategy to introduce bus priority measures – Jacobs
- The baseline model for cost and its calculation require modification as they do not properly reflect recent increased employment costs (pensions, apprentice levy, minimum wage, and recent pay increases) - Rotala

5.2.56 The proposed interventions are focussed on the Greater Manchester market, and the analysis is entirely driven by a detailed local assessment that seeks to understand the best market reform option for Greater Manchester. In many key respects, the specification of the Proposed Franchising Scheme is very different from the London model, for example, the approach to defining franchise contracts. Whilst comparisons have been made to the London market and several references occur throughout the Economic Case, no evidence from London has been used directly within the modelling, other than the application of the brand WTP value, which is addressed in a dedicated section of this chapter. It is therefore not correct to say that GMCA has modelled its analysis on TfL's approach.

5.2.57 Section 15.4 of the Assessment explains that Phase 2 benefits are not included in the core appraisal presented in the Economic Case. However, the extent to which the

market structure enables further Phase 2 investments into the bus system is material to the decision to reform (or not reform) the bus market. For this reason, the Phase 2 discussion has been included in the Assessment.

5.2.58 With regards to the additional variables raised by Jacobs:

- Passengers recorded in the CPS survey as not paying a fare when boarding the bus due to a miscellaneous reason are included in a separate demand segment in the model labelled "Other Free", which has no fare attached. These trips are therefore included in the total patronage but contribute no revenue, as would be expected.
- Operational performance of buses at rush hours – no changes are assumed to reliability or operational performance at any time of day, except for the suite of network changes proposed under franchising
- Reliability – whilst the model could appraise substantive changes in reliability across the network by altering generalised cost inputs, no specific substantial reliability interventions are proposed within any of the options, and therefore no substantial reliability element is included within the generalised cost formulation in the models used in the Assessment. There is however a modest reliability intervention described within the Commercial and Management Cases of the Assessment which relates to the introduction of an enhanced performance and monitoring regime. Whilst this intervention is not expected to make a substantial difference on its own to network on time performance or excess wait times for passengers, a modest economic benefit has been included using an alternative methodology as explained in detail within the Assessment.
- Frequency – no changes to specific service frequencies are assumed other than as part of the suite of network changes proposed under franchising. The annual network wide mileage reductions assumed in all cases would be likely to include some frequency reductions in reality, but this input is specified at a global level and is therefore not service specific.
- Bus capacity across the service route – the modelling does not consider any changes to capacity across any particular service routes as this is a level of detail beyond the assessment of whether the various reform options offer good value for money.

5.2.59 Regarding the comment on bus journey times increasing in line with car journey times, as noted in ECSP at paragraph 4.4.10, the forecast change in bus journey times due to congestion is assumed to be different to car journey times. However, this is not due to additional bus priority in the future, but rather due to the inherent difference in how congestion affects each mode. Regarding future bus priority, no specific improvements have been assumed, since, as noted in relation to the incorporation of future Metrolink schemes, such schemes are currently neither defined nor funded and therefore, as explained in section 5.2.15 of this report,

should not be included in the core reference case. If any such schemes were included, this would have a positive impact on bus patronage in all options and would therefore improve the level of benefits for all options.

5.2.60 Finally, regarding the Rotala concern on the cost model, this is dealt with in the Financial Case chapter of this report at section 6.2.

(x) Release of Models

5.2.61 Some bus operators (specifically, the OneBus group and some individual operators within that group in their individual consultation responses) suggested that the models that underpin the economic and financial appraisal should have been released. TfGM considers that consultees had sufficient information at the start of the consultation exercise to allow them to take part in the consultation in an informed and intelligent manner. TfGM is also satisfied that it was not required to disclose the models, on request from OneBus, in order for consultees to provide a proper and informed respond to the consultation.

5.2.62 Specifically, GMCA published all the documents that it was required to do under section 123E(2) of the Act and TfGM is satisfied that the consultation document met the requirements of section 123F.

5.2.63 OneBus requested two models during the consultation period which were not provided. These were the Greater Manchester Public Transport Model (GMPTM) and the Demand Revenue Model (DRM). A response from TfGM stated that the two models could not be provided because the request fell outside of the scope of the Freedom of Information Act 2000 ("FOIA") and that the information used to inform the models was exempt from disclosure under the FOIA due to reasons including the commercial confidentiality and sensitivity of information the models contained. OneBus requested an internal review of that decision. This was responded to by TfGM. It stated that both the models and much of the underlying data used to inform the models could not be disclosed. The models contain information obtained by TfGM from operators in accordance with the provisions of section 143A of the Act and provided to TfGM under the terms of confidentiality undertakings given to operators, as well as other commercially sensitive information. Further information was however provided (because it was not deemed to be commercially confidential or sensitive) to OneBus which included an overview of the inputs for both of the models and some of the non-commercially sensitive and/or confidential data used to inform the DRM.

5.2.64 Stagecoach's legal submission asserts that GMCA did not publish all of the required documents with its consultation, specifically the models referred to in the audit report. Stagecoach go on to state that they believe the lack of disclosure of those models was "*procedurally unfair in public law terms*" and "*consultees have been hamstrung as a result of not having access to those models, and Stagecoach have been unable to respond with more detailed comments on the Economic and Financial*

Cases".

5.2.65 A similar concern was also raised by Go North West, who stated that there would be benefit from *"the economic model"* being shared with consultees.

5.2.66 The two models were not documents required by the Act to be published. Provision of commercially sensitive data contained within the models would potentially have prejudiced the commercial position of operators, GMCA and TfGM. Neither Stagecoach or any other operator itself made any requests for further information to TfGM, nor any requests for access to any models. There were many avenues open to operators to request further information and this was made clear to them during an operator briefing which was organised by TfGM. If Stagecoach or any other operator believed that there was any specific information missing from the consultation documentation that it required to be able to inform its response, it could and should have requested the same during the consultation period.

5.2.67 Stagecoach failed to identify how disclosure of those specific models would have helped to inform its own consultation response and in particular, its review of the Economic and Financial Cases.

5.2.68 The ECSP contains considerable detailed information on how the modelling framework was constructed, as well as listing and providing details of how each input was prepared. Where practical, a copy of the relevant values used is also included. The paper explains how each variable has an impact on bus patronage, and how the relationships in the modelling suite function.

5.2.69 The responses provided throughout this chapter provide references to the relevant section of either the Assessment or the ECSP where further detailed information is provided that allowed consultees to have sufficient knowledge to meaningfully respond to the consultation.

5.2.70 Other than the request for models, for which no specific reason for requesting disclosure of the models was provided, no further requests for additional information or specific queries were received by TfGM in relation to the economic case until the final day of the consultation period when OneBus submitted their response along with the accompanying report from Jacobs. Jacobs' report included many specific questions related to the Economic Case and having reviewed that report and responded to the points raised by Jacobs in this consultation report, it is evident that access to the models was not necessary in order to respond to these questions. Had a response been considered critical to finalising their response to consultation, OneBus could have submitted its response, along with the Jacobs report, much earlier in the consultation process as it is evident from the document history within the report that Jacobs had undertaken its first review of the consultation materials by 27 November 2019. Notwithstanding this, in almost all cases the answers to the questions posed are included within the existing

documentation as published.

5. 3 - Reference Case Results Themes

5.3.1 The Economic Case describes the economic performance of each option against the reference case or the "Business as Usual" situation. There are two broad themes raised by consultees with regards the reference case forecasts.

(i) Congestion

5.3.2 The scale of impact of increasing congestion in the demand forecasts has been challenged by Stagecoach in response to the Economic Case. The following points were made:

- The congestion effect of 0.2% patronage reduction between 2016/17 and 2040 feels completely inappropriate when journey speeds are slowing by 1% a year;
- Our 2018 study into drivers of demand in Greater Manchester, undertaken by KPMG, showed that alongside car ownership and the service offered by Metrolink, bus journey times were one of the greatest influencing factors impacting bus demand in Greater Manchester. If this element was resolved, the requirement for additional Peak Vehicle Requirement ("PVR") would reduce, removing one of the major reasons for the above RPI fares and you would therefore retain patronage. In our opinion these basic principles appear to be missing from the Assessment.

5.3.3 More generally, the impacts of congestion were raised in response to the Strategic Case (see section 4.3 of this report). The response below focuses on the impact of congestion in the demand forecasts, as opposed to any historic impact.

5.3.4 The figure of 0.2% reflects the direct impact on patronage and is taken from Chart 14 of the Assessment. This chart shows the relative impact of each "explanatory variable" on the size of the future year bus market. Congestion is one of the explanatory variables used in the market forecasting model. It is important to note that the market impact figures attributable to each variable in this chart represents only the direct impacts. There may, however, be interactions and further indirect impacts, as is the case with congestion. Specifically, the direct impact of congestion creates slower bus journey times for passengers, reducing demand for bus, but is simultaneously offset by a slower journey time for car-based modes, substantially limiting the direct loss of patronage impact of congestion.

5.3.5 TfGM acknowledge that there is also a much more significant indirect impact of congestion caused by the effects that increased journey times have on operator costs and subsequent actions to maintain commercial viability. This is accounted for in the modelling system whereby a 1% reduction in speed due to congestion is assumed to result in a 1% increase in required driver duty hours and PVR. This increase in hours and PVR is passed to the financial model and results in higher operating costs. As a result of this additional cost to the industry, operators are then required to make either fare increases and/or mileage reductions in order to remain commercially

viable and maintain EBIT margins. The results of these indirect impacts of congestion on the market demand are significant.

5.3.6 As a result, we estimate that approximately one third of the patronage loss forecast between now and 2040 is attributable to the sum of both direct and indirect congestion impacts. These effects are fully included in the bus reform reference case market estimates.

(ii) Forecasts for the English National Concessionary Travel Scheme (ENCTS) Revenue

5.3.7 Several issues were raised by Jacobs and Stagecoach regarding the appraisal treatment of the ENCTS scheme. They suggest that the modelling of ENCTS revenue, assuming that journeys made under it will rise over the appraisal period, is inconsistent with recent evidence that shows falling trips made under ENCTS; the likelihood that bus use by pensioners will fall as car use becomes more affordable for this group as their incomes rise; and changes in eligibility criteria in the near future will lead to a further reduction in use.

5.3.8 As with fare paying patronage, ENCTS patronage is driven by numerous factors, all of which are documented in section 4 of the ECSP. The main difference is that ENCTS patronage is not sensitive to changes in fares. ENCTS trips are not forecast to increase continuously over the whole appraisal period as Jacobs and Stagecoach appear to believe. Trip volumes do fall in the early years of the appraisal period, due to the rising age of entitlement. This is consistent with the observations in recent years as noted by Jacobs and Stagecoach. Over the longer term however, the demographic forecasts suggest an increasing concessionary population leads to an increasing number of concessionary trips. This increase is offset by the impact of other factors, such as reducing car operating costs and increasing incomes. The forecasts calculated by TfGM are reflective of the cumulative impact of all these factors.

5.3.9 A discussion of the calculation of reimbursement associated with ENCTS trips is included within the Financial Case chapter of this report at section 6.2.

5. 4 - Partnership Options Themes

5.4.1 This section summarises comments made by consultees in relation to the specification and results of the partnership options.

(i) Partnership offers a higher benefit-cost ratio (BCR)

5.4.2 Several consultees noted that the BCR of the partnership options was higher and felt that result indicated that the partnership options represented better value for money or a less risky option than the Proposed Franchising Scheme. As noted in Ipsos MORI's report, this concern was also raised by a small proportion of the public consultation responses (42 out of 2626).

5.4.3 The BCR for the Proposed Franchising Scheme itself demonstrates that the costs would represent value for money if measured in those terms – a BCR of 3.1 falls firmly in the "high" value for money category in the government's value for money framework. The measure for value for money used in the Assessment also looks at the social value of any public investment measured by its NPV (as explained in paragraph 7.5.4 of the Assessment. On that measure the Proposed Franchising Scheme is the better option. Further it should be noted that the basis of the recommendation in section 21.2.4 of the Assessment is that "*the greater overall benefit from the franchising option in terms of the outcomes set out in the strategic case, means that it is the preferred option*."

5.4.4 This recommendation is made with reference not merely to BCR, but also to NPV and other considerations that are set out in the Economic Case, such as the likely durability of economic benefits over time and the likely suitability of each option to act as a suitable platform for the further development of the bus system to support the sustainable economic growth of GM in the future. The Economic Case is also only one dimension of the Assessment and the overall recommendation has been made following consideration of all dimensions set out in the Assessment, including the recognition that franchising involves more risks to GMCA than a partnership.

(ii) Soft factor benefits could be achieved through partnership

5.4.5 Several comments were received that suggested the benefits assigned to the Proposed Franchising Scheme could equally be generated through a partnership option. For example some consultees said that:

- No benefit has been afforded to the operator proposal of a single sub brand unlike the significant benefit afforded to the suggested Franchise brand – OneBus
- The brand value ascribed to franchising can also be achieved through partnership by requiring all private operators to rebrand under a common 'TfGM' brand perhaps with an 'operated by X' addition– Go North West.
- The same brand benefits should be assigned to partnership given the

commitment to a unified brand in the OneBus partnership proposal – Rotala

- Apart from Wi-Fi and better driver training, all other 'soft' initiatives are unreasonably not included in the partnership options as they could be introduced either through negotiation or unilaterally by operators and soft initiatives can be implemented through the Ambitious Partnership option – Jacobs.
- Soft initiatives can be implemented in the TfGM proposed Ambitious Partnership option, which would increase benefits and increase Value for Money ("VfM") – Stagecoach

5.4.6 The value accredited to brand is derived from unifying the bus system under a single entity with associated benefits of a single and unified fares system, a single customer service portal, a level of transparency and accountability in decision making and other key features that affect the customer experience – in short, the key word in the description of this intervention is the unification of these matters that the brand represents and this is not something that can be delivered through partnership.

5.4.7 Further, creating a unified livery without creating a unified system may create more confusion than retaining the status quo, where different liveries today are a clear signal to users that a differentiated and fragmented customer offer between different operators is to be expected across the full range of the customer experience.

5.4.8 Where the other aspects of the service quality improvements were proposed by operators during discussions with TfGM, they were included in the partnership schemes modelled. These included the benefits from Wi-Fi and improved driver performance.

(iii) Other issues raised

5.4.9 Other issues raised in relation to the partnership option were that:

- Much of the Assessment, especially when considering the benefits offered in partnership, seems to reflect a view that private operators will simply deliver the legal minimum – Stagecoach
- The partnership option does not reflect the latest "Partnership Plus" specification – Go North West.
- TfGM has not modelled any benefits from the consolidation of single tickets and fare bands, or the adoption of smart integrated ticketing in the form of a 'fair price promise' as proposed by the operators - OneBus
- The partnership option will not resolve existing concerns regarding the transparency regarding the VfM of bus sector subsidy. – Manchester City Council

5.4.10 The historic data that underpins the reference case reflects the way in which the industry has collectively dealt with legal minimum standards over time, and similarly

reflects the rate at which product innovation has occurred. These factors are therefore implicitly reflected within the future year forecast for the bus market. There is nothing to suggest that the industry will behave significantly differently in the future, and there is no suggestion of such within the Assessment. Regarding operator behaviour as part of a partnership, the Assessment assumes that the partnership would deliver the benefits proposed under the two partnership options, and that these benefits would be delivered for a full 30-year period. This is considerably beyond the legal minimum. If the Assessment had assumed that operators would only deliver the legal minimum, it would have assumed that partnership benefits reduce to zero after the minimum term of the partnership, which would have significantly reduced the total partnership benefits. As discussed in section 5.2 of this report in relation to the length of the appraisal period, this is not the case.

5.4.11 The latest Partnership Plus proposal was only submitted during the consultation period. In reply to Go North West's comment it was, therefore, not possible to reflect it in the Assessment as the Assessment was completed before that proposal had been put forward. The partnership proposals that were represented in the Assessment were the outcome of an extensive engagement exercise between TfGM and incumbent operators during which time operators put forward their proposals.

5.4.12 Nevertheless, TfGM have since reviewed the content of the more recent Partnership Plus proposal and have determined that, while there is insufficient detail to appraise the proposals in many key areas, full implementation of the proposal would be unlikely to alter the relative economic performance of the two reform options. This analysis is documented in full in the separate Partnership Plus chapter of this document at Section 9.

5.4.13 Regarding the modelling of benefits arising from the consolidation of single tickets and fare bands, and the adoption of smart ticketing - the logic for not including any benefits from these interventions in either the franchising or partnership options is set out in sections 2.1.7 and 2.1.8 of the Partnership Options Supporting Paper, which was also published as part of the consultation. In summary, these sections set out the fact that there is a lack of clarity about the specification of the interventions proposed under either reform option. As such, it is not practically possible to appraise the intervention. If it were possible, and based upon the assessment undertaken, it is highly likely that the partnership option would deliver less benefit than the franchise option because of inherent constraints relating to competition law that would not exist in the franchise option. It is considered, therefore, that the approach adopted (to attribute no benefits to any option) favours the partnership options in terms of its impact on the relative economic performance of partnership and franchising.

5.4.14 The comment from Manchester City Council is a supportive one suggesting that the lack of transparency of value for money for public investment in the bus industry

would be maintained under a partnership and would only be addressed via franchising. This point is noted.

5. 5 - Franchise Option Themes

5.5.1 This section summarises comments made in relation to the specification and results of the Proposed Franchising Scheme.

5.5.2 The majority of comments from statutory consultees were from bus operators and were negative or critical of the proposals. Cheshire East Council and Travelwatch North West raised concerns, respectively relating to the impacts of the Proposed Franchising Scheme on the performance of the bus industry in the Cheshire East Council area and on the ability of TfGM to achieve congestion "benefits" under the franchise option without major infrastructure investment

5.5.3 Manchester City Council, Rochdale Borough Council and Wigan Council all provided supportive comments in relation to the economic assessment of the Proposed Franchising Scheme and both Unite and Unison were favourable, although Unite wanted to be reassured that worker conditions would not be impacted.

5.5.4 In addition, Ipsos MORI reports that, of the 2,626 public responses, 102 questioned the value for money of the Proposed Franchising Scheme, 36 suggested it was a misuse of public funds and 43 did not consider it appropriate to increase council tax to pay for it.

5.5.5 Ipsos MORI also report that 92 members of the public suggested there was a lack of evidence to substantiate the conclusion of the Economic Case, implying that they did not believe the scale of benefits reported.

(i) General

5.5.6 Stagecoach made a comment that service quality benefits come with no context as to how they are derived. This context was included in the ECSP at section 5.5, which provides an explanation of both the source of the values used, and how they were incorporated into the model.

5.5.7 Go North West point out that soft factor benefits are described in other research as less important than 'hard' factors (such as frequency and reliability) unless those 'hard' factors have reached acceptable thresholds and it is not clear whether such thresholds would be met under any of the 'do something options' and how those options vary.

5.5.8 There were several concerns about transition issues**.** This included comments that:

- The implementation timeline is unrealistic or overly ambitious – Stagecoach; Jacobs
- The benefits will take longer to realise during the transition period than

assumed in the modelling - Jacobs

5.5.9 The explanation of and justification for the proposed timeline for implementation is included within the Commercial and Management Cases of the Assessment, as is the description of the mechanisms of delivery. The Economic Case is consistent with the other cases in the Assessment. Several other consultees made similar comments regarding the timescales for implementation of the Proposed Franchising Scheme in response to the Commercial and Management Case sections of the Assessment. A detailed response to these comments is provided in the Commercial Case chapter of this document at Section 7.9.

5.5.10 Jacobs raised a number of concerns regarding the modelling of the transition period and how benefits ramp up during this period. They claim that "*For the franchising option the demand drivers are assumed to be effective within three years (all of the impact on the demand is assumed to occurred within three years)".* This statement is not correct. The demand impacts are realised for each tranche in line with the implementation plan, i.e. only realised once franchising is introduced. In addition to this, demand responses are phased for each tranche in line with (a) passenger responses to change in fare and GJT being lagged; and (b) network interventions being implemented over a 5-year period. The modelling of the transition period and ramp up of benefits is documented in more detail in the ECSP at Appendix 2.

5.5.11 There were also concerns about implementation more generally. It was suggested by Jacobs and Stagecoach that, under a franchised market, TfGM are likely to be under political pressure to limit the increase in fares in real terms. This contention is considered in the Strategic Case section of this report in section 4.7. The Proposed Franchising Scheme includes fares reduction benefits to passengers and that is a desirable outcome for passengers. To the extent that political decisions may be taken to build on that initial improvement that will be a matter for elected leaders to decide, weighing societal benefits from such interventions against costs and available funding. It is often found that such interventions create significant societal value.

5.5.12 It is suggested by Go North West that, under franchising, network planning will not be undertaken efficiently; the network will "*ossify*" and that no losses for this have been included in the Assessment. The issue of how network planning will be undertaken under franchising, and how this can lead to benefits for passengers, is addressed in the network section of the Strategic Case chapter of this report (see section 4.5).

5.5.13 The approach to network planning that has been used to assess network changes and that will be used to plan the network on an ongoing basis is the model of network planning used by TfL London Buses. Far from allowing a network to "*ossify*", TfL systematically and continuously draw in data and insight to a planning process that makes several hundred network changes within any given year, the aim of which is

to continuously fine tune the supply of bus services to the demand for bus services, taking advantage of new opportunities (such as new land use developments) whilst reallocating resource to optimise the efficiency of the network.

5.5.14 It has been suggested that the impacts on operator margins will be worse than expected – for example, Stagecoach suggests margins much lower than the 7.5% assumed in the Assessment. Jacobs also state that the rates of return for operators may be lower under the Proposed Franchising Scheme, compared with the current status-quo, meaning that fares may need to increase by more than RPI+1.4% in order to attract franchisees into the market. This comment seems to suggest that Jacobs assume that operators would retain some level of revenue risk under franchising. The rates of return for operators would be determined by the franchise payments and this return is assumed to be 7.5% in the Assessment. Fares would be set by GMCA and revenue retained by GMCA, meaning that changes in fares would have no direct impact on operator revenue. A discussion on the appropriateness of the 7.5% margin assumption is included in the Financial Case section of this report at section 6.2.

5.5.15 It has been suggested that the costs assumed are too low due to EuroVI maintenance, that there would be insufficient revenue protection staff, and insufficient funds to manage and control the network and for on bus equipment. TfGM believe appropriate costs are documented in the Assessment and further information is provided in the Management Case section of this report (see section 8.3) where similar issues were raised in response to the Management Case.

(ii) Brand value is not appropriate

5.5.16 The following comments were made in relation to the brand value used for franchising:

- The brand value of 4.1p per trip benefit to users comes from a study in 1996 of hail and ride services only; what work has been undertaken to verify that users in Manchester would value a branded service at 4.1p per trip; and could any such value be a proxy for user appreciation of better service quality captured elsewhere and involve double counting – Jacobs
- Relying on a study 23 years old based on stated preference surveys in London when there may have been many unbranded small operators not necessarily operating a fixed timetable or predictable route is questionable; even if there is a common brand benefit over and above other brand benefits, it is not clear that this would persist on a permanent basis whereas other, potentially more important soft factors are scaled back after year 7; and any benefits will be initially overstated given unbranded buses crossing Sub-Area boundaries. NPV for franchising reduces to £121.4m (versus £80.6m - £103.1m for the partnership) if brand is removed. This would remove almost entirely all the benefit of the scheme in NPV terms and would substantially lower the BCR for

franchising to 2.10 – Go North West.

- The evidence presented in support of brand value does not withstand scrutiny – Rotala; Stagecoach.
- A brand is about improving the complete customer experience and it is difficult to see how the financial benefit attributed to it will be delivered without enhancements to the end-to-end customer experience but, under franchising, much will remain as now in terms of on-board experience, the network will not be radically altered and fares will increase above inflation – Stagecoach.

5.5.17 It is recognised that there has been little unification or simplification of bus systems in the UK since the Transport Act 1985 deregulated bus services outside of London, and, as a result, very limited empirical evidence is available to transport economists to assess the value to passengers of moving from a fragmented delivery model such as exists in Greater Manchester towards a more unified system that is simpler for passengers and potential passengers to experience. The associated franchise option benefits of increased democratic accountability and place making are also difficult to put a precise value on for the same reasons.

5.5.18 None the less, there is much evidence in the literature to confirm that these aspects of service delivery are of great importance to passengers, for example, in the DfT report "*The Role of Soft Measures in Influencing Patronage Growth and Modal Split in the Bus Market in England*". Table 5.11 in that report is one example of research that clearly show passengers expressing the view that simplified fares and networks are bus system attributes that they value.

5.5.19 When compared with some values available in the literature, such as Table 6.15 from the same DfT report on soft factors where average WTP values of between 12p and 46p per trip are reported for fares simplification interventions, the value accredited to brand in the Assessment is low and is therefore considered to be conservative and reasonable in light of available research and evidence.

5.5.20 Go North West have queried whether any branding benefit should be maintained over time or diminish like other soft factor benefits. The benefits of any scheme are measured by the difference between a reference case and a with-scheme case (in this case the Proposed Franchising Scheme). Wi-Fi benefits are assumed to decline to zero by year 11 since by that time it is assumed that even under the reference case scenario, all buses would be equipped with free Wi-Fi, hence there would no longer be any benefit relative to the reference case. However, there is no assumption in the reference case that a unified brand of the nature described would materialise at any point over the appraisal period, hence the benefit relative to the reference case is maintained throughout that period.

5.5.21 Go North West also challenge whether benefits are overstated in the earlier years of the modelled period since there would still be some unbranded buses running between franchised and non-franchised areas. As noted in the ECSP at Appendix 2,

benefits in the initial years of the appraisal period are factored by the proportion of trips that are made within a franchised area, to ensure that benefits are not overstated during the transition period. Further to this, and as noted elsewhere in this section, the branding benefit represents more than just the livery of the buses.

5.5.22 The contention set out within the Assessment that this component of franchising is valued by passengers is supported by the Ipsos MORI Qualitative Research report which states that:

> *"There was an appetite for a more centralised model, as the high level of variation in standards, and the complexity of current pricing, were considered problematic for bus users and potential bus users"* (section 3 summary of key points)
>
> *The proposed changes to a standardised pricing strategy, and simplified ticketing to be used across all buses were welcomed by participants, who said it would make their lives easier"* (section 4 summary of key points).
>
> *"One of the most convincing elements of the economic case was the convenience that will be passed on to the passenger in terms of consistent pricing and integrated ticketing"* (section 6 summary of key points).

5.5.23 TfGM agree with Stagecoach that a brand is about improving the complete customer experience with passenger benefit attributable to the delivery of enhancements to the end-to-end customer experience. As set out in the Assessment, under the reform options the on-board experience will improve, and fares will be most affordable under the franchise option. The value of unifying the system under a single brand entity that is politically and democratically accountable is entirely consistent with this change to the end to end customer experience.

5.5.24 The risk of not realising this particular "system unification" benefit is solely associated with the franchise option but is considered to be a significantly smaller risk than the risk of not achieving the full and uninterrupted benefits of partnership over 30 years. In the event that an alternative benefit realisation schedule was applied to the partnership option, with gradual erosion and breakdown of the partnership over a period of 10 years, perhaps more quickly as has been seen in some recent UK examples of bus partnerships, the NPV would reduce to approximately one quarter to one third of that claimed. It is not appropriate to compare the "full benefits" partnership NPV with the "partial benefits" franchise NPV for the reason set out above.

(iii) Lack of confidence in benefits relating to congestion and time savings

5.5.25 Concerns were raised relating to benefits from decongestion and time savings. Some

consultees commented on:

- Lack of confidence in decongestion benefits (£61m for franchising versus £16-19m for partnerships), since franchising will deliver essentially the same network and there are no measures to tackle congestion - First
- The claims in the Economic Case that franchising will have a significant impact on reducing congestion feel far too optimistic and disproportionately beneficial to the case for franchising – Stagecoach
- The value of congestion benefits is questionable in a declining market – Arriva
- Lack of confidence in £299m user benefits for time savings and their assessment relative to £68-85m for partnership – First; Stagecoach

5.5.26 Decongestion benefits make up a relatively small proportion of the total benefits (£61m out of £345m). This is based on the difference in bus trips between the reference case and franchising and partnership options and an assumed abstraction rate from car, resulting in fewer car km and therefore reduced congestion. This is a standard approach to calculating decongestion benefits as documented in DfT' s TAG unit A5.4. The fact that patronage is still declining means that the absolute differential between reference and scheme is decreasing over time, but there is still a differential. Regarding the point made by First that there are no measures to tackle congestion, the decongestion benefits arise due to a reduction in car trip kilometres arising from the increase in bus trips relative to the reference case. This can arise without any schemes specifically designed to tackle congestion.

5.5.27 The £299m time saving user benefits are due to a combination of the network changes (which have an impact on average generalised journey time - GJT) and interoperability and quality improvements which are modelled as a willingness to pay value, which are converted to units of time for appraisal purposes and which also change the GJT for passengers. This is documented fully in the ECSP at section 5. As noted above, the benefits are calculated based on the difference between the reference case and scheme forecasts. Whilst Stagecoach and First make generic statements about a lack of confidence in the results, they do not give any more specific reasons or justification for their position and it is therefore difficult to respond in any more detail.

(iv) Concerns relating to fare benefits

5.5.28 In relation to user fare benefits, some consultees said that:

- It is difficult to see how £56m of benefits will arise from a reduction in fares when passenger trips continue to decline – Stagecoach
- The intervention to reduce the multi-operator ticket prices to the levels of the lowest of the largest incumbent operators (aligning it with Stagecoach fares),

with a significant revenue upside of £56 million, feels optimistic - Stagecoach

- In the franchise option fares have been set at a similar level to those in the partnership options, except where people have to interchange between operators. If fares are broadly similar and interoperability is covered separately it is not clear why there should be an extra 50m trips over 30 years with franchising (relative to partnership) above the 81m trips from interoperability improvements- Jacobs.
- The increase in modelled demand results from setting fares to the lowest of four operator categories but the difference in operating costs between them might prevent such fare reductions and therefore the increase in demand might be overestimated. Also, there will be different ambient fare levels and cultures for three years during the transition period which has the potential to discourage users from taking the bus, which would lead to lower levels of demand than has been modelled in the franchising option – Jacobs.

5.5.29 Regarding the £56m "*revenue upside*" noted by Stagecoach due to fare reductions, there is no revenue upside to the intervention to unify period fares at the operator own level. The £56m is a user benefit to passengers because some passengers pay lower fares than in the reference case (see Chart 22 of the Assessment). There is, as would be expected, a farebox revenue downside to this intervention.

5.5.30 Regarding the calculation of benefits in a declining market, as noted above, the benefits in any appraisal (as advised in DfT guidance) are calculated based on the difference between a reference case and the option being appraised. The fact that patronage is declining does not remove the difference between the options.

5.5.31 Whilst TfGM would agree that 50 million trips is a large number, this needs to be put into context. Over 30 years this equates to 1.7m trips per annum, in the region of 1% of the annual trips (noting that the numbers change year to year). In terms of the scale of this figure relative to the partnership scheme, for System One ticket holders under franchising there is a reduction to standard operator own price levels. For a weekly ticket this equates to a 16% reduction (£19 reduced to £16 using 2019 fares). For the Ambitious Partnership option (two-year fare freeze on System One) this equates to approximately an 8-9% reduction (two years of RPI+1.4%). Hence the fare reduction relative to the reference case under the Ambitious Partnership option is approximately half of the fare reduction under the Proposed Franchising Scheme and therefore the demand impact is approximately half. It is also worth noting that this benefit applies to all trips made using a System One ticket, regardless of whether an interchange was made, as Jacobs suggest. Some passengers may have a System One ticket because they use different operators for different journeys on different days, or because they value flexibility, not just because they have to make an interchange.

5.5.32 The 81m additional trips due to interoperability improvements under franchising

arise due to the improvement offered to operator own ticket holders who gain the benefit of being able to use all buses at no additional cost. This benefit therefore applies to a different set of users and results in a separate demand uplift.

5.5.33 Regarding the final Jacobs point on differing operating costs, the DRM applies the change in fare in the model, recalculates revenue and passes this to the financial model as part of the modelling framework. The financial model then uses this (combined with other revenue streams and costs) to forecast TfGM's financial position, as reported in the financial case. Therefore, the impact of lowering the fares has been tested in the models and the financial affect accounted for. Since all revenue risk is taken by GMCA the differential in operating costs in different sections of the market becomes uncoupled from the setting of fares. Indeed this is one of the advantages of a franchised market.

5.5.34 TfGM would agree that having a range of different fares on offer from different providers during transition is undesirable. Removing this barrier to use is one of TfGM's key strategic objectives laid out in the Strategic Case and is one of the reasons it is recommending the Proposed Franchising Scheme. However, the range of tickets available during transition to franchising would be no greater than is the case currently or would be the case under a partnership for the whole appraisal period, therefore the suggestion from Jacobs that the range of tickets during transition would lead to lower patronage than has been modelled is unlikely. In addition, benefits are only realised for trips once the area in which the trip is made has been franchised, so where a range of tickets is still available, i.e. on trips where the start and/or the end of the journey are in a non-franchised area, no benefits are assumed and no demand uplift is assumed.

(v) Patronage continues to decline under franchising

5.5.35 Several points were made regarding the decline in patronage under franchising. This included**:**

- Bus patronage will continue to fall under Franchising – First
- Franchising should reverse the decline in patronage, otherwise why intervene? - Stagecoach
- The real benefits of franchising are all linked with Phase 2 which are not funded and not committed – Stagecoach

5.5.36 Ipsos MORI report that the issue of patronage continuing to decline under franchising was also raised by a small number of members of the public (14), and this issue is further highlighted in the Ipsos MORI Qualitative Research report which stated in the Summary of Key Insights that "*The forecast for patronage was met with a mixed response. Some groups responded to the figures with great surprise, while for others the drop in patronage was in line with their expectations*".

5.5.37 The economic modelling behind the Assessment is deliberately restricted to the

immediate interventions that the Proposed Franchising Scheme would deliver, which are defined and costed. These interventions deliver a one-off step change to passengers in the cost and quality of service offered. That change is maintained relative to the status-quo, but the Assessment does not currently assume any ongoing investment to deliver further improvements, hence the patronage forecast returns to a trajectory similar to the reference case.

5.5.38 However, TfGM believe that the types of interventions from ongoing investment proposed for Phase 2 could well stabilise the market and in combination with other public policy measures help to substantially improve the market position of bus by investing in its quality. As documented in the description of the importance of Phase 2 interventions in section 15.4 of the Assessment and considered in the response to the Strategic Case (see section 4.12 of this report), TfGM believe that the best platform from which to deliver the further investments is the Proposed Franchising Scheme.

(vi) Franchising scheme does not offer immediate benefit to passengers

5.5.39 Many consultees raised the concern that the Proposed Franchising Scheme may not deliver any tangible benefits to passengers, particularly in the short term.

5.5.40 This was raised predominantly as part of the qualitative research and is reported in the Ipsos MORI Qualitative Research report section 6. This report states that "*Participants were sceptical about whether the price of tickets would decrease, and that cost savings would not necessarily be passed on to them*". A similar point is made regarding the length of time that proposals would take to materialise – "*The length of time the proposals would take to implement was an issue for some. Although they acknowledged it is a long-term vision, they wanted to be able to see a difference quicker. They particularly wanted to see short-term benefits that would make a tangible difference to them*". Questions were also raised around whether concessionary fares would be impacted.

5.5.41 The Assessment assumes that benefits are realised in line with the franchising implementation programme, and the method by which this is modelled is documented in the ECSP at Appendix 2. Whilst some aspects of the interventions would be rolled out over a number of years, for example improvements to the network, some impacts would be experienced immediately by passengers once the area they begin and end their journey is franchised, including:

- A unification of period fares - meaning that a former System One ticket holder will experience a reduction to the price of operator own fares – referred to as fares benefits in the Assessment;

- A change in ticket validity - meaning that a holder of a former operator own ticket would be able to use any bus at no extra cost – referred to as

interoperability benefits in the Assessment;

- An improvement to service quality including improved driver standards and additional ticket inspectors – referred to as service quality benefits in the Assessment;

- A more coordinated, easy to use network with single point of contact and single brand – referred to as branding benefit in the Assessment.

5.5.42 Regarding concessionary fares, no changes were proposed to the current concessionary fare arrangements as part of the Proposed Franchising Scheme as defined in the Assessment.

5.5.43 On a similar theme, in response to the consultation question regarding impacts on passengers, several consultees raised concerns regarding the small number of passengers that would be faced with an increase in fare from the Proposed Franchising Scheme. The Chartered Institute of Logistics and Transport noted that "*73% of bus users are likely to experience no change in fares in Phase 1, whilst still being subject to inflation-related increases. It is unclear how the objective of more 'affordability' is to be met*.". Similarly, 16 members of the public raised concerns over potential increases in fares. An example is given in chapter 12 of Ipsos MORI's report – "*Who are the small fraction who would experience an increase in fare be? Are they likely to be low income groups?".*

5.5.44 As noted in table 13 of The Assessment (section 16.1), it is true that some small fare increases would arise for a small number of passengers due to the harmonisation of standard GM wide operator own period tickets at the level of the major operators. This issue is addressed in the Strategic Case chapter of this document at section 4.7. In summary, the fare increase would be relatively small (for example using today's prices a Rosso GM weekly Saver would increase from £15 to £16) and as noted in Table 13, there are no increases of more than 10 pence per trip. However, it should also be noted that this would give the holder access to the whole of Greater Manchester rather than just the network of a single operator, which may mean that the passenger might no longer need to buy a separate single ticket for a one-off journey with another operator, or may be able to make additional journeys that previously did not warrant the additional cost of a System One ticket. These benefits are reflected as part of the interoperability benefit. In addition, there are also network and service quality improvements under the franchising scheme which may compensate for the small fare increase and result in an overall reduction in the total generalised cost of travel, despite the fare increase.

5.5.45 To answer the specific question in the example provided by Ipsos MORI regarding the small group of passengers gaining an increase in fare, this would not affect passengers on low incomes or any other specific groups disproportionately. These small disbenefits are included in the appraisal and are far outweighed by the benefits from fare reductions due to the more significant fare drop for former System One

ticket holders.

5.5.46 Regarding the CILT point that 73% of users experiencing no change in fares – this represents holders of major operator own period tickets and all single ticket holders. Relative to the reference case and the partnership options fares would be more affordable, since the premium associated with a multi-operator ticket would be removed.

(vii) Franchising cost is too high and could be spent on infrastructure

5.5.47 The following points were made:

- The Proposed Franchising Scheme will absorb public money for no ascertainable improvement in journey time or quality - Stagecoach
- It is noted that congestion will continue unless adequate investment in infrastructure is made, and therefore the £299.1m ascribed to travel time savings is considered high/not credible – Travelwatch North West
- What are the opportunity costs of Franchising? – First
- Investing the money into infrastructure schemes via a partnership would be a more optimal investment - Stagecoach
- The implementation of the Proposed Franchising Scheme will not include any infrastructure or other strategic measures to facilitate more efficient bus operation by addressing congestion problems - First
- Franchising is not an optimal use of public funds – Stagecoach

5.5.48 Operators have made challenges to TfGM's analysis of the causes of decline, and in doing so focused on the issue of congestion as the key challenge facing the bus service. As set out in the Strategic Case of the Assessment, it is wrong to say that congestion is the only issue facing the market. This is to ignore the issues that arise from the market itself such as the efficiency of the network and complexity and level of fares to name but two. Operators have also put forward a set of arguments that then argue that instead of pursuing franchising GMCA should instead spend the money that would be spent on the transition cost of franchising (the 'opportunity cost') over the first five years (£134m) on bus priority measures to reduce congestion in conjunction with pursuing a partnership. To address these issues, it is important to consider some of the consultation points raised by operators to the Strategic Case.

5.5.49 Some operators contend that it would be better to address congestion before addressing bus reform. For instance, First in their answer to Q16, state that "*surely the correct approach, as adopted in many areas of the UK already, is to address these issues first, thereby providing an environment where bus operators are able to maximise their operational efficiency and provide a higher standard of service that*

passengers need."

5.5.50 Some operators also suggested that measures that would be part of 'Phase 2' should be considered alongside a partnership. They commented that the benefits of a partnership together with the benefits that could be secured with Phase 2 measures by using the money saved in the costs of implementing franchising is a better option than the Proposed Franchising Scheme (with its attendant transition costs). This is linked to their arguments on the primacy of congestion as a cause of the current decline in bus patronage, which is discussed in section 4.3 of this report.

5.5.51 Stagecoach's overarching view is that the Proposed Franchising Scheme will absorb £134m of public money, with no ascertainable improvement in journey times and service quality or provision, and that it seems evident that investing that amount into infrastructure projects alongside a partnership with bus operators would be a more optimal investment for taxpayers. These arguments are considered below when considering the choice between franchising and a partnership.

5.5.52 These issues are addressed in the Strategic Case section of this report.

(viii) Other matters

5.5.53 Other matters raised by consultees included:

- What if the Proposed Franchising Scheme fails? – Bus Users UK (similar comments were also made by the CMA in response to the Commercial Case)
- There are concerns that there will be a negative impact on the bus industry beyond the GM border – Cheshire East Council
- Metrolink appears to benefit from removal of parallel services – Stagecoach
- The claim at paragraph 15.4.9 (of the Assessment) that only TfL Buses have achieved a major improvement in the provision of local bus services in recent history across a large city region, seems to ignore passenger growth and trips/population levels achieved in areas of the country (such as Merseyside), where support for bus has been forthcoming from the local authority, without franchising. - Stagecoach
- Chart 19 (of the Assessment) suggests you need an additional £10 million in subsidy to generate 3 million to 3.5 million trips. We would be interested in understanding how this is considered to be value for money. - Stagecoach

5.5.54 The economic Assessment includes a cost associated with risk, which is documented in the risk and optimism bias supporting paper published prior to the consultation. It is expected that risks of failure have been adequately addressed within this risk analysis component of the Assessment. Specific queries and comments from consultees relating to risk are address in the risk analysis section of this chapter. The points raised by the CMA are addressed in the Commercial Case section of this

report.

5.5.55 A detailed response on the subject of cross boundary risks and mitigations is provided in the Strategic Case section of this report in section 4.8.

5.5.56 Regarding Metrolink, the option specifications for both the partnership and franchising options do not include network changes to remove parallel bus services from Metrolink corridors. The line labelled "Metrolink Revenue Change" in Table 9 of the Assessment contributes to the total cost of each option and as such is a positive number, i.e. it represents a loss of revenue to Metrolink as a result of each option (due to abstraction of Metrolink trips to bus relative to the reference case), which is a cost to GMCA.

5.5.57 TfGM recognise that there has been growth in passenger demand in areas outside of London in the recent history and that achieving demand growth (or reducing decline) is a complex function of many interacting factors. However, no town or city or city region has achieved the same sustained level of success as has been seen in London over the last 20 years, nor is it clear from the evidence in those places where growth has occurred (such as Brighton, Bristol and Reading) what the causes for that growth are. Of note, DfT data for Merseyside does not support the assertion that bus travel in the Liverpool area is growing – in fact it shows an almost identical rate of decline since 2010 as that experienced in Manchester. The basis of a contention to the contrary is not fully understood but may be the result of looking at data reflective of a subset of the overall market.

5.5.58 With regards the use of public funds to improve the quality of the bus system in a Phase 2 additional funding scenario, the value for money proposition would be based on an approach to governance and decision making used by TfL as described in the ECSP. This approach assumes only interventions that exceed a VfM threshold are progressed. This pass-mark is typically set at a level of £2 of benefits to £1 of costs to ensure good use of available funds. It is upon that basis that Chart 19 was derived.

(ix) Favourable/positive comments

- The Proposed Franchising Scheme will resolve concerns regarding the VfM in the use of substantial public sector funds/subsidy and will provide a better platform for further investment. – Manchester City Council
- More needs to be made of the Proposed Franchising Scheme providing a platform on which to progress Phase 2 proposals that will tackle the rate of decline in bus usage which the partnership options do not – Rochdale Borough Council
- Public control should improve the way public money currently spent on the industry is used, with more money available for socially necessary routes at the

expense of private sector profits – Unison

- The forecasts for the Proposed Franchising Scheme are considered conservative to avoid overstating the benefits of this option – Wigan Council
- A conservative approach has been taken in monetising soft factor benefits - Jacobs

5.5.59 As noted at the beginning of this chapter, Ipsos MORI report that the majority of the public (2091 out of 2626) also provided favourable comments.

5.5.60 These comments are noted by TfGM.

5. 6 - Risk Analysis Themes

5.6.1 Risks are relevant to each of the five Cases in the Assessment and therefore specific references are made throughout this report to individual risks where appropriate (e.g. risk around the acquisition of depots and during transition). This section addresses the methodological comments raised relevant to the Economic Case – the majority of which are contained within the Jacobs paper referred to by several bus operators and OneBus. In addition to referring to the Jacobs report, operators also made some specific statements in response to question 17 of the consultation about their views on the relative risk of options considered in the Assessment, the schedule of sensitivity tests undertaken, and other various comments on risk which are also considered below.

(i) Jacobs Report on Risk Assessment

Methodological Approach

5.6.2 The Risk Assessment section of the Jacobs report (Section 3.11) states that TfGM has conducted a risk assessment "*that appears consistent with HMT Green Book guidance on identifying and quantifying risk*", and in respect of the Quantified Risk Assessment (QRA) accepts that: "*the methodology for this as set out in the 'Risk and Optimism Bias Supporting Paper' appears consistent with the HMT Green Book and DfT Web TAG guidance on Quantified Risk Assessment*".

5.6.3 In terms of the quantification of revenue risk in particular it notes that TfGM has used a scenario-based approach to model endogenous revenue risks and concludes that "*The methodology for the risk assessment seems reasonable in terms of assessing and modelling these by scale of impact and length of duration, combined with probabilities of scenarios occurring*".

'System One' Risk

5.6.4 The Jacobs report notes that a "*System One risk has also been modelled using the Monte Carlo approach using ticketing data from the DfT's National Travel Survey (NTS) regarding the proportions of different ticketing types sold in Manchester*" and goes on to conclude that "*This seems a reasonable approach but there is no information presented on the specific Monte Carlo modelling scenarios undertaken, only the parameters of the triangular distribution used*".

5.6.5 The Jacobs report endorses the approach taken to modelling the risk. In respect of their request for information on the specific Monte Carlo scenarios modelled, these were set out in paragraph 2.1.25 of the Risk and Optimism Bias Supporting Paper.

Optimism Bias

5.6.6 The Jacobs report considers the approach taken to the assessment of Optimism Bias in the Assessment. The report notes that "*The methodology broadly appears sound*

and is consistent with the HMT Green Book supplementary guidance on optimism bias, with the key rationale for the specific values explained with reference to the values provided in the Green Book". This provides endorsement for the approach taken by TfGM in respect of optimism bias.

Clarification questions on methods and approach

5.6.7 Whilst no requests for information in relation to the non-quantified risk analysis were made during the consultation period, a variety of issues were raised by Jacobs in its report seeking clarification of approach as follows:

- There is not a clear methodology on how the criteria were established for the impact and probability of each risk in the Non-Quantifiable Risks section. The tables presented in Appendix B would benefit from setting out how the very low to very high impact and probability scores have been derived, for example if there were set criteria established for these scores.

- Is it a fair reflection to suggest that the Transition Risk in F071a would be scored low, if the underlying cost of running the network were to increase?

- Would risk F018 be minimised if engagement with operators focused on an initial implementation period (and transition) through a negotiated contract arrangement, thus giving existing operators confidence in their existing business models and giving the authority some confidence in continued collaborative working?

- Is there a link between F029 and F069 which hasn't been included? Advances in technology have in the past been linked to vehicle and fleet specifications, and it appears slightly at odds that F029 is scored low, particularly if contract requirements place the need for improved technology in contract specifications and it can't be delivered in time because of manufacturer timescales by successful operators.

- Reiterating the point above where there appears to be 'technology' links between Risk F069 (critical) and F82 (medium).

- Should the same (or a version of the same) risks have flowed through the Assessment for each 'model'? There is for example no account for the impact of franchising on small operators, but a reputational risk is included in the partnership model.

5.6.8 Regarding the risk register contained within Appendix B of the Assessment, Section 46.7 of the Assessment explains that the main method for identification of risks during the preparation of the Assessment was through workshops held with stakeholders to capture input and themes from all areas of the organisation. For each risk, its impact and corresponding mitigations were identified, with these being monitored and updated over time to manage and reduce the likelihood and/or impact of each risk. All risks were assigned a risk owner who updated the risks and

led on developing the detailed mitigations and quantification of impact value. The risk register was then reviewed on a periodic basis during the production of the Assessment to enable development, review and challenge. TfGM's Risk Management Policy and Strategy was followed to determine how to score the qualitative risks. (TfGM Risk Management Policy and Strategy is set out in the Assessment in section 46.7, 46.7.7 onwards).

5.6.9 In relation to risk F071a, this captures the risk that: "*incumbent operators require a price higher than anticipated for their fleet to enter the Residual value mechanism*". The risk is scored as 'low' on the basis that residual value mechanism is designed on solid commercial principles including paying cognisance to operators' existing depreciation policies (as set out in the Commercial Case), and as an alternative, new vehicles would be procured to source vehicles for the RV mechanism. This has no relationship to the underlying cost of running the network as this concerns capital costs rather than running costs.

5.6.10 In terms of the query on risk F018, TfGM agrees that transition to the Proposed Franchising Scheme is required and has proposed a phased approach to transition to manage the risk of any disruption to bus services during this period. However, the award of contracts is constrained by applicable legal frameworks. Franchise contracts would have to be awarded under the Utilities Contracts Regulations 2016, under which TfGM is obliged to procure the relevant services competitively such that a direct award to existing operators without competition is not possible. The procurement of these contracts is also subject to compliance with EU Regulation 1370/2007 and (in a post-Brexit scenario) The Regulation (EC) No 1370/2007 (Public Service Obligations in Transport) (Amendment) (EU Exit) Regulations 2019. The ability to award service contracts directly on a medium term basis, as proposed by the query, to manage transition, is not something that is envisaged by the above legislation, save on an emergency / specific basis. The Act did not facilitate, nor does it appear to envisage, such a model.

5.6.11 Risk F029 captures the risk that the fleet specified within franchise contracts is not deliverable by the market. TfGM considers that this is not linked to Risk F069, which captures the risk of there being an "*Inability to respond to changes in technology*", because TfGM would not specify vehicles that it did not consider feasible to deliver – it would consult with operators and manufacturers ahead of specifying the contracts. In addition, the procurement process would be designed to enable bidders to raise queries if they consider aspects of the specification are unlikely to be deliverable.

5.6.12 As indicated, Risk F069 captures the risk of there being an "*Inability to respond to changes in technology*". Risk F082 captures the risk that the specification of systems (e.g. Automatic Vehicle Location (AVL), ETM, RTPI) does not meet requirements for managing and monitoring franchise services. Such systems are well established in the market and would be future proofed. TfGM therefore considers that these risks

are not linked.

5.6.13 In terms of the query about how risks are dealt with for each of the options in the Assessment, paragraph 2.2.2 of the Risk and Optimism Bias Supporting Paper explains that there was a separate risk register created for each of the options for reform as well as the Do Minimum. The risks faced under each of the options are different and thus have different risks associated with them. It would not be appropriate to assume they were the same under each of the options. In terms of the specific raised query about small operators and any potential reputational impact of the effects on them not being appropriately considered, Risk F016 in Appendix A of the Assessment does recognise that there could be reputational and political risk if small operators are not bidding on a level playing field, however, the impact on smaller operators is considered more generally in the commercial case of the Assessment.

5.6.14 Based on posing these questions Jacobs asserts that *"some risks are interlinked with one another"* and that "*it seems that there are some risks that would flow through each of the scenarios but are not captured in each*". Jacobs also suggest that an approach which groups risks by broad category, rather than by scenario, may ensure each risk is captured.

5.6.15 However, points made by Jacobs do not demonstrate links that TfGM has not accounted for, and do not in any way justify the point that there are risks common to each of the scenarios not captured in the risk assessment undertaken. TfGM have categorised risks in the risk register to help ensure that all are captured and to help the process of developing the risk register. Ultimately, as set out above, the risks are different for each option and it is entirely appropriate to group them in this way. This enables them to feed into value for money analysis in a transparent way.

Other matters raised by Jacobs and their conclusion

5.6.16 The Jacobs report suggests that it would be helpful if they could obtain detailed outputs for the Monte Carlo analysis and understand the scenarios used for the revenue risks modelling. These are provided in Tables 49 and 53 of the Financial case for the franchising and partnership options (respectively) and the results for the Economic case are provided in Table 21. These tables also provide a breakdown of the provision amounts relating to cost risks, the output from the revenue risk modelling and the value of the 'System One' risk – i.e. each of the risk categories outlined in the Risk and Optimism Bias Supporting Paper.

5.6.17 Jacobs general conclusion in relation to the risk assessment is that "*in general terms TfGM has underestimated the risks related to the scheme*". It is not clear what "*in general terms*" means, and this conclusion is not supported by the analysis presented by Jacobs. In a number of areas, they support the methodology employed, and the Assessment includes careful consideration of a full range of potential risks as well as

an appropriate approach to quantification.

(ii) Statutory Consultees

5.6.18 Comments were received suggesting that TfGM has underestimated risk associated with the Proposed Franchising Scheme (Go North West, Rotala and Stagecoach).

5.6.19 The responses from these consultees include various statements around franchising being riskier than partnership. As explained in the Assessment, risk registers were developed for each of the options considered (the Proposed Franchising Scheme, both partnership options and the Do Minimum). Appendix A in the Assessment contains these risk registers, where it can be seen that the franchising risk register contains more risks than the partnership risk register. In Tables 49 and 53 of the Financial Case and Table 21 of the Economic Case in the Assessment it can also be seen that the quantified risk value is higher for franchising than the partnership option, demonstrating that TfGM recognises the differing risk profile for the GMCA between partnership and franchising. Overall, TfGM believe that risk has been treated appropriately as presented in the Assessment.

5.6.20 Some of the responses from operators also reiterated points made by Jacobs that have been described above.

5.6.21 Go North West comments specifically that the Risk and Optimism Bias Supporting Paper is limited in scope; that it only covers two points (revenue risk that would be faced by GMCA in the event of adverse macroeconomic shocks and optimism on costs that GMCA would incur); and that does not carry out sensitivity analysis on the key inputs that generate the benefits case. Go North West contend, therefore, that it cannot be used to demonstrate, therefore, that the benefit cost case is sufficiently robust to appropriate sensitivity analysis. The Risk and Optimism Bias Supporting Paper is not limited as suggested but supports the analysis of all the items to which optimism bias has been applied and also how all of the risks, not just the specific revenue risks, have been assessed. Sensitivity analysis is described in the Economic Case and points on the robustness of the benefits case and other aspects are discussed below.

5.6.22 TfGM's approach to revenue risk and why this is reasonable is explained in response to Stagecoach's query under theme 1 of the Financial Case section of this report. TfGM notes the positive feedback received in respect of the approach to Optimism Bias (also provided in the Jacobs report – refer to above).

5.6.23 A query was also raised by Stagecoach in respect of the risk mitigation plans in place as follows: "*There is not a risk mitigation plan, which could therefore lead to higher-than-expected costs*". However, Sections 46.7 and Section 48.4 of the Management Case summarise how ongoing and transition risks would be managed under franchising respectively and these sections contain a table summarising the risks and

sets out the mitigations.

5.6.24 Stagecoach also sought clarification and justification for the conclusion that appraisal inputs regarding optimism bias rates have minimal impacts on the economic performance of the franchising option. It is not clear what conclusion is being referred to; the inputs have an effect to the extent that optimism bias appears as a cost in the analysis. The sensitivities applied to these rates have a minimal impact on the economic performance of the scheme because they do not increase or decrease the costs to the extent that this would make a great difference. This is clear from the analysis set out in Section 15.5 of the Economic Case of the Assessment.

5.6.25 A variety of issues were raised which suggest TfGM is carrying risk due to the underestimation of costs. For example, some consultees said that:

- Baseline employment costs are too low - Rotala
- The baseline model for cost and its calculation require modification as they do not properly reflect recent increased employment costs (pensions, apprentice levy, minimum wage, and recent pay increases) - Rotala
- While increased annual costs for achieving a fully Euro VI fleet have been taken into account, additional costs of ad blue and exhaust maintenance do not appear to have been considered. - Rotala
- When considering wage bills to calculate driver costs, TfGM has not taken into account incremental driver wages that increase with length of service- Rotala
- TfGM has not included a sufficient number of Revenue Protection Officers when compared with the number of such Officers employed in Greater London. - Rotala
- TfGM has not allocated sufficient funds for managing the franchise contracts efficiently especially in circumstances where TfGM predicts that the franchising will give rise to 1.4 million more passengers per year by 2040. This will also require bus operators to invest in additional service control staff. - Rotala
- TfGM estimates costs for "*on bus equipment and branding – Wi-Fi, driver radio, telematics, CCTV*" at approximately £3,850 per bus. However, an assessment for bus franchising in Wales suggests that the figure should be closer to £15,000 per bus - Rotala
- Contracts will cost more than forecast due to involvement of public authorities during the award process, leading to political pressure for higher operated km's – Stagecoach / Jacobs
- Bus replacement rates will slow in the lead up to reform, adding cost in the

early years of reform – Stagecoach / Jacobs

- Bus replacement costs may be under-estimated due to enhanced specification of franchise and due to anecdotal industry evidence that costs of fleet are increasing above the assumed RPI level contained in the Assessment – Stagecoach / Jacobs

- Cost of acquiring depots may be underestimated – Stagecoach / Jacobs

5.6.26 The full basis of our approach to costings and our response to the issues raised can be found in the Financial Case and Commercial Case sections of this report at sections 6.2 and 7.8. In general, TfGM would agree that there is uncertainty surrounding many of the costs of implementing the Proposed Franchising Scheme. These uncertainties are addressed via the inclusion of quantified risk in the scheme costs and sensitivity testing.

(iii) Sensitivity testing

5.6.27 A number of comments were raised regarding the schedule of sensitivity tests. Some consultees said that:

- The sensitivity tests have not used assumptions that sufficiently reflect the range of potential outcomes and have excluded some sensitivity tests that are typically carried out – Jacobs

- The sensitivity tests vary input assumptions by a smaller proportion than would be expected in an economic case such as this - Stagecoach

- In some cases, the results were counter-intuitive (eg reduced population growth improved the case for reform) – Stagecoach / Jacobs

- The Economic Case does not appear to demonstrate adequate sensitivity testing on key inputs that generate the benefits case – Go North West

5.6.28 Regarding the range and scope of sensitivity tests defined, these have, where possible, been designed to reflect the likely range of the risk under consideration. That does require use of pre-existing data where available or alternatively a level of professional judgement to determine an appropriate range estimate. Jacobs accepted that *"the range of sensitivity tests included seems reasonable".* In all cases, the values are intended to be representative of the risk we are carrying and are not arbitrarily selected. For example, population and employment sensitivity tests make use of already established higher and lower growth scenarios, fuel cost tests reflect the higher and lower fuel cost forecasts published by the Department for Business, Energy and Industrial Strategy, and interoperability tests use upper and lower bound values from the research study based on 95% confidence intervals.

5.6.29 Jacobs have not listed what sensitivity tests they would have expected to see other than an example of a change in capital expenditure. The risk associated with this is

captured via the quantified risk assessment mechanism. Regarding Go North West's point that adequate sensitivity testing on inputs that generate the benefits case has not been demonstrated, tables 10 and 11 in the Assessment document the list of sensitivity tests which includes a section of tests labelled "scheme Impacts". Tests 19, 20 and 21 directly change the value of the interventions that drive benefits. Tests 6 to 11 vary how responsive patronage is to those input changes, and therefore vary how many additional passengers are generated. Other tests, focussed on inputs which affect both the reference case and scheme forecasts (e.g. exogenous inputs like population and employment), result in changes to the size of the bus market and the number of existing passengers gaining benefits - another key input in the derivation of benefits. TfGM therefore considers that adequate sensitivity testing of key inputs has been carried out.

5.6.30 Regarding counter-intuitive results, sensitivity tests 1 (lower population growth), 3 (lower fuel cost increases) and 5 (active travel investment) all reduce the size of the bus market but the interventions remain the same. We would therefore expect a reduction in NPV, which is what we get. However, this reduction is made up of an increase in Present Value of Benefits (PVB) and increase in Present Value of Costs (PVC). At first glance this seems odd. The reason for the result is due to the following logic chain:

- Lower population growth, lower fuel costs and more investment in active travel all result in lower patronage and lower revenue in the reference case. The subsequent loss of revenue to private operators under the franchising option is therefore less than would occur if reference case patronage was higher (as per the central forecast).

- But the value of franchise payments received by operators (which is linked to operating costs) is the same as has been assumed within the central forecasts for this option due to a sensitivity test assumption not to vary any other variable, hence the overall disbenefit to operators is lower than is the case in the central forecasts for this option.

- Therefore, the PVB goes up, because the impact on private operators is included within the PVB.

- Meanwhile the TfGM revenue gain (from ticket sales) is smaller than for the central forecasts for the franchise option due to the smaller market size, whilst the expenditure on franchise payments is assumed to be the same (because operating cost is not altered). Hence there is less revenue to offset the scheme costs.

- Hence PVC also goes up.

5.6.31 Of course, the user benefits are reduced (in line with the smaller market) but this is outweighed by the change in revenue. It is considered that the results of the sensitivity tests are correct given the specification of the test for the reasons set out

above.

5.6.32 TfGM's view is that the uncertainties around benefits are assessed sufficiently via the suite of sensitivity tests presented, and that the Proposed Franchising Scheme remains good value for money in all cases.

5. 7 - Wider Economic Impacts Themes

5.7.1 Comments were received from statutory consultees on the approach to the basis of the Wider Economic Impacts (WEIs). Most of the issues were raised in the Jacobs report for OneBus, with similar issues raised independently by Stagecoach and Go North West and related to the application of WEI tools to bus reform and scale of benefit.

5.7.2 Jacobs suggested that the values for WEIs in the Assessment were larger than might be expected for this type of scheme. They cited an SDG Report from 2011, "*WEI's of Transport Investments in New Zealand*", which surveyed assessments finding that WEIs increased the value of appraisal by 25% on average rather than the 58% suggested for the Proposed Franchising Scheme. They suggested that WEIs are more typically associated with major infrastructure projects, so the level claimed for bus provision optimisation is unexpected and evidence is provided to justify the claim that they will be achieved is minimal.

5.7.3 Go North West stated that the most important source of benefits is labour supply improvements that result from bringing more individuals into the labour force, by reducing time and/or cost of getting to a place to work, as a result of changes in the bus network. They suggested that it was unclear how significant benefits could realistically arise from redeploying 30 only buses (equating to over £10m of benefit per bus). If they can then (so they suggested) the revised VPA should also do so.

5.7.4 Both Jacobs and Stagecoach challenge the assessment of agglomeration benefits. They contend that agglomeration benefits measure the net business productivity increase as a result of improvements in effective density but they point out that the majority of business trips are typically not made by bus, on average 3.1% of such trips, and there is already a free city centre bus service, and suggest that the local impact on business to business interactions seems especially large and the level of congestion relief would be unlikely to support such a large valuation for other highway trips. They suggest that agglomeration impacts are concerned with linking businesses and not, as suggested in the Assessment and Supporting Paper, with "*linking people with opportunity*". Such effects are covered in labour supply and better job matching prospects. Go North West also considered that the agglomeration benefits were questionable since they also arise from network changes and the scope for network adjustment seems small.

5.7.5 Stagecoach were also concerned about how the local (as opposed to national) WEIs had been calculated, as no evidence on the assumptions used had been provided. The methodology used to calculate these local values was not transparent.

5.7.6 General questions were also raised by Stagecoach and Jacobs/OneBus about the extent to which the analysis has been peer reviewed.

5.7.7 In response, it should be noted that the science of calculating WEIs is young and that

the basic approaches to the derivation of WEIs and their importance within the evidence suite for transport projects has evolved significantly in the 15 years since they were first applied to a transport scheme appraisal in the UK, namely within the Crossrail 1 project appraisal in London circa. 2005. At that time, the use of WEI analysis was only considered applicable to very large infrastructure projects, such as Crossrail, where the approximate uplift of 30% to the standard welfare economic valuation became something of a benchmark. This thinking was still prevalent in 2011, the date of the study to which Jacobs referred. In the intervening years however, the "toolkit" applicable to the calculation of WEIs has grown significantly, increasing the values derived from such analysis as a proportion of the welfare economic valuations.

5.7.8 It is increasingly recognised that any transport intervention that changes generalised costs of travel (and not just large infrastructure projects) can generate WEIs. The applicability and basis of the approach adopted (and its consistency with national guidance) is set out in section 19.2 of the Assessment and section 7 of the ECSP. It is noted that in relation to the scale of benefits, there is no available comparator, but that the WEIs are not included in the "core" economic appraisal, and that a broadly similar scale of WEIs (when expressed as a ratio of PVB) is calculated for the partnership options. It is therefore reasonable to conclude that the issues raised could not affect the relative performance of the options.

5.7.9 Regarding the Go North West point that the WEIs are very large for the redeployment on 30 buses, firstly it is important to remember that the figure of £304m is over the full appraisal period, not for a single year. Further, and more importantly, the benefits are calculated based on the change in generalised cost between the reference case and the franchising or partnership, and that this change arises not just from network changes but from the other interventions that affect generalised cost – interoperability, service quality improvements and fare reductions.

5.7.10 The DfT definition of agglomeration impact, in DfT TAG Unit A2.1 Glossary of terms is:

"Agglomeration – this represents one of the mechanisms by which transport schemes can boost social welfare by raising the productivity of businesses due to better links to other businesses and sources of labour."

5.7.11 This formal DfT definition of agglomeration goes well beyond the productivity impacts of a scheme as a result of improvements for business travellers as implied by Jacobs and Stagecoach. It also requires us to consider the full impact of effectively bringing people and jobs closer together through the reduction of generalised journey times (not just in vehicle journey times as implied by the consultation response). For this reason, it is expected that the additional PVR proposed within the partnership plus scheme, whilst very welcome, would not alter the overall conclusions of this analysis, namely that the franchise option creates greater

reductions on passengers generalised costs of travel and therefore has significantly more positive value when measured in both traditional welfare economic terms and also using WEI (Macro-economic) analysis.

5.7.12 More generally, the approach to creating the WEI analysis and the analysis itself has been the subject of peer review by Dr James Laird, who TfGM is confident is a pre-eminent academic and practitioner in this field, and is therefore considered to have been undertaken in a way that is robust and consistent with current standard practice, including the approach to deriving national versus local impacts.

5. 8 - Insight from the qualitative research on Economic Case issues

5.8.1 The following points were noted by TfGM from Ipsos MORI's "*Qualitative Research Summary Report*";

- There was some confusion about the basis of the economic analysis. This may have been the result of the necessarily abbreviated summary presented and the time available to explain the detailed basis of the economic case set out within the extensive suite of material published to explain the case.
- As is inevitable and reasonable, some participants were sceptical about the ability of GMCA to deliver the claimed benefits. Concerns were also raised about the extent to which the taxpayer would be impacted. Others felt that investment should be prioritised in other modes. In all of these cases, detailed information is available to explain how the recommended course of action will create benefit, impact the taxpayer and fit with other strategic interventions to improve the GM transport system.
- Many other supportive comments were received. These included support for the proposition that bus services would improve and be more stable, that the value of franchising exceeded that of other options and that franchising would create good environmental and social outcomes and impacts.
- Many participants supported TfGM's view that passengers place value on the simplification of ticketing and a more centralised model to make the system easier to use and understand, as noted in paragraph 5.5.22 of this chapter.

5.8.2 Overall, the research revealed that there was some scepticism amongst the focus groups, but a general support for the objectives of the reform and for the underlying recommendation emerging from the economic analysis.

5. 9 - Conclusions

5.9.1 As noted in the introduction to this chapter, most consultees who provided a response to the Economic Case (2147 out of 2693) were favourable. Of the unfavourable comments, the most substantive comments and challenges were received from incumbent Greater Manchester bus operators.

5.9.2 As noted by Ipsos MORI, of those providing favourable comments the most frequently cited comments were general support and agreement with the conclusion of the Economic Case (1119). The Proposed Franchising Scheme delivering better value fares (266), the fact that services should serve the public benefit and not be run for profit (133) and agreement that the Proposed Franchising Scheme provides best value for money (130) were other commonly cited responses.

5.9.3 This chapter has focussed on providing responses to the unfavourable comments received from consultees, predominantly bus operators, and a summary of the key points and TfGM responses is provided below.

Appraisal Specification Themes

5.9.4 Some consultees questioned the long term fares growth assumption of RPI+1.4%, claiming that this figure is out of line with historic changes and is not plausible, including a reference to a DfT revenue per trip dataset that suggested growth lower than RPI. Evidence has been provided that in fact RPI+1.4% is not out of line with historic growth and in fact if the appropriate DfT dataset is viewed (table BUS0405 – bus fares index, rather than table BUS0402 – operating revenue per trip), fares growth has actually been greater than RPI+1.4% in English Metropolitan areas since 2004/5. It has also been explained that the rate of fares growth was not set solely based on historic precedent but also based on the requirement for operator margins to be maintained in a plausible range in the face of increasing operating costs. Finally, the point is made that the rate of background fares growth is consistent between all cases, and in fact lower fares growth favours the Franchising option slightly, as it dilutes the impact of the two year fares freeze for System One tickets under both partnership options.

5.9.5 Concerns were raised regarding the lack of any further expansion of Metrolink in the modelling beyond those schemes already committed, as this is likely to underestimate the loss of bus patronage. However, the inclusion of only committed schemes is in line with the relevant government guidance, any future schemes are not defined so their impact cannot be readily estimated, and any impact would be equal in all options, i.e. it would reduce the overall volume of bus trips. It would also be appropriate to consider any hypothetical investment in bus infrastructure over the next 30 years which would counter the impacts of any Metrolink investment.

5.9.6 There was a concern amongst operators that the selection of a 30 year appraisal period tended to bias the appraisal in favour of franchising, and that a shorter period

should be used. There was a suggestion in some responses that consultees had interpreted TfGM's concerns regarding the durability of a partnership to mean that the results reflected partnership benefits not lasting for the full appraisal period. This is not the case – the benefits from partnership are assumed to endure for the full 30 year period. Applying the same period for all options ensures a level playing field. Assuming a shorter period would not be appropriate for a major market reform that is intended to be long term in order to meet the strategic objectives for transport in Greater Manchester.

5.9.7 Further concerns were raised, particularly by Jacobs in their review of the Economic Case, regarding certain features and characteristics of the model suite, particularly the Demand and Revenue Model (DRM). These included the use of elasticities, the use of willingness to pay values and concerns regarding whether the benefits associated with interoperability are double counted. Responses to each of these concerns, along with references to the relevant sections of the Assessment and the ECSP have been provided.

5.9.8 One area of concern raised predominantly by members of the public was the extent to which the appraisal accounts for the environmental and social impacts. This is a understandable concern however it seems that the economic benefits delivered by the options have been interpreted to be pure financial figures when in fact they contain benefits to society in the form of improvements to bus users journey times, fares and quality of service, as well as monetised valuations of reductions in emissions and improved air quality. It is acknowledged that perhaps greater emphasis should be given to certain elements, however the appraisal has been carried out in line with government guidance as would be expected.

Reference Case Results Themes

5.9.9 Concerns were raised regarding the scale of impact that increasing congestion is forecast to have on bus patronage over time. Operators argued that the impact of congestion is likely to be much more significant than the 0.2% reduction suggested by Chart 14 in the Assessment. The impact of congestion reported in Chart 14 shows the direct impact of increased journey times but does not include the more significant knock on impact of increased operating cost which needs to be offset by increasing fares and/or reducing service kilometres. These impacts are accounted for within the modelling system but are presented in Chart 14 as part of the "Fares" and "Service KM" bars since it is those impacts that the passenger experiences directly. We therefore agree with those consultees who noted that the presentation of direct congestion impacts in the Economic Case masks the true extent of the impact of this issue on passenger demand. However, the implications of this are presentational and not substantive.

5.9.10 Several operators argued that the modelling of ENCTS patronage was not appropriate, suggesting that the forecasts assume patronage will increase throughout the appraisal period, and that this is out of line with current evidence

that ENCTS trips are currently declining. However, ENCTS trips do decline in the earlier years of the model forecasts, in line with current observations noted by operators, mainly due to the ongoing increase in entitlement age for an ENCTS pass. Longer term, the forecasts do show ENCTS trips increasing, and this is a balance of the range of input variables and elasticities used in the model, and therefore accounts for different factors acting in opposite directions, e.g. elderly population increasing whilst car ownership and car operating costs reduce. If consultees have evidence to suggest that, over the longer term, ENCTS trips are more likely to decline, then this was not presented as part of their consultation responses.

Partnership Option Themes

5.9.11 Several groups of issues were raised by consultees in relation to the Partnership options. One area of concern was that the Partnership options offer a higher BCR than the Proposed Franchising Scheme. It has been noted that whilst the BCR for Partnership may be slightly higher, the NPV of the Franchising option is considerably higher and in any case, the justification for the conclusion of the Economic Case is based on a broader consideration than just BCR or NPV. As noted in section 21.2.4 of the Assessment, it is based on the suitability of the Proposed Franchising Scheme as a platform to support further development, and its alignment with the strategic objectives.

5.9.12 Consultees also argued that many of the "soft factor" benefits included as part of the Proposed Franchising Scheme could in fact be delivered as part of a Partnership. To the extent that this is true and those interventions were proposed and agreed during the extensive discussions with operators, they have been included within the Partnership options. The main differentiator is the benefit associated with the unification of the system to a single brand, and a detailed explanation has been provided as to why that is not possible under a Partnership arrangement.

Franchising Option Themes

5.9.13 Jacobs raised concerns that the transition period is not modelled appropriately and expressed concern that the benefits during this period could be overstated, stating that "*all of the impact on demand is expected to have occurred within 3 years*". This confused two different elements on the model – the way in which the impact of any fare and GJT changes are lagged over 3 years, and the way in which implementation of the interventions has been staggered over the transition period and beyond some cases. The latter is more complex and is carried out in line with the implementation plan as documented in ECSP Appendix 2.

5.9.14 One of the most frequently cited concerns was around the benefits associated with branding and in particular the choice of value used, its age and source. This is an understandable concern and TfGM agree that there is limited empirical evidence available to value the benefit to passengers of moving from a fragmented delivery model as exists in Greater Manchester to a more unified system that is simpler for

passengers and potential passengers to understand and experience. However, a range of evidence has been presented to support the idea that this switch does have value to customers and should deliver benefits, including reference to the Ipsos MORI Qualitative Analysis Report which reports that there is an appetite amongst members of the public for a *"more centralised model*" with "*less variation in standards"*, and a *"standardised pricing strategy".* The full quotes are included in the main body of this chapter.

5.9.15 Several concerns were raised regarding some elements of the benefits, including those due to congestion relief and fare reductions. The basis of the lack of confidence in the congestion benefits appeared to stem from the fact that the Proposed Franchising Scheme does not deliver any infrastructure schemes to tackle congestion, and therefore could not deliver any decongestion benefits. However, it has been explained that these benefits arise because of the increase in bus trips associated with the various interventions, and an assumption that a proportion of these trips are abstracted from car, meaning fewer car trips and hence decongestion. The approach taken is prescribed in DfT TAG guidance.

5.9.16 There was also a query as to how fare and decongestion benefits could arise when passenger trips were still declining. This is because the benefits are calculated based on the difference between the Reference Case and the option being considered. Whilst declining trips means that the total benefits declining from one year to the next there is still a difference in fare or journey time for the passengers that remain and that difference drives a benefit.

5.9.17 Several consultees, including members of the public, were concerned that the Proposed Franchising Scheme does not deliver any immediate benefit to passengers and that patronage continues to decline. TfGM acknowledge that patronage is forecast to decline, and this is because, in order to align with government guidance, no further ongoing investment has been assumed. However, TfGM's view is that the Phase 2 investment in the GM bus market would be the key to arresting the decline in patronage, and that franchising provides the best platform on which to make that investment. TfGM also disagree that the Proposed Franchising Scheme would not deliver an immediate benefit to passengers and a list of exactly how those benefits would arise is provided, including reduced fares for current System One ticket holders, increased ticket validity for current operator own ticket holders, and improved network and improved service quality and system simplification.

Risk Analysis and Wider Economic Impacts Themes

5.9.18 As part of their review, Jacobs conclude that the method used to identify and quantify risk is in line with HMT Green Book and DfT TAG guidance. A number of clarification questions and challenges have been asked by Jacobs and other consultees and appropriate responses have been provided in the main body of this

chapter. However no substantive issues have been identified.

5.9.19 Jacobs and Stagecoach have raised concerns that the value of WEIs is larger than might be expected for this type of scheme, particularly since very few business trips are made using bus. The point is also made that agglomeration benefits should only accrue to businesses and not "linking people with opportunity" as set out in the Assessment and supporting material. TfGM have noted in this report that the evidence base for what scale of WEIs might be expected is evolving and that caution should be adopted when trying to benchmark results. Nevertheless, TfGM recognise the uncertainty around WEIs and for this reason have excluded them from the core appraisal figures presented in the Assessment. Further, the scale of uplift in WEIs (as a proportion of the core benefits) is broadly similar for all options and therefore it cannot be considered to have a detrimental effect on the Partnership options. It has also been argued that agglomeration benefits go well beyond the productivity impacts of a scheme as a result of improvements for business travellers as implied by Jacobs and Stagecoach.

Overall Conclusion

5.9.20 In conclusion, TfGM remain of the view that the methods and datasets used to inform the Economic Case are appropriate and that there are no issues arising that require alterations to the Economic Case or that would lead us to believe that the relative performance of the options in the Assessment would change as a result of issues raised.

5.9.21 A review of the revised partnership proposals submitted by OneBus and Stagecoach and the implications for benefits are explored in sections 9 and 10 of this report.

Section 6 - Financial Case Response Themes

6. 1 - Introduction

6.1.1 The Financial Case of the Assessment considers the income, costs and risks of the Proposed Franchising Scheme and the partnership options from GMCA's perspective. The Financial Case also identifies the additional funding requirement for each of these options.

6.1.2 Under all bus reform scenarios, including the Do Minimum, it is assumed that existing sources of public funding supporting bus services in Greater Manchester (which currently fund concessionary reimbursements, tendered services and Bus Service Operators Grant – or "BSOG" -from DfT) are retained and available over the appraisal period. The value of BSOG is assumed to be retained at the current nominal value over the appraisal period whilst the funding for concessionary reimbursements and tendered services, predominantly from local funding sources, escalates in cash terms over the appraisal period. This is explained further in the Assessment under Public sector funding from paragraphs 40.1.7 to 40.1.27.

6.1.3 In relation to the Proposed Franchising Scheme, the Financial Case reports an overall net deficit, and an associated funding requirement, over the appraisal period to 2050/51, of approximately £28 million. However, there are two distinct phases within this overall modelled requirement: (i) a transition phase up to 2024/25 with a net funding requirement of approximately £122 million; and (ii) the subsequent ongoing phase, following 2024/25 to the end of the appraisal period, where there is a forecast net cumulative surplus of £94 million, with a mix of surpluses or deficits modelled for particular years.

6.1.4 As forecasting uncertainty would be expected to increase over longer time horizons, the Assessment identifies a range of credible funding sources that could fully fund the initial transition period requirement of £122 million, without reliance on any future modelled surpluses. GMCA also approved, for the purposes of consultation, a specific funding proposal reflecting a subset of the credible funding sources identified in the Assessment. Under this proposal, the total value of funding available during the transition period up to 2024/25 would be £134.5m and an ongoing source of revenue funding would be provided through a Mayoral precept. The proposal would fully fund the franchising specific net transition costs of £122m and provide a further £12.5m of funding over the transition period for the forecast growth in existing public funding that would be required under all scenarios, including the Do Minimum.

6.1.5 The majority of the £134.5m funding in the proposal approved by GMCA is from 'earn back' (£78m), with a proposed one-off contribution from the local authorities of Greater Manchester (£17.8m). Other proposed sources of funding are GMCA's

business rates receipts and a requirement from the Mayoral precept.

6.1.6 As set out in the 7th October 2019 report to GMCA, the funding proposal was considered to provide a proportionate and acceptable balance of contributions and the proposed precept required during transition for this purpose would also provide an ongoing source of revenue funding after 2024/25 to manage any annual deficits and provide a level of base funding for forecast future escalation in bus services budgets.

6.1.7 The Financial Case concludes, based on the modelled position and funding sources identified, that GMCA could afford to introduce and operate the Proposed Franchising Scheme. Consultees were asked to consider the following questions in relation to the Financial Case:

Q30. The Financial Case concludes that GMCA could afford to introduce and operate the Proposed Franchising Scheme. After completing the Assessment and in advance of this consultation, GMCA has proposed how it would fund the introduction of a fully franchised system. Do you have any comments on these matters?

Q31. Do you have any comments on the conclusion in the Financial Case about the affordability of the partnership options?

6.1.8 The matters considered in this section principally relate to the Proposed Franchising Scheme and the funding proposal for consultation (Question 30). Responses to Question 31 are considered collectively with other questions on partnerships in the Strategic Case at section 4.10. A summary of the key insights from the qualitative research undertaken by Ipsos MORI in their Qualitative Research Summary Report is also set out after consideration of the matters raised from the consultation.

6.1.9 The Ipsos MORI report found that the majority of members of the public made favourable comments on the Financial Case: 1,377 members of the public made favourable comments and 476 members of the public made unfavourable comments. Further information on some of the specific comments and points raised responses from members of the public is set out in chapter 10 of the Ipsos MORI report.

6.1.10 The Ipsos MORI report also notes that 26 non statutory consultees made favourable comments on the Financial Case, whilst 8 non statutory consultees made unfavourable comments; and 8 statutory consultees made favourable comments, whilst 15 statutory consultees made unfavourable comments.

6.1.11 This chapter is structured into the following sections, responding to the main themes identified from TfGM's analysis of consultation responses and consideration of the Ipsos MORI analysis, as follows:

- Income, cost, risk and financial modelling issues – principally reflecting responses

from incumbent operators;

- Local Authority comments on the funding proposal and related matters; and
- Other consultees' comments on the funding proposal and related matters.

TfGM has also considered other suggestions made by consultees, that are not already included in the Assessment, and summarised the findings of the qualitative research exercise.

6. 2 - Theme 1 – Income, cost, risk and financial modelling issues

6.2.1 A number of consultees provided responses on the modelling and assumptions in relation to the income, costs and risks of the Proposed Franchising Scheme. The majority of comments in relation to this were made by incumbent operators and by OneBus, through the Jacobs review.

6.2.2 OneBus accepted that GMCA could afford to make and operate the Proposed Franchising Scheme based on the conclusion of the Financial Case. However, it did not accept its accuracy as it stands and expressed concerns about the final cost of the transition and considered the ongoing annual costs to be grossly understated and the likely revenues overstated.

6.2.3 The comments from incumbent operators for the most part were unfavourable. They expressed concern that the costs of implementing and operating the Proposed Franchising Scheme were flawed and understated and that the sources of income were flawed and overstated. Incumbent operators raised a number of concerns over the forecasts for demand and farebox revenue, including the rate of fares growth and the impact of franchising interventions. Demand and farebox revenue are considered in the Economic Case section of this report at Section 5. Concerns were also raised in relation to the costs of revenue protection staffing and more generally the costs of managing franchising which are considered in the Management Case (section 8.3) of this report. Concerns were also raised in relation to the cost of fleet replacement and technology which are considered in the Commercial Case section of this report from paragraph 7.8.5.

6.2.4 Abellio commented favourably that "*In a franchised network, GMCA would have the necessary levers to manage revenue risk and decide on network priorities. Given the proposed balance of commercial risk under this model, the Proposed Franchising Scheme would create a competitive environment for operators and value for GMCA.*"

6.2.5 The University of Manchester commented that: "*It is expected that plans will be in place for mitigating against significant change occurring mid-franchise. This would include the financial implications of low uptake. This is not clear from the documentation.*" In response, the commercial model has been designed to achieve an appropriate balance of risk and reward for franchised operators and, in turn, achieve value for money and stimulate bidder competition. As regards change during franchises, financial security measures (such as guarantees) are proposed in the Assessment, as set out at paragraph 42.2.10. The financial security proposals would act as incentives for franchisees to meet their contractual and service standard obligations, lessen the likelihood of any network disruption from the unplanned withdrawal of a franchised operator and provide financial recourse for the

franchising authority.

6.2.6 Other issues raised, and considered in this section, related to:

i) the value of BSOG funding assumed on an ongoing basis;

ii) the value of concessionary reimbursement and concessionary funding;

iii) revenue risk assessment;

iv) baseline cost methodology;

v) employment costs;

vi) the assumed profit margin earnt by franchised operators;

vii) cost associated with the provision of depots;

viii) fleet costs;

ix) disruption / service withdrawal during transition;

x) costs of legal challenge;

xi) other costs;

xii) sensitivity analysis;

xiii) the financial "objectives" under franchising and the net surplus post transition; and

xiv) the financial position of franchised bus services in London.

(i) BSOG income and funding

6.2.7 BSOG is assumed to be retained at the current nominal value, of approximately £16.1 million per annum, over the appraisal period. Go North West considered that this was not realistic and considered it likely that BSOG may be reduced. It understood that *"BSOG will be under review for the next Government Spending round in 2020 [and] that there is risk of reduction in support. BSOG was reduced by 25% in 2012 during the austerity years and it is not unlikely that a similar cut might be implemented."* Rotala also stated that BSOG was under review and that there is in any event no entitlement for electric vehicles, thereby increasing operating costs. First stated that "*The reference in para 4.125 to BSOG is not correct – whilst the BSOG payments previously associated with tendered services were transferred to TfGM some years ago, commercial bus operations still receive BSOG payments directly from DfT."*

6.2.8 The Bus Services Act 2017 Franchising Scheme Guidance (at paragraph 1.15) requires authorities to consider how BSOG would be used and the Assessment acknowledges that the availability and value of BSOG is a risk. However, it is considered unlikely

that government would withdraw or reduce BSOG without first consulting upon any proposals, especially given recent announcements over bus services.

6.2.9 TfGM considers the assumed value and availability of BSOG in the Assessment, in the absence of any specific guidance from DfT, is a realistic assumption as it reflects the current known value of the settlement devolved to GMCA and the value and availability are assumed to be the same for all bus reform options. Furthermore, as the assumed value of BSOG is only maintained in nominal terms, this means the real inflation adjusted value of BSOG does reduce over time. If there was a reduction in BSOG, TfGM considers it would very likely impact all options given BSOG is a national scheme. However, given that GMCA would face this risk more directly under franchising, a specific quantified risk is provided in the event there was an unforeseen reduction in BSOG. As noted, Go North West cite a previous reduction in BSOG, which TfGM was aware of, and used to inform the quantified risk.

6.2.10 In relation to Rotala's statement regarding electric vehicles, it is acknowledged that entitlement under the national scheme rules is different for electric vehicles compared to diesel vehicles. However, in Greater Manchester's case the DfT has devolved a funding settlement for tendered and commercial BSOG to the GMCA and, under the terms of this settlement, the overall value of BSOG is expected to remain available even if there were increased electric vehicle usage for example.

6.2.11 In relation to First's statement that only tendered BSOG has been devolved and that commercial operators still receive BSOG payments directly from DfT; in fact both tendered and commercial BSOG have been devolved to the GMCA (the commercial element having been devolved in 2017/18 as explained in the Assessment at paragraph 40.1.10). TfGM therefore considers the Assessment is accurate in this regard.

(ii) Concessionary reimbursement and concessionary funding

6.2.12 Jacobs and Stagecoach contended that the modelling of revenue assumes, unrealistically, that the journeys made under the English National Concessionary Travel Scheme ("ENCTS") scheme would rise over the appraisal period. This contention has been addressed in the response to the Economic Case above from paragraph 5.3.7 of this report.

6.2.13 Comments were also provided on concessionary reimbursement, principally by Rotala and Stagecoach.

6.2.14 Rotala considered that the assumption that reimbursements would begin to rise in 2020-21 when TfGM becomes the payee was flawed for two reasons: (i) the assumption of an increase of 0.7% is overstated as DfT concessionary guidance makes plain that the reimbursement factors should be dampened to account for passholders paying zero fare when real fare increases are implemented and (ii) the number of passes in issue in GM in 2017-18 reduced by 11% indicating a likely

continued decline, and there is no evidence to support an increase from 2020-21.

6.2.15 Stagecoach considered that the assumptions around future demand under the Proposed Franchising Scheme seem reasonable, but was surprised that no impact of the 'Our Pass' concession had been modelled. Stagecoach also raised a concern that a benefit had been claimed in respect of concessionary reimbursement for franchising in the Assessment at paragraph 42.1.10, whereas it merely refers to the situation if additional concessionary trips occurred under the Do Minimum.

6.2.16 In relation to Rotala's comments, it should be noted that the value of concessionary reimbursement, and associated funding, is initially forecast with reference to the Do Minimum (and not with reference to franchising or TfGM/GMCA becoming the "payee") and the same level of public sector support forecast for the Do Minimum is applied to the franchising and partnership options.

6.2.17 Concessionary reimbursement forecasts are a function of forecast concessionary trips and the forecast reimbursement rate. The forecasting of concessionary trips is described further at the Economic Case section of this report, from paragraph 5.3.7. The rate of commercial fares growth under the Do Minimum, as set out elsewhere, is projected as RPI +1.4% per annum, and as concessionary reimbursement has a relationship with commercial fares growth, the rate of reimbursement growth is projected as RPI+0.7%. This is 'dampened' from the real rate of commercial fares growth (by half) to account for generated demand.

6.2.18 Rotala consider that this rate of reimbursement growth is overstated. The Assessment acknowledges at paragraph 40.1.14 that the DfT publishes concessionary guidance and a reimbursement calculator. In practice, however, there are a range of factors to consider which can be complex in determining reimbursement. TfGM considers the reimbursement growth rate is a reasonable assumption and under the Do Minimum, concessionary trips are forecast to represent an increasing proportion of overall trips over the appraisal period, which would likely put upward pressure on the reimbursement rate due to the increasing marginal costs of concessionary trips.

6.2.19 It is also important to note in the context of the concern that concessionary reimbursement forecasts are overstated that, whilst ENCTS is a national mandatory scheme, in practice the risk of variation in concessionary reimbursement costs (and the associated funding) sits locally with GMCA as the travel concession authority in GM (and with the ten local authorities who provide funding through the statutory contribution, rather than with central government).

6.2.20 As explained in the Assessment at paragraph 40.1.18, in the short-term concessionary reimbursement growth is lower than the long-term average as forecast ENCTS trips are subject to mandatory increases in entitlement age tied to pensionable age increases but pension age equalisation is due to end in 2020. It thus

acts to suppress ENCTS concessionary trip volumes in the periods prior to 2021/22.

6.2.21 In response to the point relating to 'Our Pass', TfGM acknowledges that this is a significant and important intervention. As acknowledged by Stagecoach, however, it is currently in a trial period which is the reason as set out in the Assessment at paragraph 40.1.13 why 'Our Pass' is not included in the Do Minimum (or any other bus reform scenarios set out in the Assessment).

6.2.22 Stagecoach also raised a concern that £96 million of benefits had been claimed under the Proposed Franchising Scheme through the reallocation of central government funding and the removal of the requirement for GMCA to reimburse operators for journeys made under the ENCTS scheme.

6.2.23 To clarify, paragraph 42.1.10 in the Assessment states: *"….the modelled franchising interventions increase demand, including concessionary trips, and there is no requirement to directly reimburse external operators for these additional trips on franchised services. Using the method previously described to forecast concessionary reimbursement, if the equivalent level of additional concessionary trips occurred under the Do Minimum, there would be an additional reimbursement cost and funding requirement of approximately £96 million in nominal terms over the appraisal period. Under franchising, this requirement is therefore 'internalised' and budgets and funding requirements would be set by reference to total operating costs and total sources of income."*

6.2.24 As explained, it is advantageous that, under franchising, GMCA could set budgets and funding requirements by reference to total operating costs and total sources of income. However, the analysis refers to the situation if additional concessionary trips occurred under the Do Minimum. There would then be an additional reimbursement requirement which is avoided under franchising. There is, however, no net benefit claimed in the franchising economic Net Present Value for this advantage.

(iii) Revenue Risk Assessment

6.2.25 A number of aspects in relation to the modelling of risks are considered in the Economic Case section of this report at Section 5.6.

6.2.26 In relation to the quantified risk assessment, Stagecoach raised a specific concern in respect of the value of the revenue risk portion of the Quantified Risk Assessment and that this was low. Stagecoach said: "*Allocating only £24.5 million of risk to revenue over a 30-year assessment feels very optimistic, allowing only a 0.4% margin of error. No UK rail bid (typically modelled over a 7-10-year timeframe) since franchising commenced in 1996 has progressed with such a low margin of error, so we fail to see how a 30-year plan with so many unknowns can have allocated so little risk to revenue*".

6.2.27 Whilst the nature of the specific risks clearly differ between rail and bus, TfGM

recognises that GMCA would be exposed to revenue risk and acknowledges that this would include both endogenous risks (such as poorly executed network design) and exogenous risks (such as adverse changes in population growth, demographics and car ownership). This is explained in section 2.1.14 of The Risk and Optimism Bias Supporting Paper published alongside the Assessment. The Risk and Optimism Bias Supporting Paper further explained how these two different components of risk were analysed. The QRA considers specific 'influence-able' or endogenous type risks that could reasonably be controlled and mitigated, i.e. factors that are "*specific to an intervention and may be quantified and managed*" (HMT Green Book – p89), whereas economic and exogenous risks are considered through the sensitivities set out in the Assessment at Section 42.7 of the Financial Case and Section 15.5 of the Economic Case. As explained in Section 15.5 of the Economic Case, these 'what-if' scenarios consider the impact of general uncertainties surrounding modelling forecasts and parameters.

6.2.28 Whilst it is possible that there may be favourable, as well as adverse, impacts on affordability due to exogenous factors, GMCA would retain control of fares policy and retain the ability to alter the service between franchises (and during franchise contracts through contract variation) so that it would be able to adapt the cost of the network in response to an adverse scenario that impacts affordability (as explained in paragraph 42.7.6 of the Assessment Financial Case).

6.2.29 The Jacobs report referred to by Stagecoach notes the reasonableness of the methodology used to assess risks to revenue as follows. Jacobs said that: "*The methodology used has focussed on "endogenous" risks within TfGM's control with other external risks such as economic growth, population growth, demographics etc. considered separately through sensitivity tests. The methodology for the risk assessment seems reasonable in terms of assessing and modelling these by scale of impact and length of duration, combined with probabilities of scenarios occurring*".

6.2.30 Paragraphs 2.1.15 and 2.1.16 of the Risk and Optimism Bias Supporting Paper explained that the revenue risk provision calculated is based on a range of impacts to revenue. It is a statistical estimate designed to provide an appropriate level of provision to capture the value of risks in 80% of circumstances, taking account of the fact that the risks that materialise against revenue will vary in impact value year to year (modelled at impact values from 1-5% of revenue over varying durations of time, from 1 to 12 months).

6.2.31 Whilst 0.4% (referred to by Stagecoach) is broadly similar to the value of the revenue risk as a percentage of fare box revenue included in the Assessment, TfGM quantifies that the risk value is approximately 0.55% of fare box revenue. Stagecoach do not set out the derivation of their 0.4% figure, however it appears their calculation may be based on prior years' revenue, rather than forecast revenue under franchising.

6.2.32 The revenue risk approach in the assessment only considers 'threats', it is equally

possible that there are positive factors, such as realising additional commercial income from a common brand, that affect revenue that could offset 'threats' that materialise: positive factors are not estimated within the quantified risk assessment.

(iv) Baseline cost methodology

6.2.33 Rotala raised a specific concern in relation to the methodology to derive baseline cost estimates and considered in their response that the concern identified would mean that costs are underestimated. It contends that the Financial Case does not take into account recent inflationary increases in the costs of providing bus services. Rotala said that when leaving Green Bus tenders and school contracts aside, it currently operates tendered live miles annually at a cost of £1.89 per mile and has recently tendered at a cost of £2.44 per mile, an increase of 28% due to increased driver rates of pay, increased overheads and changing depots. Further, TfGM assume that the cost of replacing vehicles increases is in line with RPI but this is inconsistent with Rotala's experience and a higher vehicle specification under franchising is likely to lead to higher costs. Rotala also comment that: "A*s regards fuel costs and drivers' wages, these are based on service mileage and hours only, ignoring dead miles, paid breaks, and testing and so forth."*

6.2.34 First point out that it appears to be assumed that, under franchising, the current network would be reproduced and that the costs bid by potential franchisees would match those estimated for the incumbent operators today, which in its view is a dangerous assumption as it presupposes that such bidders can replicate the levels of skill, local knowledge and competence and that the benefits of economy of scale and geographic location will be replicated. OneBus express a similar concern, in their response to Question 37 (Impacts of the Proposed Franchising Scheme on operators), around new operators bidding for franchising contracts who have limited experience of the road network in Greater Manchester.

6.2.35 With regard to inflationary increases and Rotala's experience of its tender costs, the cost assumptions developed from the 2016/17 base year are escalated annually by actual and forecast inflation factors, predominantly from national indices. It is possible that inflation for Greater Manchester bus operations has differed (higher or lower) from the Assessment position, however, if this were the case it would affect all scenarios. TfGM cannot comment on the specific tender cost experience Rotala refers to as it does not set out the relevant time periods and whether this cost experience of an individual operator is representative of the broader market (for example it appears to refer to a change of depot location as a factor which would not be expected to be recurring or representative of other operators' experience).

6.2.36 In response to Rotala's concern over the assumed rate of cost growth for vehicle replacement, the assumed rate of growth for vehicle depreciation is higher than Rotala state, albeit marginally, at approximately RPI+0.1% per annum as set out in Table 44 of the Assessment. It also considers the assumed rate of growth is inconsistent with its own experience but does not state whether this experience is

higher or lower, or an alternative assumption.

6.2.37 TfGM does not consider the proposed vehicle specification under franchising would lead to materially different costs compared to the Do Minimum, as the vehicle specification closely aligns with the current fleet operating in Greater Manchester. Furthermore, the preferred option is to acquire existing fleet (which would result in a materially similar specification) through the proposed Residual Value mechanism.

6.2.38 Rotala's observation that the network 'supply volumes' (meaning the size of the network in this instance in terms of operating hours and operating distances) which are used as a component of cost forecasting do not include, for example, non-service distances ('dead miles') is acknowledged and this is set out in the Financial Case Supporting Paper. However, TfGM is satisfied this does not mean the baseline costs are inherently underestimated as, where available, the total costs estimated have been controlled to audited financial statements or information disclosed by operators. In terms of the methodology specifically, the unit cost rates have been derived to be consistent with the relevant 'supply volume'; so, by way of example, the unit wage rate relating to 'in service' hours only is higher than would be the case if the rate were derived to be consistent with all hours.

6.2.39 In relation to First's comments, it is correct that initially the Proposed Franchising Scheme will replicate the existing network. In response to the concerns over bidders' knowledge and the basis for franchise bids, it should be noted in the first instance that the existing commercial market is not static as new operators periodically enter the Greater Manchester market, such as Go North West's acquisition of First's Queens Road depot and fleet in 2019. Franchise bidders would not be expected to assume revenue risk and would be tendering for a network specification and risk allocation provided by the GMCA. Bidders would also be provided with detailed information (such as TUPE data) to inform their tenders or, if this was not available at tender stage in the first round of franchising, assumptions would be provided to bidders to reduce risk pricing. TfGM considers this approach would provide bidders with a high degree of understanding of the franchise specification, the risks assumed by franchisees and data to support tenders.

6.2.40 In relation to geography and economies of scale, the preferred approach set out in the Assessment is the GMCA would acquire or control existing strategic depot locations and as such geographic location would replicate existing structures to a large degree under this approach. The commercial model also sets there would be a range of contract values under franchising (similarly there is a range of operator sizes in the current market).

6.2.41 Notwithstanding these points it is recognised that during the first round of franchising, tendering risks may be greater as there would be a transition from the de-regulated market to franchising. The QRA includes a number of risks that are weighted towards the first round of tendering resulting in a higher risk provision over

this period compared to subsequent rounds of tendering. A summary of these risks is set out in Table 59 of the Assessment, Key Transition and Mobilisation Risks (Procurement section).

(v) Employment costs

6.2.42 A number of incumbent operators cited concerns that employment costs would increase under franchising.

6.2.43 Rotala commented that: "*Mayoral Intervention into drivers pay is, in Rotala's view, inevitable (as has occurred in London in 2002, 2016 and 2017). This has not been accounted for in the Assessment and it is arguable that this is more likely to occur given the unification agenda of franchising which logically includes pay parity."*

6.2.44 Similarly, Stagecoach commented that: "*We note that the Assessment assumes no change to the labour models adopted in today's market and that these would be expected to continue throughout franchising. This feels at odds with the views of key stakeholders such as the Unite Trade Union who have backed franchising with one of the reasons stated for their endorsement being the ability to enhance pay and benefits for its members. Unite believe that its members will gain more advantageous terms and conditions with a greater influence provided by the public sector, due to the ability for the Mayor and politicians to intervene. This belief is underpinned by precedents from various Mayors of London in that franchised bus market. Yet this does not appear to have been taken into account by the Assessment."*

6.2.45 Operators also raised a number of other employment related concerns which are considered in the Management Case section of this report at section 8. The Management Case also includes correspondence from the Mayor's office setting out that any introduction of franchising should not lead to any worsening of terms and conditions. It is acknowledged, however, that the ongoing costs of the Proposed Franchising Scheme do not allow for a 'levelling up' of employment terms and conditions. TfGM considers that a high level of protection is afforded to transferring employees through the Transfer of Undertakings (Protection of Employment) Regulations 2006 ("TUPE") and the specific pension protection contained in the Act. This means that franchised operators would remain responsible for employing and managing the majority of the workforce with an appropriate balance of incentives provided under the commercial model. Disparities in terms and conditions already exist within individual operators and there is no reason to assume that they would necessarily disappear under franchising.

6.2.46 TfGM does not consider that Mayoral intervention to 'level up' employment terms and conditions is inevitable or more likely than the position set out in the Assessment and the responses do not set out how such an intervention would arise. Even if a Mayor did seek to intervene as suggested, then they would necessarily have to consider the effects of such an intervention, its benefits, its costs and, if necessary,

the provision of appropriate funding.

(vi) Profit Margin

6.2.47 The Assessment assumes that under the Proposed Franchising Scheme the financial return / profit earned by franchised operators would be an EBIT margin of 7.5%. There were contrasting comments made on this assumption, principally by incumbent operators Stagecoach and Rotala. No new prospective operators commented upon this assumption.

6.2.48 Stagecoach noted that the assumed margin for franchising was above the London / TfL benchmark point estimate of 7.1% and considered it to be unrealistically high. Its expectation from experience as a London operator was operator margins would be lower in any franchised market. Stagecoach commented that overall the levels appeared to be over-optimistic concerning the commercial position of many operators within GM and that to achieve them, more profit will need to be generated than exists in the market today; and that this appears counter-intuitive against the continuing trip rate decline and the additional costs associated with franchising.

6.2.49 Jacobs suggested that the margins on London bus operations are lower than in the regions and require subsidy by TfL. Jacobs also commented that TfGM did not appear to have considered the potential for variation in operator margins across franchise tranches and that some tranches will require a higher operating margin to be attractive to bidders.

6.2.50 Rotala considered that, using the London model as a benchmark, resulted in a low EBIT margin assumption which equated to a mark-up on operating costs of approximately 8.1%. It raised a concern that London was not comparable due to differences in ownership and leasing of vehicles, the London model being based on leased vehicles as opposed to the ownership of vehicles (as tends to be the case in GM). It commented that TfGM "*has not recognised that there is a higher lifetime cost to renting that has not been factored into the Financial Case*" and that "*To the extent that the proposal is that bus operators in Greater Manchester should be renting buses, the Financial Case profit and loss models will have been based on the wrong cost structures and would need to be subject to wholesale revision.*"

6.2.51 Rotala also comment that "*TfGM's Financial Case appears to be based on the accounting standards for operating leases before the change to IFRS 16. Prior to the change, operating leases were charges in arriving at EBIT. After the change, the operating cost is split between depreciation and interest components in the profit and loss account. This will leave part of the cost of renting the asset above EBIT and part in the "I" line and this in turn means that selection of the profit margin at the EBIT line is not sustainable.*"

6.2.52 Rotala also cite the Jacob's review and comment that the "*blanket*" margin assumption ignores the fact that there will be differences between particular

franchises and that actual operator margins are likely to vary across franchises.

6.2.53 TfGM considers that the London market is the most relevant and appropriate benchmark for which there is available data, as it is a franchised bus network, there is a similar regulatory regime, and it has a commercial model that is well understood and broadly comparable from a risk perspective to the franchising commercial proposals.

6.2.54 However, TfGM has adjusted the London benchmark upwards in developing the assumption for the Greater Manchester franchising proposal. The Assessment sets out a summary at section 42.2.5-42.2.29 of the approach to establishing and adjusting the London EBIT benchmark. This explains that the weighted average EBIT margin for London operators over a five-year reference period was initially calculated as 6.4%, a lower initial benchmark figure than the assumption adopted in the Assessment and in line with Stagecoach's comments that its experience as a London operator suggested a lower margin in the London market. This section of the Assessment explains how this initial 6.4% margin benchmark is adjusted upwards to the higher Assessment assumption of a 7.5% margin in two steps: firstly, by excluding from the London benchmark data operators who made operating losses in at least three years over the reference period, resulting in a more conservative benchmark estimate of a 7.1% margin; and secondly providing a further 0.4% as an allowance to account for any potential differences between the London market and Greater Manchester.

6.2.55 In relation to Stagecoach's comments regarding the need for more profit than exists in the market currently, it is not clear how this point reconciles with its observation that the margin assumed in the Assessment is higher (resulting in higher profit) than the London benchmark; however, it is relevant to note in response to this point, and declining trip rates being a factor, that the capital employed by a franchisee (fleet volumes principally) would also reduce as passenger demand reduced and GMCA has approved a proposal that would fully fund the additional costs to implement the Proposed Franchising Scheme.

6.2.56 In relation to the issue cited by Rotala over fleet costs and leasing, it should be noted that there is no proposed "mandating" that franchised operators must provide leased vehicles (though operators could bid on this basis) and TfGM considers that the proposed Residual Value mechanism, as the preferred approach set out in the Assessment, provides a basis on which owned fleet can be provided over a franchise term without stranded asset risk for the franchisee.

6.2.57 In relation to the application of IFRS 16 (an accounting standard for leases) it should be noted that under franchising, the accounting requirements for fleet (whether owned or leased) would be a matter for franchisees. The financial model is from the perspective of GMCA and the Assessment considers (at paragraph 42.6.6) that, in relation to any fleet provided under the Residual Value mechanism, the GMCA would

account for this as a contingent liability, as a possible, but not probable, liability.

6.2.58 TfGM is aware that some operators have cited a difference in the extent of fleet leasing versus fleet ownership and the associated accounting treatment as a reason why EBIT margins from different markets would not be comparable, and that a London based EBIT benchmark would be "low" as suggested by Rotala. However, no specific evidence has been provided on this effect. Furthermore, as noted above, whilst the London EBIT benchmark has been adjusted upwards in developing the Assessment assumption, TfGM considers there are other factors not specifically accounted for, such as the provision of depots, that could act to reduce margin compared to the London benchmark.

6.2.59 It is accepted that margins could vary across franchises. However, this observation is also true of the observed data informing the initial London benchmark margin assumption, whereby the average margin reflects a range of higher and lower margins. For the purposes of an Assessment it is reasonable to apply an average assumption across the whole network. Furthermore, as explained in the Assessment at 42.2.5-42.2.29, one of the upward adjustments to the London benchmark is to exclude 'low' margin operators who made operating losses in at least three years over the reference period.

6.2.60 The Assessment also sets out that the franchising margin assumption reflects a "*long term average*" (at paragraph 42.2.9) across the network. The fact that margins could vary (upwards or downwards) does not invalidate the average assumption. TfGM did consider further variability around the long term average assumption and in doing so reflected risks in the quantified risk assessment. These risks were valued in relation to additional bidder margin (such as the risk that the EBIT margin is higher due to a lack of bidders being attracted).

(vii) Depots

6.2.61 A number of concerns were raised over the costs associated with depot provision, including the more general point that the costs of GMCA acquiring or providing depots would be avoided under the partnership options.

6.2.62 Jacobs commented "*costs related to bus depots…appear to be lower than we expect*" and that "*The cost of acquiring bus depots currently owned by existing operators could be higher than currently assumed in the business case. Existing operators are unlikely to put depots up for sale in order to facilitate a franchising competition which they have a chance of losing*." Jacobs also commented that TfGM has assumed that the configuration of depots across Greater Manchester will remain the same but, since the network under franchising will have a different pattern, that may require the purchase of new depots which would increase costs higher than is assumed in the business case.

6.2.63 Rotala considered it likely that the cost of acquiring bus depots had been

understated. It cited various factors including legal costs and the risk of legal challenge associated with a CPO process; that existing depots have an intrinsic value to bus operators over and above their market value which should be reflected in the costs of acquisition; and that key depots would need major capital expenditure after acquisition that had not been accounted for in the transitional costs (such as approximately £1m required for the roof of the Queen's Road depot). It also suggested that it was unlikely that the configuration of depots will remain the same under franchising given that different service patterns are likely to arise once franchises have been awarded.

6.2.64 Stagecoach considered the recommended approach of providing strategic depots for large franchises places a further debt burden on TfGM and GMCA and questioned "*whether the £58 million provision for the purchase of the ten strategic depots across the whole of Greater Manchester is reasonable, and what assumptions have been made in terms of management resource and timescales for just undertaking this activity. With interest payments this investment is set to cost £85.7 million.*"

6.2.65 First also commented that it considered there were likely to be additional costs associated with the provision of depots but did not set out any specific examples of what those additional costs may include.

6.2.66 The Stagecoach response refers to provision of £58 million for depots and that interest payments would bring this to £85.7 million. As an important point of clarification £85.7 million is the cost provision for the total acquisition and refurbishment costs and does not reflect any interest payments (the costs of repayment and interest being allowed for in addition to this sum and as summarised at Table 48 of the Assessment). Instead the difference reflects further cost allowances for items such as plant, risk and improvements and refurbishments. For clarity the components of the £85.7 million, as set out in Table 47 of the Assessment

are:

NOMINAL DEPOT - CAPITAL COSTS	£M	DESCRIPTION OF BASIS
Depot base cost	58.1	Cost of acquiring the depots
Stamp Duty Land Tax (SDLT)	2.9	Estimated SDLT due based on the cost above
Plant and equipment	6.1	Plant and equipment purchase on acquisition
Quantified Risk Assessment	0.6	Outputs of Risk Model at P80
Initial acquisition costs	**67.6**	**Sub-total**
Initial improvements and refurbishment	18.1	Initial improvements and 0-5 year refurbishment costs
Improvements/refurbishment costs	**18.1**	**Sub-total**
TOTAL ACQUISITION AND REFURBISHMENT	**85.7**	

6.2.67 This also clarifies Rotala's comment where they consider that additional capital expenditure would be required and that this had not been accounted for, as the £85.7 million cost includes provision of £18.1 million for improvements and refurbishment post acquisition. These costs are assumed to be incremental compared to the Do Minimum and would be expected to improve the operational standard of the depots.

6.2.68 In response to the comment regarding financing depot costs through borrowings, TfGM is satisfied that financing capital costs through borrowings is a conventional financing approach which matches capital costs to ongoing revenue streams and, as set out in the Assessment at paragraphs 43.9.4 and 43.9.5, GMCA could accommodate borrowings of this scale well within its external borrowing limits.

6.2.69 In relation to the concern stated by Rotala and Jacobs regarding the configuration of depots, which TfGM understands to mean the geographic location of depots across Greater Manchester and whether new or additional depots would be necessary, the proposed network would initially replicate the existing network if franchising were introduced. The preferred approach to depot provision has identified ten existing strategic depot sites across Greater Manchester and, in identifying these preferred sites, the geographic location and proximity to proposed franchise lots was one of the criteria considered. It may be desirable in the longer term to rationalise depot capacity or consider new sites, however this decision would be subject to its own

investment case and consideration of the incremental benefits and costs.

6.2.70 The Commercial Case section of this report at section 7.2 considers a number of further issues raised in relation to depot provision including the availability of CPO powers, schedule considerations and other potential options for depot provision. It also restates that the preferred approach set out in the Assessment is to acquire or control depots through a negotiated settlement rather than a CPO basis and that the estimate of the cost of acquiring control of strategic depots reflects a combination of a likely negotiated transfer valuation and an independently obtained CPO valuation.

(viii) Fleet

6.2.71 A number of concerns were raised by incumbent operators regarding fleet provision, and associated costs, under the franchising proposals. A summary of the concerns stated include:

i) a requirement, or increase, of vehicle leasing will increase costs;
ii) a lack of availability of used vehicles will mean new vehicles must be provided;
iii) there will be an improved fleet specification under franchising resulting in higher costs;
iv) the impact of environmental standards on vehicle provision.

6.2.72 The concern, principally raised by Rotala, regarding vehicle leasing and resulting impact on costs is discussed further in the EBIT margin section, which concludes the preferred option under franchising is to provide owned vehicles through the proposed Residual Value mechanism and there is no "mandating" that vehicles are provided on a leased basis.

6.2.73 The Commercial Case section of this report at from paragraph 7.8.5 discusses further the availability of used vehicles and notes that in the event an increased proportion of new vehicles were provided (resulting in a higher capital cost) then there would be maintenance, reliability and other associated vehicle lifecycle cost savings.

6.2.74 The fleet specification under the franchising proposals is designed to be similar to the fleet currently operating in Greater Manchester and the Assessment sets out the preferred option to acquire existing fleet, which would further ensure the alignment of fleet specification.

6.2.75 In relation to the implications of environmental standards on fleet provision, these issues are considered further in the clean air section at Section 4.9 of the Strategic Case section of this report however, it is acknowledged that additional capital costs for retrofitting or replacing fleet vehicles to meet environmental standards are not included in the Proposed Franchising Scheme costs (and nor are any ongoing lifecycle cost benefits from upgraded fleet). The Clean Air Zone Outline Business Case includes these requirements and GMCA has made clear the requirement for the government

to provide financial support for these proposals.

(ix) Disruption / Service withdrawal during transition

6.2.76 First considered that operators may choose to withdraw services or abandon commercial networks as a key reason why, in its view, the net transition cost for the Proposed Franchising Scheme was underestimated.

6.2.77 The Assessment acknowledges under Table 59: Key Transition and Mobilisation Risks that "*There is a significant business continuity risk during the transition to franchising, as the incumbent operators may begin to reduce or deregister services (marginal service reduction or large-scale cessation of services*)."

6.2.78 The Assessment also sets out the potential steps to mitigate the impact if this risk materialised, including through early engagement with operators; potential extension of deregistration periods; working with alternative operators to step in and run services on a commercial basis if required; and, tendering any withdrawn services on a short-term basis.

6.2.79 The quantified risk assessment also includes a financial provision for this risk in the event that a decision was taken to tender withdrawn services on a short-term basis. This risk is therefore acknowledged; however, as set out TfGM has considered steps that would mitigate withdrawal of services and the quantified risk assessment includes a financial provision for this risk.

(x) Costs of legal challenge

6.2.80 Rotala commented on the risk to bus operators, and the financial detriment, in the event of being unsuccessful in winning one or more franchises and further commented that there was no provision for the cost of potential litigation. It also reiterated this point in response to Question 37 relating to impacts of the Proposed Franchising Scheme on operators and comment that: "*Rotala PLC would like to make it clear that it considered there to be a real risk that implementation of the Franchising Scheme will result in operators exiting the market and losing their business. This will result in costly litigation for both GMCA and the operator which could delay introduction of the scheme. Ultimately, incumbent operators and GMCA need to behave in a constructive and supportive way for the scheme to be a success which, in its current format, simply will not happen…"*

6.2.81 Go North West commented in its response that, "*GMCA would be at significant risk of legal challenge if it were to implement the Scheme because it does not appear to meet the statutory test for value for money. It is also possible that GMCA would face legal challenge if it sought to exercise CPO powers. It is not clear that GMCA has accounted for the cost associated with such legal challenges or the inflationary affect that any delay arising from legal proceedings could have on the cost base which*

further undermines the affordability of the Scheme."

6.2.82 It is not possible to exclude the possibility of a legal challenge as that depends on the actions of other parties. Provision for costs associated with legal challenge are, however, recognised and provided through the quantified risk assessment. For example, a number of legal challenge risks are set out in the Assessment at Table 59: Key Transition and Mobilisation Risks.

6.2.83 In relation to Go North West's comment on the inflationary effect of any delay, various themes in this report consider concerns and mitigations in relation to schedule. It should be noted that, whilst not specific to any legal challenge arising, the quantified risk register does include the risk of delayed implementation due to mobilisation and complexity issues and is quantified in terms of prolonged management costs and resources. In addition to provision of risk, it should be noted that a number of funding sources would also be expected to inflate over time. In particular the precept requirement to implement the Proposed Franchising Scheme during the transition period has prudently been based on Greater Manchester's 2019/20 tax base.

(x) Other costs

6.2.84 Stagecoach state that the Financial Case "*makes a number of assumptions, which appear to have been generated to create an overly-beneficial picture for franchising."*

6.2.85 Stagecoach also elaborated with concerns over a number of other costs. It said *"there is no allowance for any operator staff redundancy costs (due to changes in the nature of the business requiring different skill sets). There is no allowance for operator equipment write-downs, where new equipment is required by GMCA, for example, for radio, automatic vehicle location (AVL) or Intelligent Transport Systems (ITS) equipment. Nor is there any provision for the increase in costs of operators to operate in a contracted franchising world, where the recruitment of contracting managers will be required for example. The Assessment provides significant focus on the number of FTEs required within TfGM but provides no assumptions for the recruitment of contract management and performance regime analysts within bus companies. Similar roles are prevalent in London bus operating companies and within train companies operating in a franchise market."*

6.2.86 With regard to Stagecoach's point on allowances for redundancy and allowances for operator equipment write downs for radio, AVL and ITS then to the extent any such losses arise it is correct that no provision is reflected in the financial costs of the scheme as this would be a matter for operators. The legal and procedural section (see from paragraph 13.6.51) considers comments in relation to compensation and notes that the legislation providing for franchising does not include any provision for the compensation of any person adversely affected by the introduction of such regulation and that GMCA and the Mayor will need to consider, and be satisfied, that the introduction of the Proposed Franchising Scheme does not impose an individual

and disproportionate burden on any of them. Further issues in relation to redundancy and contracting resources are also considered in the legal and procedural section (from paragraph 13.6.39 of this report relating to redundancy) and Management Case at section 8.3 of this report relating to costs of managing franchises) and at section 8.5 relating to employees and redundancy.

(xi) Sensitivity Analysis

6.2.87 In its response Rotala considered that the cost sensitivities applied in the Assessment were "*too mild*" and cited as an example its view that wage inflation in the industry had "*recently been as high as 25%*". Rotala said "*Other examples are reinsurance costs and claims costs which are increasing faster than RPI + 1% for Rotala. Indeed, Rotala's reinsurance costs have jumped a staggering 25% this year."*

6.2.88 Go North West stated that, in its view, the sensitivity testing was "*inadequate*" though referred to their observations on the Economic Case for the reasoning.

6.2.89 TfGM cannot specifically comment on the cost experience of an individual operator such as Rotala. Cost sensitivities are reported in relation to fuel costs and wage growth, but not in relation to reinsurance and claims costs, in Table 50 of the Assessment. As explained in the Assessment at paragraph 41.1.13, the rate of growth in fuel costs and wage costs are considered key assumptions in forecasting cost growth as these cost categories represent the majority (greater than 70%) of operating costs in the base year and hence represent a much larger value, and proportion, of typical operating costs compared to the reinsurance and claims examples cited by Rotala.

6.2.90 TfGM does not consider that the fuel and wage cost sensitivities are "*too mild*" as the sensitivities are applied at a network level (rather than, for example, at an individual route, franchise package or individual operator level) and are applied over the full 30 year appraisal period (rather than, for example, an individual year). In the case of downside sensitivities, it should also be noted that the outputs of the sensitivity analysis do not assume any utilisation or availability of the quantified risk provision and the outputs are stated before any mitigating actions that could be taken by GMCA.

(xii) Financial Objectives

6.2.91 First noted the reference to a net surplus under the Proposed Franchising Scheme of £94m (post transition) and observed that "*Given the objectives of Franchising – to provide a better bus service to Greater Manchester – would it not be more appropriate to manage the levels of fares and the provision of services to avoid this surplus? Or better yet to adopt the partnership approach to also avoid the expenditure?"*

6.2.92 The £94m surplus represents a modelling position that is above "break-even" post transition. It is acknowledged that the objective of the Proposed Franchising Scheme

is not to make a surplus. In practice any net surplus arising over the long term would be reinvested. The Assessment sets out this principle for example at paragraph 42.1.1: "*Under franchising, all sources of income would be reinvested into an integrated transport network".*

(xiii) Financial position of London bus services

6.2.93 Arriva did not make any specific comments on the Financial Case but it did draw, what TfGM understands is, a comparison to the financial position of London bus services by stating: "*We would highlight the current annual deficit and debt burden which can result from introducing and operating a franchised bus market, as can be seen in the only existing franchised bus market in the UK at present."*

6.2.94 Arriva did not provide further reasoning as to why they consider a deficit and debt burden would result from a franchising model. However, TfGM notes its understanding that the 'deficit' in respect of London buses reflects the difference between revenues (passenger and commercial) and operating costs and is stated *before* the sources of public funding received by TfL. Whilst the sources of funding (and absolute scale of financial flows) are different between London and Manchester, in principle a difference between passenger revenues and operating costs already exists in Greater Manchester today, as substantial public funding also supports bus services in Greater Manchester.

6. 3 - Theme 2 - Funding Proposal and related matters: Local authority comments

6.3.1 The local authorities of Greater Manchester raised a number of issues in relation to the proposed funding, and the affordability, of the Proposed Franchising Scheme, including:

- clarification of each authority's share of the proposed total local authority contribution of £17.8 million towards the costs of transition to franchising and confirmation that this would constitute a one-off contribution;
- concerns over any ongoing or additional funding requirement falling on local authorities;
- the desirability of additional central Government funding and how any additional revenue funding would be utilised;
- a concern over the timing of the precept requirement relative to the phased roll out of franchising; and
- the financial risks of the Proposed Franchising Scheme and mitigations in the event of a funding shortfall.

6.3.2 Some authorities, such as Bury Council, also queried the implications of franchising on other priorities, such as future infrastructure programmes. A number of other consultees also made comments in relation to "opportunity cost" which are considered in the Strategic Case section of this report at section 4.12.

Local Authorities' share of the contribution towards the costs of the transition to franchising

6.3.3 The GMCA report of 7th October 2019 sets out the proposed contribution of the ten local authorities to the additional costs of implementing the Proposed Franchising Scheme as a one-off contribution and sets out the rationale for the preferred funding strategy.

6.3.4 The individual shares of the total local authority contribution are proposed to be split by population (and weighted as of June 2017), reflecting the same basis as the Statutory Contribution and Transport Levy. On this basis, the share for each authority

would be as follows:

Authority	Funding Contribution Value (£millions)
Bolton	1.80
Bury	1.20
Manchester	3.48
Oldham	1.48
Rochdale	1.39
Salford	1.59
Stockport	1.86
Tameside	1.43
Trafford	1.50
Wigan	2.07
Total	**17.8**

6.3.5 It should also be noted that, separately, GMCA at its September 2019 meeting has allocated resources from retained business rates receipts to local authorities. These resources are of greater value than the proposed contribution to the Proposed Franchising Scheme and therefore it is not anticipated that the contribution would result in an additional council tax requirement.

6.3.6 The Mayor's 2020/21 budget proposals to the January and February 2020 GMCA also subsequently set out that, in the event the Mayor makes a decision to introduce the Proposed Franchising Scheme, then a further report would be brought to the GMCA proposing that there is an increase in the statutory charge of £17.8 million for 2020/21 to support the implementation of that decision and which would require the unanimous agreement of the members of GMCA.

Ongoing impact on local authority finances

6.3.7 Bolton Council and Tameside Metropolitan Borough Council stated that it was important that the Proposed Franchising Scheme was fully funded without ongoing

recourse to the GM local authorities. Rochdale Borough Council considered the approach to funding was appropriate, but raised a concern that reductions in Government funding for local authorities would result in the Council having to contribute to the costs of the Proposed Franchising Scheme through their levy. Salford City Council commented that *"any further ongoing contributions will have a detrimental impact on what authorities can deliver locally and so should not become the normal source of funding."*

6.3.8 As detailed in the Introduction to this section, and in the Assessment at 40.1.7 onwards, existing sources of public funding are assumed to be retained over the appraisal period and the value of this required public sector funding is forecast to escalate in cash terms under all bus reform options, including the Do Minimum. This reflects forecast growth in the costs of concessionary reimbursement and the assumed retention of Greater Manchester's current local bus concessions such as half fare for children (ages six to 16); half fare for 16-18 year olds to and from a place of education; half fare for disabled passengers outside ENCTS provisions; and, extension of the free fare for severely disabled passengers to all times of the day. As explained in the Assessment at paragraph 40.1.13, 'Our Pass' is not included in the forecasts as it is currently a two year trial.

6.3.9 The Assessment also notes that the forecast escalation above the current baseline funding provided by the statutory contribution could, in practice, be met from a combination of funding sources, including the mayoral precept, resetting the statutory contribution baseline provided by the local authorities and central government.

6.3.10 Whilst the Assessment does not set out the allocation of any increased baseline funding requirement between these funding sources, it should be noted in response to the issues raised by local authorities that:

- the funding proposal approved by GMCA would provide a basis to fully fund the franchise specific net transitions costs of £122m up to 2024/25; and, the proposal also includes approximately £12.5m of funding for forecast cost escalation in current budgets over the transition period up to 2024/25, that would occur under all scenarios, including the Do Minimum;

- as explained in GMCA's report of October 2019, the funding proposal also balances providing one off funding during transition and a precept requirement, which would provide an ongoing source of revenue funding to manage any annual deficits and provide a level of base funding for forecast escalation in funding beyond 2024/25; and

- bus services are a mayoral function and ongoing local contributions for bus services are funded from a combination of the statutory contribution and precept rather than the transport levy. Local authorities through the members of GMCA can exert influence over these funding sources through

the respective governance arrangements. A variation in the statutory contribution requires unanimous agreement of the members of GMCA and budgeting of the mayoral precept follows a statutory process, that includes veto powers by the members of the GMCA.

6.3.11 In summary, TfGM considers that the proposed funding arrangement that was previously approved by GMCA would provide a basis to fully the fund the franchising specific net transition costs of £122m, and the proposal has considered the ongoing sustainability of funding both during and after the transition period. This includes approximately £12.5m of forecast cost escalation during the transition period that is forecast to occur under all scenarios, including the Do Minimum. The precept required during the transition period would also provide an ongoing source of revenue funding to manage any annual deficits and provide a level of base funding for forecast escalation in funding beyond 2024/25.

Central Government Funding

6.3.12 Stockport Metropolitan Borough Council, in its response, considered it would be beneficial if central government made a greater contribution towards the Proposed Franchising Scheme. As noted, the Assessment acknowledges the role of government funding and the subsequent GMCA report of October 2019 further acknowledges the desirability of government funding: "*Since the assessment was completed the Government has indicated that it will support Greater Manchester to 'deliver a London style bus system in the area' which could include revenue funding. If Government funding does become available this could offset any local contribution including council tax/precept requirement".*

6.3.13 The Government has recently made a number of positive announcements around the role of buses, including a pledge of £5bn of funding to support bus and cycling services over the next five years. In this regard GMCA and TfGM officers remain actively engaged in making the case to government to secure additional funding for bus services in Greater Manchester.

6.3.14 While the immediate availability of additional government funding would be welcome, it is not in itself a pre-condition of the Proposed Franchising Scheme being implemented as the Assessment sets out credible sources of funding that exceed the transition requirement; and the GMCA approved a funding proposal for consultation that does not rely on additional government funding and reflects sources of funding that are in the control of local decision makers.

Timing of precept requirement

6.3.15 Stockport Metropolitan Borough Council raised a concern over the proposed phasing of the precept requirement before Stockport residents would realise the benefits of franchising in their area.

6.3.16 TfGM considers that it is necessary to adopt a phased implementation approach for

the roll out of franchising. This approach allows a phased implementation of the future operating model, supports mitigating risks and, supports an increased likelihood of successful implementation. A phased roll out does necessitate a sequencing of sub-areas, and this sequencing has considered the geographic, commercial and travel pattern characteristics of the sub-areas to determine the preferred sequence.

6.3.17 In the funding proposal, the future years' precept requirement is phased from financial year 2021/22, and therefore is already deferred from the potential introduction date of the scheme, and the requirement from 2021/22 to the end of transition is also based on a phased build up of the precept requirement. TfGM considers this approach to funding would strike a balance between the transition costs that are necessarily incurred before services under the Proposed Franchising Scheme commence and the funding of those costs.

Financial risks of the Proposed Franchising Scheme

6.3.18 A number of authorities, including Bolton Council, Bury Council, Salford City Council and Tameside Metropolitan Borough Council, made comments relating to the financial risks of the Proposed Franchising Scheme. The issues raised included risks in relation to revenue risk / shortfalls, the mitigation strategy and consequences of fares and network policy mitigations. Tameside Metropolitan Borough Council, for example, state that, *"A major concern is income risk mainly through the farebox and whether it will be sufficient to pay for the franchised services. In such instances the Proposed Franchising Scheme could either reduce the size of the operated network and/or increase fares or by allocating more funding to support the services."* Salford City Council comment that "*It should be noted that any further ongoing contributions will have a detrimental impact on what authorities can deliver locally and so should not become the normal source of funding."*

6.3.19 The Assessment acknowledges, in paragraph 42.4.6 and elsewhere, that, allied to control of fares, services and integration of the bus network, the Proposed Franchising Scheme carries greater financial risks to GMCA than other options and that the majority of ongoing income and funding to meet the franchised network operating costs is from passenger farebox revenues which are inherently variable

6.3.20 In relation to farebox revenues (and net revenues) under the Proposed Franchising Scheme, the modelled position after the transition period is a net cumulative surplus of £94m to the end of the appraisal period; and a quantified risk provision, including an element of revenue risk provision, is included in the financial forecasts.

6.3.21 It is acknowledged that the modelled net cumulative surplus and revenue risk provision would not be able to accommodate all 'downside' scenarios without further mitigating actions. Sensitivity analysis is included in the Assessment to illustrate a range of outcomes (both positive and negative) and, in the event farebox revenues (or net revenues) were lower than forecast under the franchising scheme,

and could not be accommodated within the net cumulative surplus or quantified risk provision, the Assessment Summary set out under the Summary of downside risks and mitigating actions section after paragraph 4.134, the mitigations available to GMCA to set a balanced budget. The mitigations would include increasing fares, reducing services and additional funding and this would necessitate prioritisation decisions to be made by the Mayor and GMCA.

6.3.22 In this regard, Salford City Council considered in its consultation response that, while the mitigation options would make commercial sense, they would be politically challenging to deliver, and there may be further financial support required in the future.

6.3.23 It is acknowledged that increasing fares or reducing services would be undesirable for passengers (under any option). With regard to financial support required in the future, the Assessment acknowledges increased funding above the level currently provided by the statutory contribution will be required over the appraisal period under all scenarios, including the Do Minimum. The Assessment also sets out this additional funding could be met from a number of options and sources, including a mayoral precept, resetting the statutory contribution baseline provided by the local authorities and central government.

6.3.24 However, as already noted in this regard, GMCA has approved a specific funding proposal for consultation which fully funds the transition period up to 2024/25 and, in relation to Salford City Council's comment regarding further future financial support, the precept required during the transition period would provide an ongoing source of revenue funding after 2024/25 to manage any annual deficits and provide a level of base funding for forecast escalation in funding beyond the transition period.

6.3.25 Having considered the responses provided by local authorities, whilst the risk issues raised are predominantly in the context of a 'downside' scenario, it should be noted GMCA's objective is not to manage decline of bus services. TfGM is satisfied that the consideration of the financial risks as set out in the Assessment, and the development of mitigations, represents an appropriate risk balance in order to achieve the objectives of GMCA; as well as the inclusion of a quantified risk provision, GMCA would retain control of the key policy levers under the Proposed Franchising Scheme and the objectives of GMCA are commonly supported by most or all local authorities.

6. 4 - Theme 2 – Funding Proposal and related matters: Other Statutory and Non statutory consultee responses

6.4.1 There were mixed responses from other statutory and non-statutory consultees on the funding proposal and related matters.

6.4.2 Stagecoach, and a number of members of the public, raised a concern over the capability and expertise of TfGM/GMCA to manage a franchised network. This is considered in the Management Case section of this report from paragraph 8.3.16. A number of consultees also raised the issue of the "opportunity cost" of the Proposed Franchising Scheme which is considered in the Strategic Case section of this report at section 4.12.

6.4.3 For the most part incumbent operators and OneBus responded with a number of concerns over the funding proposal. These are considered below.

6.4.4 Bus Users UK accepted the Proposed Franchising Scheme could be affordable but highlighted other alternatives available at lower risk: *"Just because a plan can be developed to make the scheme affordable does not mean it should go ahead when there are viable and prudent alternatives which would provide the same benefits without the same strain on the public purse and the unnecessary risk involved."*

6.4.5 Manchester Airports Group warned against pursuing bus franchising instead of other transport investment priorities.

6.4.6 Better Buses for Greater Manchester considered the precept to be a price worth paying for the average household to have a better bus network; Travelwatch North West considered the proposed funding was practicable but considered it would be beneficial if government supported the proposals; HCT Group considered that having a number of funding sources avoided over reliance on a single funding source but that it would also be desirable to lock in long term funding or additional revenue streams; and, Unison considered that the costs and funding proposal would be a "*price worth paying*" for a better bus network.

6.4.7 Manchester Friends of the Earth identified the importance of franchising in the context of tackling the impact and costs from the transport sector on public health and climate change emissions. Bruntwood suggested new ways of funding such a change, specifically concerning the devolution of road tax, or charges related to air quality or carbon taxes which could be further diverted.

6.4.8 In relation to these suggested funding sources, TfGM considers that other potential funding sources identified are currently less certain, and (other than Government funding) are less practicable, than the funding sources identified in the Assessment and the funding proposal approved by the GMCA. However, TfGM acknowledges that they are relevant and, given the ambition for further Phase 2 interventions,

should be further evaluated as a potential Phase 2 funding stream.

6.4.9 The concerns raised relating to the proposed funding of the Proposed Franchising Scheme include:

i) the use of Mayoral precept / council tax to fund the Proposed Franchising Scheme;

ii) the availability of funding sources; and

iii) the "fallback" position.

Use of Mayoral precept / Council Tax

6.4.10 A number of incumbent operators including Stagecoach, Rotala, and other bodies including Bus Users UK raised concerns over the Mayoral precept, or council tax, funding the Proposed Franchising Scheme.

6.4.11 In this regard it should be noted that public funds, and the local tax base, already make a significant contribution to the funding of bus services, including the local authorities of Greater Manchester who provide up to £86.7m per annum of funding principally for concessionary reimbursement and supported bus services.

6.4.12 In relation to the proposed local authority contribution to implement the Proposed Franchising Scheme, as already noted, GMCA has separately allocated resources to local authorities from retained business rates and, if the Proposed Franchising Scheme were implemented, it is not anticipated that the local authority contribution would result in an additional council tax requirement.

6.4.13 In relation to the Mayoral precept, it should be noted that the majority of the proposed funding to implement the Proposed Franchising Scheme is provided from non precept sources and £11.0 million of the precept requirement for transition reflects the proposed allocation of existing precept raised as part of the Mayor's 2019/20 budget for bus reform purposes.

Availability of funding sources and fallback position

6.4.14 Go North West raised a concern over the ability to raise funding from the identified sources and that no "fallback" position had been set out if the identified funding sources or the amounts anticipated were not available.

6.4.15 It should be noted that the Assessment sets out a range of credible funding sources of a value between £213-£233 million, which substantially exceeds the forecast net costs of transition, so that there are "fallback" options. As set out in the 7th October 2019 GMCA report, the funding proposal for consultation reflects a subset of the same credible funding sources identified in the Assessment, for the reasons set out in the report, including those sources that are in the control of local decision makers.

6.4.16 The prioritised funding sources also reflect existing mechanisms and part of the

funding required during transition is already retained in reserves. TfGM therefore considers that the concern identified is to a large extent mitigated as the proposed funding sources are based on existing mechanisms; reflect a subset of the sources and amounts identified in the Assessment; are in control of local decision makers; and part of the funding is already retained in reserves.

6.4.17 Whilst an element of the identified earn back funding is already retained in reserves, the principal risk to the funding strategy, approved by GMCA in October 2019, was the release of the next five-year tranche of earn back covering financial years 2020/21 to 2024/25. The release of this funding has subsequently been confirmed by Government and has therefore consequently mitigated this risk.

Qualitative Research

6.4.18 A summary of insights on the Financial Case from Ipsos MORI's qualitative research exercise are set out further below. The full findings of the qualitative research exercise are set out in Ipsos MORI's Qualitative Research Summary Report. The questions posed to inform insights from this research were:

i) What comments do you have in response to the financial case of the Proposed Franchising Scheme?
ii) What do you think about the investment necessary to move from the current operating model to the Proposed Franchising Scheme?
iii) What do you think about the proposed funding sources for the Proposed Franchising Scheme?
iv) The Financial Case concludes that GMCA could afford to introduce and operate the Proposed Franchising Scheme. After completing the Assessment and in advance of this consultation, GMCA has proposed how it would fund the introduction of a fully franchised system. Do you have any comments on these matters?

6.4.19 Ipsos report in the Qualitative Research Summary Report that generally participants found this topic challenging to understand and had a number of further questions, including what the taxpayer money would be used for, how confident GMCA are in the numbers presented and what contingency plans were in place if the Financial Case was not correct.

6.4.20 With regard to the use of funds and risks, the Assessment and Assessment summary set out the components of the forecast net transition costs of £122 million (for example in Table 45 of the Assessment). This includes expenditure on assets, service quality and passenger interventions, systems and on bus equipment and the costs of managing transition.

6.4.21 The largest element of the net transition resource costs up to 2024/25 is provision for £36.2 million for quantified risk contingency which would be fully funded under GMCA's proposed funding arrangements: the availability and funding of a risk provision provides additional confidence that the overall financial envelope is

sufficient to implement the Proposed Franchising Scheme. Moreover, the Assessment sets out a range of credible funding sources which exceed the forecast net transition costs of £122 million. The Proposed Franchising Scheme would result in a significant risk transfer to GMCA compared to other bus reform options however, GMCA would also assume accountability and control of the key policy levers for bus services.

6.4.22 Ipsos report that participants in the deliberative workshops were split between those who thought this was a good use of council tax and/or GMCA resources more generally because it would improve public transport, and those who thought the money would be better spent elsewhere. Ipsos report that these views were not necessarily related to current bus usage as some bus users were worried about double-paying (through fares and taxes) while some non-users thought the investment would be worthwhile for the wider benefits, even if they did not use them personally.

6.4.23 Many participants emphasised the importance of not re-purposing funds already allocated to other council services, such as social care, in order to pay for these changes. Their support for the Proposed Franchising Scheme was contingent on it not leading to cuts in other services, as well as the Proposed Franchising Scheme realising the benefits described in the consultation.

6.4.24 In response to repurposing funds or detrimentally impacting other services, it should be noted that none of the identified funding set out in the Assessment, or the subset of funding identified in the Assessment and approved for consultation by GMCA, are funds previously earmarked or allocated for other projects or activities. For example, the value included for GMCA's devolved earn back funding (the largest element of proposed funding) reflects the residual unallocated funding after taking account of commitments to fund existing schemes.

6.4.25 Ipsos MORI's Qualitative Research Summary Report identifies that most participants considered the proposed rises in council tax would be affordable for themselves, but were concerned that if this was just one increase among other incremental rises in their council tax to fund other local authority priorities, then residents may not be able to afford this.

6.4.26 Participants may refer to council tax and a Mayoral precept interchangeably: in relation to council tax, it is not anticipated that the Local Authority contribution would result in an additional council tax requirement as GMCA has separately allocated resources to local authorities from retained business rates.

6.4.27 In relation to the Mayoral precept, it should be noted that the majority of the proposed funding to implement the Proposed Franchising Scheme is provided from non precept sources and £11.0 million of the precept requirement for transition reflects the proposed allocation of existing precept raised as part of the Mayor's 2019/20 budget for bus reform purposes. If the Proposed Franchising Scheme were

implemented, then GMCA would need to consider if the precept requirement for future years was additional or would need to be met from savings elsewhere.

Other suggestions and comments

6.4.28 TfGM has also considered other comments and suggestions not captured in the themes identified in this section. These suggestions and comments are:

i) Free services in all, or part of, Greater Manchester;

ii) Possible sponsorship and additional advertising revenues; and

iii) Levies on employers and drivers.

6.4.29 TfGM considers in relation to free fares that, whilst passenger value for money is a key objective, this needs to be balanced with funding availability. Public transport provision typically reflects a funding mix between passenger charges and other source of funding. A balance of funding is desirable and Greater Manchester already provides significant public funds for bus services and concessionary schemes.

6.4.30 In relation to sponsorship and additional advertising revenues, TfGM considers this could be an opportunity under the Proposed Franchising Scheme, aligned with an integrated transport network and unified brand. In the event of a decision to implement the Proposed Franchising Scheme, it is proposed that this opportunity, and more generally commercialisation of assets, would be investigated further.

6.4.31 In relation to levies on employers and drivers, TfGM considers that these suggestions are less feasible, and would carry greater uncertainty, than the funding sources identified in the Assessment.

6. 5 - Overall Conclusion

6.5.1 TfGM has considered the consultation responses in relation to the Financial Case and other related matters. As reported by Ipsos MORI, the majority of members of the public made favourable comments on the conclusion of the Financial Case - 1,377 members of the public made favourable comments and 476 members of the public made unfavourable comments. The majority (26) of non statutory consultees also made favourable comments on the Financial Case, whilst 8 non statutory consultees made unfavourable comments; and, a minority (8) of statutory consultees made favourable comments, whilst a majority (15) of statutory consultees made unfavourable comments.

6.5.2 A number of concerns were raised, principally by incumbent operators, in relation to the income and costs of the Proposed Franchising Scheme both over the transition period and on an ongoing basis. TfGM has not identified any omitted costs on the basis of these comments. However, it should be noted, in relation to employment costs, which represent the most significant ongoing cost, that the Proposed Franchising Scheme does not include provision for a harmonisation upwards of current terms and conditions. Additional capital costs for retrofitting or replacing fleet vehicles to meet environmental standards are not included in the costs of the Proposed Franchising Scheme or any of the options considered in the Assessment. Instead, the Clean Air Zone Outline Business Case includes these requirements and GMCA has made clear the requirement for the government to provide financial support for these proposals.

6.5.3 Some local authorities raised concerns over the financial risks of the Proposed Franchising Scheme and the potential impact on the delivery of local priorities; while, incumbent operators, for the most part, considered that a partnership option would avoid transfer of risk to the public sector.

6.5.4 The Assessment acknowledges that, allied to greater control, the Proposed Franchising Scheme would carry greater financial risks than other options, and in the event of a downside scenario which could not be accommodated within the modelled net cumulative surplus post transition or the quantified risk provision, GMCA would retain policy levers to address such risks principally in relation to fares policy, network scale and funding. The proposed funding strategy has also considered the ongoing sustainability of the Proposed Franchising Scheme during and after transition through the precept requirement which would provide an ongoing source of revenue funding.

6.5.5 Some incumbent operators also raised concerns over the ongoing availability and value of public funding from BSOG and concessionary reimbursements. Greater Manchester currently receives approximately £16.1 million of BSOG per annum which, as set out in the Assessment, is assumed to be retained at the current nominal

value over the appraisal period under all bus reform options.

6.5.6 The Assessment acknowledges the availability of BSOG from Government is a risk, which, if the risk materialised, TfGM considers would very likely impact all options. As the GMCA would face this risk more directly under the Proposed Franchising Scheme, the quantified risk assessment includes a risk provision in the event there were an unforeseen reduction in BSOG. However, a reduction in value or withdrawal of this funding over the long term could not be accommodated within the risk provision and would necessitate GMCA undertaking mitigating actions to achieve a balance budget.

6.5.7 Similar concerns were raised in relation to funding for concessionary reimbursements and that a reduction in the value of this funding compared to the Assessment assumptions would represent a 'cost' or loss of government funding to the GMCA. However, TfGM considers that, whilst the English National Concessionary Travel Scheme (ENCTS) is a national mandatory scheme, in practice the risk of variation in concessionary reimbursement costs (and the associated funding) sits locally with GMCA, as the travel concession authority, and with local authorities who provide funding through the statutory contribution.

6.5.8 In relation to proposed funding, the Assessment set out a range of credible funding sources that could fund the additional net costs to implement the Proposed Franchising Scheme. The GMCA, at its 7th October 2019 meeting, approved, for the purposes of consultation a subset of the credible funding sources identified in the Assessment, for the reasons set out in the report, including that these sources are in the control of local decision makers.

6.5.9 Under the funding proposal, the local authorities of Greater Manchester would provide a one-off contribution of £17.8 million for the additional costs to implement the Proposed Franchising Scheme. The Mayor's 2020/21 budget report to the GMCA set out the proposed arrangements for this contribution if the Proposed Franchising Scheme were introduced. TfGM's consultation response report (this report) also sets out the individual local authority shares of the proposed contribution on a proposed population weighted basis.

6.5.10 Some local authorities, whilst supportive of the Proposed Franchising Scheme more generally, made their support conditional on there being no further funding requirement from authorities after transition.

6.5.11 TfGM considers it relevant to note that, as set out in the Assessment, the value of required public sector funding is forecast to grow in cash terms under all bus reform scenarios, however the funding proposal approved for consultation by GMCA includes approximately £12.5m of forecast cost escalation/indexation in current budgets over the transition period up to 2024/25 that would occur under all scenarios, including the Do Minimum, and the requirement from the Mayoral precept would provide an ongoing source of revenue funds, providing a level of base

funding for forecast escalation in funding beyond 2024/25.

6.5.12 A number of consultees commented that it would be desirable if the Government provided additional funding. This was fully acknowledged in the 7th October 2019 report to GMCA and Government has subsequently made a number of policy announcements in relation the funding of bus services; officers remain actively engaged with Government in seeking to secure additional funding for bus in Greater Manchester.

6.5.13 While the immediate availability of additional government funding would be welcome, TfGM considers this is not a pre-condition of the Proposed Franchising Scheme being implemented. The Assessment sets out credible sources of funding that exceed the transition requirement; and GMCA approved a funding proposal for consultation that does not rely on additional Government funding and that reflects sources of funding that are in the control of local decision makers.

6.5.14 Incumbent operators, for the most part, raised a number of concerns over the funding proposal and associated matters, including the availability of the identified funding sources; and the appropriateness of using, and the impact on, the Mayoral precept/ council tax.

6.5.15 In the context of these concerns, TfGM considers it relevant to note that local sources of funding already make a significant contribution to the funding of bus services (currently up to £86.7 million per annum is funded by the local authorities of Greater Manchester), and this would continue to be the case under all bus reform options, not just the Proposed Franchising Scheme. In relation to the Mayoral precept, it should be noted that the majority of the proposed funding to implement franchising is provided from non precept sources and that the proposed contribution from local authorities to implement franchising is not anticipated to impact council tax.

6.5.16 Having considered these responses, TfGM considers that the net costs, balance of risk and proposed funding strategy approved by GMCA for the purposes of consultation remains appropriate, and that the sources of funding remain credible and represent a sub set of the sources identified in the Assessment.

6.5.17 In relation to funding, whilst an element of the identified earn back funding is already retained, the principal risk to the funding strategy, approved by GMCA in October 2019, was the release of the next five-year tranche of earn back covering financial years 2020/21 to 2024/25. The release of this funding has subsequently been

confirmed by Government and consequently mitigated this risk.

Section 7 - Commercial Case Response Themes

7. 1 - Introduction

7.1.1 This section of the report considers the consultation responses relating to the Commercial Case.

7.1.2 The Commercial Case of the Assessment considers the proposed options from a commercial perspective and assesses their viability. It sets out the commercial objectives for the Proposed Franchising Scheme, including driving competition between franchises; creating and sustaining an enduring market; providing flexibility to adapt to changing demand, and enabling access for small and medium-sized operators. It covers areas including the assets that would need to be acquired by GMCA such as depots and information systems; the timeframe for implementation; how the franchises could be packaged; their length; the procurement process; and the potential impact on the employees of bus operators.

7.1.3 Consultees were asked to consider the following questions in relation to the Commercial Case of the Assessment:

Question 7. Do you have any comments on the dates by which it is proposed that franchise contracts may first be entered into?

Question 8. Do you have any comments on the nine-month period it is proposed will expire between entering into a franchise contract and the start of a service under such a contract?

Question 10. Do you have any comments on GMCA's plans for allowing small and medium sized operators the opportunity to be involved in the Proposed Franchising Scheme?

Question 11. Do you have any comments on the proposal that it would be appropriate for GMCA to provide depots to facilitate the letting of large franchise contracts under the Proposed Franchising Scheme?

Question 18. Do you have any comments on the packaging strategy for franchising contracts under the Proposed Franchising Scheme, as set out in the Commercial Case?

Question 19. Do you have any comments on the length of franchise contracts under the Proposed Franchising Scheme, as set out in the Commercial Case?

Question 20. Do you have any comments on the proposed allocation of risk between GMCA and bus operators under the Proposed Franchising Scheme, as set out in the Commercial Case?

Question 21. Do you have any comments on the potential impact of the Proposed Franchising Scheme on the employees of operators, as set out in the Commercial Case?

Question 22. Do you have any comments on the approach to depots under the

Proposed Franchising Scheme, as set out in the Commercial Case?

Question 23. Do you have any comments on the approach to fleet under the Proposed Franchising Scheme, as set out in the Commercial Case?

Question 24. Do you have any comments on the approach to Intelligent Transport Systems under the Proposed Franchising Scheme, as set out in the Commercial Case?

Question 25. Do you have any comments on GMCA's approach to procuring franchise contracts under the Proposed Franchising Scheme, as set out in the Commercial Case?

Question 26. Do you have any comments on the impacts of the options on the achievement of the objectives of neighbouring transport authorities, as set out in the Commercial Case?

Question 27. Do you have any comments on the Commercial Case conclusion that GMCA would be able to secure the operation of services under franchise contracts?

Question 28. Do you have any comments on the Assessment of the commercial implications of the partnership options as set out in the Commercial Case?

Question 29. Do you have any comments on the potential impact of the partnership options on the employees of operators as set out in the Commercial Case?

7.1.4 Question 26 on the impacts of the options on the achievement of the objectives of neighbouring transport authorities is considered in greater detail in Section 4.8 of the Strategic Case response.

7.1.5 Question 28 on the commercial implications of the partnership options and Question 29 on the potential impact of the partnership options on the employees of operators are considered in greater detail in Sections 4.9 of the Strategic Case response.

7.1.6 The Ipsos MORI report concluded that for the Commercial Case participants showed an overall positive response to:

- the packaging strategy as set out in the Commercial Case;
- the allocation of risk between GMCA and bus operators as set out in the Commercial Case; and
- the approach to depots and Intelligent Transport Systems (ITS) as set out in the Commercial Case.

7.1.7 It also concluded that there were overall mixed sentiments from participants towards:

- the length of franchise contracts under the Proposed Franchising Scheme as set out in the Commercial Case;
- the potential impact of the Proposed Franchising Scheme on the employees of

operators as set out in the Commercial Case;

- the approach to fleet and the proposed approach to procuring franchising contracts as set out in the Commercial Case; and
- the Commercial Case conclusion that GMCA would be able to secure the operation of services under franchise contracts.

7.1.8 Further detail relating to the overall views provided on each of these points can be found in ES7 of Ipsos MORI's report.

7.1.9 This chapter is structured into the following two sections, which are intended to respond to the main themes identified from TfGM's analysis of consultation responses and consideration of the Ipsos MORI analysis. These main themes are:

- Asset Strategy: depots, fleet, ITS and stranded assets.
- Timeframe for Implementation, Franchise Design, Procurement and Employees.

7. 2 - Asset Strategy: depots, fleet, ITS and stranded assets

(i) Depots

7.2.2 Question 11 of the consultation asked for any comments on the proposal that it would be appropriate for GMCA to provide depots to facilitate the letting of large franchise contracts under the Proposed Franchising Scheme.

7.2.3 Question 22 of the consultation asked for any comments on the approach to depots under the Proposed Franchising Scheme as set out in the Commercial Case.

7.2.4 The Assessment set out that the steady state model for strategic depots is that they would be controlled by GMCA in order to remove a key barrier to entry for bidders for large franchises. This supports the commercial model's objective of delivering value for money by removing barriers to entry, driving competition, and creating an enduring market for franchising.

7.2.5 Some consultees, including some of the Greater Manchester bus operators, and non-incumbent bus operators provided positive comments on the proposals for depots along with other statutory consultees.

7.2.6 Other bus operators including Arriva, Go North West and Rotala raised challenges surrounding GMCA's proposals on depots. These can broadly be categorised into the following themes:

- Theme 1: Whether GMCA should be providing any depots and if so which.
- Theme 2: Whether incumbent operators will sell the strategic depots to GMCA voluntarily.
- Theme 3: Whether the alternatives for large franchises, apart from compulsory purchase of strategic depots, are feasible.
- Theme 4: Whether GMCA can legally use Compulsory Purchase Order (CPO) powers to acquire strategic depots.
- Theme 5: The timeline for delivering the Proposed Franchising Scheme in the event that strategic depot owners are unwilling to sell those depots to GMCA.
- Theme 6: The reasonableness of the costs allowed for in the Financial Case in respect of the depot strategy.

7.2.7 In response to Question 11, the Ipsos MORI report (see section 6.11) shows that generally responses from members of the public (251 favourable comments versus 114 unfavourable comments) and non-statutory consultees were supportive (10 favourable comments versus 4 unfavourable comments). However, responses from statutory consultees were largely mixed (9 favourable versus 9 unfavourable

comments) with the unfavourable comments mainly being from bus operators.

7.2.8 In response to Question 22, the Ipsos MORI report (see section 9.5) shows that generally responses from members of the public were supportive, reporting 133 favourable comments versus 57 unfavourable comments. However, responses from statutory consultees (4 favourable comments versus 7 unfavourable comments) and non-statutory consultees (6 favourable comments versus 5 unfavourable comments) were largely mixed with the unfavourable comments mainly being from bus operators.

7.2.9 Specific comments received and TfGM's response to each of these themes along with wider unfavourable comments are set out below.

7. 3 - Theme 1: Whether GMCA should be providing any depots and if so which

7.3.1 The CMA comments that *"there is a clear balance to be struck between the need to protect strategic assets that will facilitate franchising (specifically new entry and transition between franchise holders), the property rights of private enterprise and maximising value for money for GMCA and taxpayers."* However, as set out below, the CMA concludes that TfGM's decision to control strategic depots is the right one. The CMA said that "*the importance of access to depots makes it a risk for the successful implementation of franchising*" and that they *"are pleased that GMCA in its assessment recognises that access to depots will constitute a barrier to entry for the larger franchises and is of sufficient significance to warrant intervention. The consultation indicates that GMCA will seek to acquire depots of existing operators and make these available to new franchisees. We support this approach to better facilitate entry, competition and flexibility of franchise awards*."

7.3.2 This positive view is generally echoed by a number of operators, including Arriva, Abellio, HCT Group and Warrington's Own Buses with Arriva specifically stating that this would remove a *"significant barrier to entry for some operators"*. The University of Manchester commented that the proposal offers an opportunity to ensure depots are run in a sustainable way moving forward, whilst other positive comments include that the proposal will drive competition or level the playing field for smaller operators from other stakeholders.

7.3.3 The Ipsos MORI report (Section 6.11.3) also notes that 203 members of the public stated that they agreed with the proposals or thought that it was a good idea. For example, one member of the public stated "*This makes perfect sense and would allow for continuity of provision in the event of another service provider being awarded a franchise in later years."* The report also states that 16 members of the public supported the proposal providing that operators would pay rent and contribute to maintenance costs.

7.3.4 A number of operators, however, have challenged whether the acquiring of strategic depots to deliver large franchises represents an efficient use of public funds. First states that the depot strategy provides facilities *"that would otherwise be provided by the free market"* and that *as "there are already suitable premises available to meet this objective, this is expenditure which could be better focused on improved service/network coverage or avoided altogether*". OneBus similarly states that "*the excessive sums of money to be tied up in property would be better spent on customer focused bus service improvements".* The Ipsos MORI report (Section 6.11.3) also shows that 33 members of the public raised concerns regarding the costs, affordability and value for money of the proposal.

7.3.5 Go North West stated that they do not agree that an operator owning a depot would have a significant competitive advantage compared to other operators and therefore

that this would constitute a barrier to entry. Specifically, they use London as an alternative example stating "*TfL does not provide depots to operators, who are responsible for acquiring and operating depots*". Also, in their view there is not a shortage of depot capacity in the GM area as "*there are a number of unused and under-used depots. These facilities offer significant capacity that operators may utilise in order to ensure they are in a position to bid for large franchises. Alternatively, operators (whether existing operators in Greater Manchester or new entrants to the market) could build new depots; GNW notes that in North Manchester there are brownfield sites where this could be done*".

7.3.6 Rotala suggested that depots could remain in their existing ownership but be shared with other franchisees on commercial terms.

7.3.7 Although not directly challenging the principles of ownership of strategic depots, some consultees raised issues over whether the strategic depots are in the right place and if there are other depots that could act as strategic depots.

7.3.8 A number of respondents commented that the location of strategic depots may not facilitate optimal network planning. This includes:

- The CMA who point out that, if franchises are structured around the location of existing depots, there may be a risk that network planning is not optimised.
- Stockport Metropolitan Borough Council who commented that while ensuring that the necessary depots are in place for the running of larger franchises is important, there is a need to ensure that the acquired depots are not just historically valuable but meet the current needs of the areas being served and that any need or amended usage of locations is not detrimental to local congestion and other land use needs.
- Transdev, a cross boundary operator, who commented that franchises could be structured around a network of routes based on an optimum depot location, rather than fixed to operating from one of the strategic depots.

7.3.9 Transdev, also raised various concerns that:

- It owns a depot in Rochdale "*which is larger than the Stagecoach depot in Middleton and Arriva's Wythenshawe depot and excluding this from the Strategic depots seems inconsistent*".
- The strategic depot model places it at a competitive disadvantage compared to the incumber operator when bidding as the incumbent operator "*will have full knowledge of the costs involved*".

7.3.10 Both the CMA and Derbyshire County Council stated that they believe the depot strategy for small franchises could limit competition. The CMA stated that "*given that some small franchises would be limited to two vehicles (and six on average) it is not clear that a new entrant would anticipate sufficient return to invest in acquiring and*

investing in developing new depot capacity" and that 'dead-mileage' implications may mean that existing market structures remain in force. Derbyshire County Council stated that whilst they welcome the depot proposals, they "*find it surprising that [GMCA] are not proposing to provide [small franchise operators] with depot facilities in the same way as the larger franchise operators as this may discourage certain small and medium size companies from taking part*". Ipsos MORI's report (Section 6.11.3) also shows that 21 members of the public made similar suggestions that smaller franchise operators should be facilitated with provision of depots.

TfGM response:

7.3.11 The Assessment sets out the rationale for the public sector to provide strategic depots (26.1.3) rather than operators themselves providing them. The proposed approach was based primarily on the view that requiring operators to provide a depot is likely to prove a significant barrier to competition given the costs and time issues associated with a bidder constructing a new depot and the relatively small number of suitable existing depots across Greater Manchester.

7.3.12 Section 26 of the Assessment describes the rationale for a steady state model of strategic depots being controlled by GMCA, who would lease the assets to the franchise operator with some associated asset maintenance responsibilities. This includes the conclusion that a new entrant would be unlikely to bid on a speculative basis without established depot access arrangements due to the large franchise term being significantly shorter than the expected life of a depot asset meaning that depot investment was unlikely to be recoverable over the franchise term without making a bid unaffordable. Therefore, even in the event that operators who do not already control a strategic depot were able to identify suitable sites, the investment that would be required is likely to act as a barrier to entry. In addition:

- It is also considered that a depot of this size could not be built in the time period between contract award and contract start.
- Although there may be sufficient sites in Greater Manchester for alternative strategic depots these are unlikely to be optimally located (e.g. to minimise dead mileage).
- Whilst Go North West state that such a model works in London, the London approach to franchise packaging is significantly different to that proposed for the Proposed Franchising Scheme, given that London operates a route by route model, and therefore does not provide a like-for-like comparison. The reasons why a route by route model is not proposed for use in Greater Manchester is detailed further in Section 7.9.61 of this report.

7.3.13 To inform its position TfGM also undertook market engagement with operators in early 2018 which, amongst other things, sought views from operators on *"TfGM's conclusion that responsibility for the provision of a depot per large franchise is best*

placed with TfGM" and this was largely endorsed by operators at the time.

7.3.14 Although First consider that depots should be provided by the free market, the Assessment concluded that this would require splitting the network into a larger number of smaller franchises, leading to sub-optimal franchise sizes. This would reduce efficiency and make each franchise individually less attractive to the market, particularly given the current network of depots is not sufficiently dense to necessarily allow multiple bids for each franchise. The Assessment also sets out a number of specific reasons why a prospective new entrant would not be in a position to do this on a speculative basis.

7.3.15 Whilst it is recognised that costs of intervening in depot provision are high (as noted in some of the consultation responses), such an intervention is considered to deliver significant competitive benefits (as noted by the CMA) and would therefore be justified.

7.3.16 The Assessment describes how the preferred option at transition is that GMCA gains control of the current GM strategic depots (which are owned by some of the incumbent bus operators) for the delivery of franchising in the transition phase rather than seek to build new depots.

7.3.17 This decision was also intended to reduce transition risk as it avoids a significant reorganisation at transition, that would impact employees in particular. It also reduces the impact on existing operators by mitigating the risk of stranded assets. The mitigation of the potential for stranded assets is further detailed in Section 7.8.55 of this report.

7.3.18 The CMA's concerns that there may be a risk that network planning is not optimised if franchises are structured around the location of existing depots appears to conflate the transitional phase with the steady state. The Assessment describes the provision of five to ten strategic depots in the steady state (Section 26.1.6), met through a combination of utilising the existing strategic depots and construction of new depots. This would seek to drive efficiencies through both depot size and location, and so is considered unlikely to replicate the existing structure. The Assessment has concluded that transitional arrangements are required to enable GMCA to take control of strategic depots while the steady state solution is implemented, and that the preferred route to this is by taking control of existing operator-owned strategic depots. Therefore, the replication of existing structure noted by the consultee would be a short-term model only and is judged necessary in order to deliver the steady state model.

7.3.19 The strategic depots identified in the Assessment are those that GMCA has concluded collectively provide the most efficient model for delivery of large franchises during the transitional phase. Therefore, they are not proposed to be acquired solely due to their historical value. Stockport Metropolitan Borough Councils further suggestion that any need or amended usage of locations is not

detrimental to local congestion and other land use needs would be considered as part of any proposal to acquire new land to establish any new depots.

7.3.20 Although depot size is an important factor in determining which depots are strategic depots it was not the only consideration: location and condition were also considered. Therefore, the fact that the Transdev's Rochdale depot is larger than some strategic depots does not mean that an inconsistent approach has been taken.

7.3.21 Although Transdev state that the strategic depot model places it at a competitive disadvantage compared to an incumbent operator when bidding, as the incumbent operator "*will have full knowledge of the costs involved*", the alternative scenario where GMCA specifies that operators should provide strategic depots to operate large bus franchises is much more likely to constrain competition and/or may result in a procurement challenge from any operator that does not have control of a strategic depot (Assessment Section 26.1.5). Additionally, the intention is to provide a range of information to bidders, including where appropriate cost assumptions, to minimise any incumbent advantage during the bid process.

7.3.22 Small franchise operators will need to provide depot facilities that meet operational requirements. As concluded in the Assessment (Section 26.1.16), the smaller scale of these facilities means they are not considered to present a material barrier to entry to bidders for small franchises and school contracts to be let by the GMCA. Although the depot strategy differs for small and large franchises, restrictions on the use of strategic depots to deliver either small franchises or resource contracts for school services will mean that bidders for small franchises are not disadvantaged in the procurement process.

Future proofing

7.3.23 Arriva and Tameside Metropolitan Borough Council suggested that strategic depots would need to be future-proofed. Tameside Metropolitan Borough Council noted several potential issues that need to be considered, including:

- Further issues with the depot proposition will centre on the proposed size of any electric bus fleet required to operate the different franchises, as the depots will require a substantial electricity supply to enable charging.
- Other fuel types including bio-gas will need more specialised fuelling provision.
- For smaller franchises there may be a need for depot sites to possibly have facilities for electric vehicle charging or facilities for different fuels, which could prove difficult for the successful operators of smaller franchises to find appropriate sites.

TfGM response:

7.3.24 Consideration has been given, in the depot strategy, to the future needs of depots in relation to changing technology, for example, to a move to electric vehicles. This has

included the extent to which the strategic depots could be adapted for electric vehicle charging and other relevant infrastructure requirements. This is both in the context of current depots acquired from GM Bus Operators and any depots constructed in the future for the steady state solution. Each of the identified strategic depots could be adapted for electric vehicle charging and other relevant infrastructure requirements, subject to planning permission etc., but this would result in a reduced capacity.

7.3.25 It is also considered that GMCA control of strategic depots would facilitate future investment in electric vehicle charging and other relevant infrastructure for alternative fuel types to be undertaken in a manner which would:

- Mitigate many of the state aid implications that would otherwise exist should strategic depots be owned by the private sector in the event that some of the funding is from government (either national or local).
- Ensure consistency of solution across multiple depots, to better facilitate franchise handover and the delivery of network improvements which, for example, may involve the transfer of fleet between depots.

7.3.26 Small franchise operators will need to provide depot facilities that meet operational requirements. However, given that land availability in Greater Manchester for smaller depots is much less of a constraint than for large depots this is less of a material barrier to entry than for large franchises. Where the requirements of the Greater Manchester Clean Air Plan increase the likelihood of small franchises and school contracts depots requiring infrastructure for electric vehicle charging and/or other fuel types TfGM would seek to ensure a level playing field in relation to tendering to ensure that small operators are not adversely impacted compared to large operators. It should however be noted that these implications would not be specific solely to the Proposed Franchising Scheme (i.e. they would be equally relevant in the event that the Proposed Franchising Scheme is not adopted). Also, the depot strategy would restrict large franchise operators from using the strategic depots to operate either small franchises or resource contracts for school services. Therefore, any such requirement for small franchise depots to accommodate electric vehicle charging and/or other fuel types would affect the small franchise operator regardless of whether they are a large operator or a small and medium sized operator ("SME").

7.3.27 Additionally, where the specification required significant capital investment, TfGM would seek to work with the small franchise operator where appropriate. As the implications of the Greater Manchester Clean Air Plan becomes clear, GMCA will continue to work with and support owners on non-strategic depots to implement its requirements.

7. 4 - Theme 2: Whether incumbent operators will sell the strategic depots to GMCA voluntarily

7.4.1 In general, the current owners of the strategic depots have commented that it is unlikely that they would voluntarily sell these to GMCA. OneBus notes that this transfer of control is "*dependent upon incumbent operators being willing to negotiate*", and the Ipsos MORI report notes that they also made this point in response to Question 37 of the consultation which asked for any comments on the impacts of the Proposed Franchising Scheme on operators as set out in the sub-section impacts of the different options. Go North West states that "*it is not a realistic proposition that operators would agree to sell their depots to GMCA voluntarily*" and that, if it did not win any franchises, its depot could be sold to another operator for market value or for non-transport development. Stagecoach say that it is likely compulsory purchase powers would have to be exercised as operators are not likely to enter into agreements that do not give them adequate compensation. The CMA pointed to a risk that existing owners may choose to dispose of their depots as development sites for alternative uses to maximise returns if they decide to exit the market or are not awarded a relevant franchise.

TfGM response:

7.4.2 The Assessment recognised that securing the ten strategic depots by voluntary sale might not be straightforward. Selling their depots to GMCA, however, would mitigate the risk for operators of stranded assets if they are not awarded a local service contract, a risk that may be yet more serious if alternative land uses are not viable due to land contamination issues. It also mitigates the potential impact on employees who, depending on the alternative option taken forwards by GMCA, may otherwise need to relocate to alternative depot locations (a concern also raised by a number of operators).

7.4.3 An incumbent operator's strategic depot would be unlikely to be sold to another operator given that granting a non-incumbent bidder an option on its depot in the event that it is unsuccessful in its own franchise bid would remove the key competitive advantage that it holds against non-incumbents. Therefore, in the event of a Mayoral decision to introduce the Proposed Franchising Scheme, GMCA would continue to seek its preferred option of negotiated depot transfer through proactive dialogue with operators which is likely to be in their interest.

7. 5 - Theme 3: Whether the alternatives for large franchises, apart from compulsory purchase of strategic depots, are feasible

7.5.1 The Assessment (Section 26.1.20) sets out a number of alternative routes to depot provision at the transitional stage, including: provision of short-term depot facilities altering of the commercial model in the first round of franchising so that strategic depot provision becomes the responsibility of the operator; building new depots; and the CPO of strategic depots.

7.5.2 With the exception of CPO, there has been little comment in the consultation response in relation to these alternative routes. It is considered that they continue to provide viable strategies for the provision of depots.

7.5.3 Further consideration on the challenges raised by consultees to the CPO and timelines are considered in more detail below.

7. 6 - Theme 4: Whether GMCA can legally use Compulsory Purchase Order (CPO) powers to acquire strategic depots

7.6.1 Rotala questioned whether GMCA could satisfy the stringent test for compulsory purchase, requiring a compelling case for purchase in the public interest. The use of the land as a depot could remain either under its current ownership or, if necessary, by other franchisees on commercial terms. It points out that such a compulsory purchase would give rise to practical difficulties for its current operator where the depot serves a broader purpose, acting as regional hub and for other activities. Rotala notes for example that "*headquarters for Rotala's entire North Western business is located at its depot in Bolton and in addition all drivers in the Rotala group are trained at this depot*". They also state that *"forcing their sale would disrupt the dynamic to the detriment of the Greater Manchester bus market and ultimately consumers*".

7.6.2 In section 9.3 of its HSF legal paper, Stagecoach also state that *"to the extent that GMCA attempts to purchase compulsory any operator's land without following the correct procedure or without having the statutory power to do this, this is likely to be unlawful and will give rise to grounds of challenge".*

TfGM response:

7.6.3 It is accepted that any compulsory purchase requires the exercise of statutory powers by GMCA or TfGM.

7.6.4 It is also accepted that a compulsory acquisition may involve disturbance to its owner or occupier and the relocation of some of their activities. The exercise of any CPO powers by GMCA would be subject to a separate statutory process whereby GMCA would, amongst other things, need to have sufficient grounds to be able to demonstrate a compelling case in the public interest that would sufficiently justify interfering with the rights of an operator who owned the specific depot in question taking any such adverse effects into account. However, a need to secure land that is required to enable franchised bus services to be delivered (if a decision is taken to introduce the Proposed Franchising Scheme) is considered likely to justify the exercise of compulsory powers of acquisition. However, TfGM reiterates that the CPO of strategic depots is not GMCA's preferred option, which is instead a negotiated depot transfer. If this is not successful, the Assessment (Section 26.1.20) describes a number of alternative routes to depot provision which would be carefully considered prior to any decision in respect of CPO, but which would, if unproductive, also support the case for the use of a CPO.

7.6.5 Pursuing these alternative routes may require a variation and/or a postponement of the Proposed Franchising Scheme. For example, this could include a change to the proposed implementation timescales which would require any dates for entering into local service contracts and/or service commencement included the Proposed

Franchising Scheme to be postponed.

7. 7 - Theme 5: The timeline for delivering the Proposed Franchising Scheme in the event that strategic depot owners are unwilling to sell those depots to GMCA

7.7.1 Some operators challenged GMCA's ability to deliver the Proposed Franchising Scheme in the timeframe described in the Assessment and as proposed in the consultation document.

7.7.2 Go North West consider that GMCA will have to "*rely on the CPO process to obtain depots… since operators would not agree to sell*" and questioned the proposed timeline of acquiring depots via CPO. They suggest that it would take between two and a half to three years to complete a contested CPO process, and that, unless the GMCA decides not to provide facilities to successful bidders, "*GMCA's whole timetable for the procurement of franchise contracts, transition and roll-out will be pushed back for a period of up to three years*".

7.7.3 Stagecoach considered that *"the three-year timeframe set by GMCA to deliver on franchising appears unrealistic at this stage, especially as there is the possibility that GMCA will have to exercise some form of compulsory purchasing powers to acquire depots".* Stagecoach also commented that "*The Assessment does not account for the time this [the CPO process] will take, and does not consider how this will impact on the transition period to implement the proposed scheme. …In the circumstances either the three-year transition period set out in the Assessment is unrealistic or the GMCA will need to find a way to fast-track the transfer of depots from operators in order to meets its transition targets*."

7.7.4 OneBus commented that *"the timescales associated with these alternative plans will likely delay the process",* in particular in the event of a CPO.

7.7.5 Abellio suggested that, to mitigate incumbent advantage during transition *"a short delay in the procurement programme [may be required] in order to absolutely ensure that incumbent operators do not successfully stonewall TfGM in its stated plans to achieve control of strategic depots through a combination of negotiated depot transfer and CPO".*

TfGM response:

7.7.6 The Assessment makes clear (at section 27.3.5) that one of the assumptions underpinning its procurement plan was that depots would be available in time for each large franchise to be let. Although the Commercial Case costings assumes that GMCA would achieve control of strategic depots through a combination of negotiated depot transfer and CPO (Section 26.1.21 of the Assessment), the preferred option was that GMCA would gain control via a negotiated depot transfer.

7.7.7 It is important to note, however, that TfGM also considered that there are a range of viable options available to GMCA to provide depots for the operation of large

franchises in addition to compulsory purchase if such sales did not occur, and as noted in Section 7.5.2 of this report, there has been little comment on these other options in the consultation responses. In the event that that operators are not willing to consider a negotiated sale following any Mayoral decision to introduce the Proposed Franchising Scheme, then one or a combination of the other options would be explored in detail before any CPO process was pursued. It is not considered to be accurate that the timeframe for the commencement of the Proposed Franchising Scheme is necessarily dependent on CPO, even if operators are unwilling to sell their depots to the GMCA.

7.7.8 GMCA recognises that it is highly unlikely that a CPO process could be completed in time for the commencement of the first round of franchising in Sub-Area A (January 2022) and potentially in Sub-Area B (January 2023), although it is considered achievable for Sub-Area C (January 2024). It is for this reason that in the first round of franchising in Sub-Area A and Sub-Area B, in the event that it is not possible to negotiate the transfer of some or all of the strategic depots at the transition phase, the route to depot provision that would be used for the transitional stage (Section 26.1.20 of the Assessment) is most likely to be either the provision of short-term depot facilities by GMCA or an altering of the commercial model so that strategic depot provision becomes the responsibility of the operator for the first round of franchising. Both of these options would be deliverable to the timeframes described in section 27.3 the Assessment, but if implemented would require a formal variation of the Proposed Franchising Scheme. These routes could also be used to provide an interim depot approach alongside the acceleration of the steady state option of building some new strategic depots.

7.7.9 In the unlikely event that there is no viable solution other than CPO for the first round of franchising of Sub-Area A (and potentially Sub-Area B), it is likely that the timeline described in the Assessment would be impacted. This is a point noted by Abellio in their response, which suggests a short delay to implementation to facilitate the provision of depots by TfGM. This might involve subsequent postponement to the dates set out in the Proposed Franchising Scheme to specify the new dates on which a local service contract in each Sub-Area may first be entered into and consequently the dates on which a local service may first be provided under such a contract in that Sub-Area.

7.7.10 If there is any requirement to delay implementation, postponing the dates set out in the proposed scheme in accordance with section 123I of the Act would allow GMCA to modify these dates. The Financial Case response, in Section 6.2.83 of this report, also considers that, whilst not specific to a CPO process, the quantified risk register includes the risk of delayed implementation due to mobilisation and complexity issues. At this stage, however, for the reasons given, GMCA does not propose to delay the programme or to change any of the proposed dates and believes that the current proposals are realistic and achievable, based on GMCA's preferred option to voluntarily purchase the strategic depots.

7. 8 - Theme 6: The reasonableness of the costs allowed for in the Financial Case in respect of the depot strategy

7.8.1 Stagecoach at section 9.4 of their HSF legal paper state that *"In terms of any costs associated with CPOs, we note that compensation payable as a result of compulsory acquisition is based on the principle that the owner should be paid neither less nor more than their loss. This is known as the "equivalence principle" and it disregards any effects on value as a result of the acquiring authority's scheme for the land (known as the "no scheme" principle). It is unclear to us whether GMCA have appropriately calculated the costs involved for compulsorily purchasing any operator's land. If GMCA's economic analysis has not factored in compensation based on the "equivalence principle", that would be another significant gap*."

7.8.2 Rotala stated that, in the event that CPO powers were to be used, *"GMCA would no doubt also open itself up to compensation claims that would give rise to considerable resources and legal expenses that do not appear to have been taken into account in the Assessment. Claims by bus operators subject to Compulsory Purchase Orders would include the fact that the depots are worth more to operators than merely the market value not least as depots may be used as regional hubs and for other activities within the bus operator group."*

7.8.3 Salford City Council stated that the provision of depots by the GMCA for the large franchises is likely to come at significant cost. Further information on the likely costs for the scenarios described in Section 4.86 of the consultation document would be required.

TfGM response:

7.8.4 The Assessment makes a prudent estimate of the cost of acquiring control of strategic depots, including a combination of a likely negotiated transfer valuation and an independently obtained CPO valuation. In addition, the Financial Case (Section 20 of the Assessment) includes a Quantified Risk Assessment which estimates the cost of specific uncertain events, including additional costs in the delivery of the depot strategy, which may occur.

Fleet

7.8.5 Question 23 of the consultation asked for any comments on the approach to fleet under the Proposed Franchising Scheme as set out in the Commercial Case. As stated in Section 26.2 of the Assessment, in the steady state, provision of vehicles would remain the responsibility of the franchise operators. To minimise any potential barriers to entry, GMCA would introduce a Residual Value (RV) mechanism that establishes a fleet of RV mechanism buses as 'primary franchise assets.' This mechanism would guarantee the future value of vehicles throughout their useful economic life and GMCA would take the long-term risk on fleet demand beyond the life of individual franchises.

7.8.6 The Ipsos MORI report (Section 9.6) shows that responses from members of the public were generally supportive, reporting 87 favourable comments versus 54 unfavourable comments. However, responses from statutory consultees (5 favourable comments versus 7 unfavourable comments) and non-statutory consultees (5 favourable comments versus 8 unfavourable comments) were generally mixed with unfavourable comments mainly concerning issues of affordability of the proposal.

7.8.7 The comments received from the CMA, operators and local councils in relation to fleet largely focus on whether GMCA should take on any risk with respect to the fleet, availability of proposed RV fleet and contract mobilisation, the condition of the RV fleet and the specifics of the RV mechanism.

Whether GMCA should take on any risk in relation to the fleet

7.8.8 First voiced concerns that *"taking the risk on vehicles –potentially in respect of both the current fleet and those procured for Franchised operations – into the public sector is considered to be unnecessary and a burden on the public sector that is avoidable*". They also state that "*big issues remain to be resolved on handling of the existing fleet in Greater Manchester, in particular in respect of take up of the "residual value" mechanism and magnified by the current emphasis on decarbonisation and electrification which could render the existing Greater Manchester bus fleets obsolete within 15-20 years. This exposes the Franchising system and the Greater Manchester authorities to significant cost risks".* They consider it is "*better to let the risk remain with the operators".*

7.8.9 Rotala state that larger bus operators are likely to have considerably greater purchasing power than TfGM given the size and the ability to flex delivery to match larger orders so that moving to the franchised model would reduce the flexibility that enables operators to negotiate lower prices. It also expresses concerns about poor decisions being taken by TfGM when specifying vehicles to be used given its relative lack of experience.

7.8.10 Derbyshire County Council state that, whilst this is a decision for GMCA, they think

that the proposal *"may well stifle the opportunity for operators to come forward with proposals for new vehicle fleets as part of their response to the tenders".*

7.8.11 Conversely, Tameside Metropolitan Borough Council state that they agree that the proposed solution to fleet appears sensible. HCT Group state that they agree with the proposed fleet solution. Support was also provided from the CMA of the principle of an RV mechanism which will "*reduce both the financial outlay for an incoming franchisee and reducing financial risk at the end of a franchise*".

TfGM response:

7.8.12 As noted in the Assessment (Section 26.2) provision of fleet would remain the responsibility of the franchise operators, supported by the RV mechanism. This approach takes advantage of the relationships, experience and buying power that operators have with the bus manufacturing industry. It also allows operators the flexibility to balance fleet procurement and maintenance solutions on a wider basis than Greater Manchester, thereby managing whole life cost. The proposed RV mechanism would also provide the following advantages to GMCA:

- under franchising GMCA would be able to specify emission standards and use of electric powers (or alternatives) with the key commercial issues being in respect of the funding of this. The proposed RV mechanism, where GMCA is the controller of fleet, lowers the state aid risk of GMCA investing in alternative fuel technology and associated infrastructure compared to other bus reform options.
- the RV mechanism would help to control franchise cost by GMCA taking the long-term risk on fleet demand beyond the life of individual franchises as it avoids the need for operators to accelerate the depreciation of new vehicles over short franchise terms.
- the RV mechanism gives GMCA greater ability to actively manage and coordinate fleet age across Greater Manchester.

7.8.13 The only scenario where GMCA fleet risk would crystallise is in the event that one or more vehicles are no longer required for the provision of Greater Manchester franchised bus services (e.g. due to new legislation or a change to the fleet specification by GMCA) and the guaranteed future value is not achieved in the open market. Given GMCA will set the fleet specification and will be able to manage fleet across Greater Manchester so can anticipate any changes in legislation and plan for them, this risk is considered to be mitigated to an acceptable level. The Quantified Risk Register also contains a risk that acquired fleet which would not be required due to changes in demand and/or be obsolete due to a policy decision.

Availability of proposed RV fleet and contract mobilisation

7.8.14 Stagecoach states there is insufficient time to conduct market engagement and complete an RV process before the commencement of the procurement of sub-area A franchises in the second half of 2020. Similarly Go North West state that "*during*

the transition period we anticipate that the approach is likely to be fraught with difficulties including disputes as to what assets should be included in the RV mechanism and whether assets are valued according to book price or market price...and the process could lead to delay to the GMCA's proposed timetable."

7.8.15 Various comments were received regarding to whether the RV mechanism is dependent on incumbent operators placing fleet into the RV mechanism. These comments included:

- The CMA who commented that the success of the residual value mechanism will "depend on the willingness of incumbents to make this fleet available to competitors on the initial transition to franchising".
- OneBus who commented that "if the incumbent operator decides to transfer the fleet to another of their other operations, the new operator will have to acquire vehicles from elsewhere at greater cost than the above suggested way forward."
- Responses to Question 37 of the consultation, which asked for any comments on the impacts of the Proposed Franchising Scheme on operators as set out in the sub-section impacts of the different options, which as noted by the Ipsos Mori report, included:
    - OneBus stating that "*incumbent operators can create a significant risk to TfGM if they decide to move their assets elsewhere across their other operations where they exist if not successful in bidding*"; and
    - The Chartered Institute of Logistics and Transport- North West Policy Group querying whether contingency plans were in place in situations where operators chose to dispose of assets elsewhere which could effectively lead to service disruption.

7.8.16 Although the CMA state *"we support the proposed nine-month period between contract awards and services operating on the basis that it is enough time to acquire new buses if needed*", alternative views were expressed by some operators. For example:

- Go North West commented that "*it would be extremely difficult for operators to be ready with a full fleet of buses to GMCA's specification within a nine month lead time*."
- Arriva commented that "*a nine-month period to undertake mobilisation will only be feasible if the requirements of the relevant franchise contract are such that ULEV or hybrid vehicles and infrastructure is not required*."
- Transdev commented that "*We feel that nine months is broadly reasonable – however there is significant delivery risk, particularly if operators are expected to*

procure buses as lead times can be at least six months."

TfGM response:

7.8.17 TfGM undertook initial market engagement on the draft principles of an RV mechanism in early 2018, with responses received providing general endorsement of its proposals. TfGM has subsequently produced a draft Heads of Terms that it would use to engage with the incumbent operator market immediately following any Mayoral decision to proceed with franchising, followed by a programme of work to ensure that any RV fleet for sub-area A is confirmed prior to the commencement of Invitation to Negotiate phase of the procurement. It is considered that this is achievable in the required timescales.

7.8.18 The commercial model is not reliant on RV take-up. To the extent that an incumbent operator decides not to place some or all of its relevant fleet into the RV mechanism and there is subsequently a difference between the RV fleet allocated to a franchise and the fleet requirement for the same franchise, that incumbent operator may opt to use that fleet for its franchise bid (rather than acquiring vehicles from elsewhere). Similarly, a non-incumbent operator would also be able to bring fleet from outside Greater Manchester or buy new fleet.

7.8.19 Whilst it is possible that incumbent operators will choose not to place fleet into the RV mechanism, particularly if they believe that this will provide them with a competitive advantage during procurement, they would need to balance this against the risk of stranded assets in the event that they were unsuccessful in bids for franchises.

7.8.20 However, if a bidding incumbent operator chooses not to place fleet into the RV mechanism (e.g. in order to provide it with a perceived competitive advantage over other bidders who may not have access to similar fleet), that operator's bid pricing in respect of that fleet is unlikely to be materially different to that which would have crystallised if it had been placed into the RV mechanism. In the event of lack of availability of RV fleet at bid stage (e.g. in the scenario described above), there is also unlikely to be a material difference in bid pricing from a non-incumbent who opts to bid with existing fleet (either taken from other operations or purchased via the second-hand bus market). However, analysis performed by TfGM, which includes consideration of maintenance cost and fuel efficiency benefits, indicates that the whole life cost of new fleet would not materially exceed that of existing fleet. It has therefore concluded that the franchise cost implications of different courses of action by incumbent operators in respect of RV are likely to be neutral.

7.8.21 TfGM notes the comments raised by operators in respect of lead times for new fleet. However, it is currently satisfied that a mobilisation period of nine months is adequate for the manufacture and delivery of both Euro VI diesel, typically six months, and ULEV, typically eight months, but would continue to review this, including via ongoing discussion with manufacturers, to identify any specific

circumstances that may require a longer mobilisation period. The potential implications of the Clean Air Plan Business Case, which may include requirements on fleet and infrastructure, are discussed in Section 4.9 of the Strategic Case response.

7.8.22 Whilst the commercial model is not reliant on RV fleet take-up, the securing of RV fleet is desirable in order to reduce mobilisation risk and to mitigate the risk of stranded assets for incumbent operators. TfGM is committed to facilitating the establishment of the RV mechanism to enable the transfer of incumbent fleet to franchise operators and would seek to do so at a valuation which appropriately reflects the value at which they are held by incumbent operators.

7.8.23 Also, whilst it is correct that the success of the RV mechanism during transition will depend on the willingness of incumbents to make this fleet available, mechanisms contained within the local service contract would mean that any fleet purchased for the undertaking of franchise operations would automatically become RV fleet. Therefore, even in the event that operators do not agree to place existing fleet into the RV mechanism, the RV mechanism will still be secured following the commencement of franchise operations.

Condition of RV fleet

7.8.24 The CMA notes that uncertainty over the RV fleet that a franchisee would inherit means *"franchise bidders may face commercial risk in estimating any costs of upgrading or replacing older vehicles to meet a particular specification required of the franchise".*

7.8.25 Abellio believes the RV mechanism is a suitable way to manage provision of the fleet but considers that, if the current fleet is to be part of the scheme, "*the Proposed Franchising Scheme must provide comprehensive information on vehicle type, condition, maintenance history, warranty arrangements and operating costs of the fleet that non-incumbent operators would be required to take on*."

7.8.26 Arriva considered that, if the RV mechanism is to work as envisaged, vehicle and cleanliness standards must be robust and enforced.

7.8.27 Salford City Council state that there may be a risk that outdated buses and equipment are retained in Greater Manchester through this mechanism as older buses are offloaded by former franchise operators and reused by an incumbent operator without upgrading as part of new franchises.

TfGM response:

7.8.28 To mitigate this risk it is considered that:

- GMCA will establish a fleet specification for entry into the RV mechanism. This specification will be consistent with that which must be met by franchise operators, and therefore upgrading of vehicles is not anticipated. Older vehicles

will need to be replaced as part of a standard fleet replacement programme.

- RV fleet for each franchise would be confirmed prior to commencement of the main ITN phase of procurement so that all bidders have clarity and consistency of RV fleet assumptions.
- Bid and mobilisation phases will provide bidders and incoming franchise operators with the opportunity to inspect fleet.
- RV fleet will need to pass specific handover criteria prior to ownership being transferred to the incoming franchise operator, with a retention fund established to fund any necessary remedial works. In addition, the franchise contract will allow for a financial adjustment in the event that any RV fleet do not transfer to the franchisee as assumed in the tender documentation.

7.8.29 The Financial Case of the Assessment does not assume additional investment to improve the standard of fleet. However:

- A limit would be placed on the maximum fleet age (both in absolute terms and as a maximum average age). These would be applied across all the franchise fleet and also at service level, with certain services specifying a lower maximum fleet age.
- The rules for initial entry of incumbent fleet into the RV mechanism will include restrictions to avoid the situation where operators use the mechanism to offload:
    - proportionally older fleet whilst retaining ownership of newer fleet (either for bidding purposes or to cascade to other operations outside of Greater Manchester).
    - poorly maintained fleet and fleet that falls below the minimum standards set by GMCA.

Specifics of the RV mechanism

7.8.30 Go North West suggested that *"the RV approach will work best if GMCA provides precise vehicle specifications, recommended vehicle purchase prices and agrees future values at the outset. GMCA should underwrite the risk of all stranded assets for incumbent operators which means there should be no minimum standards for participation in the RV scheme. To prevent operators from incurring significant losses in the event that their franchise ends and they do not win a subsequent franchise, the RV scheme should also include ticket machines, CCTV, plant and machinery in depots and software and other assets lost on not winning a franchise*."

7.8.31 Abellio *"believes that the ability for operators and franchise bidders to include leased vehicles as part of bids is fundamental to lowering barriers for entry to the market*". The Ipsos Mori report notes that Transdev raised a similar point regarding the potential to include leased vehicles in its bid in response to Question 37 of the consultation which asked for any comments on the impacts of the Proposed

Franchising Scheme on operators as set out in the sub-section impacts of the different options. Transdev stated that *"many of the vehicles we use are on fixed term leases and thus not covered by the residual value matrix and if we cannot redeploy them we will be left with lease commitments that cannot be serviced by revenue".*

TfGM response:

7.8.32 As stated above, GMCA's fleet specification will be consistent with that which must be met by franchise operators, and therefore upgrading of vehicles is not anticipated.

7.8.33 Operators are far more experienced in fleet negotiation and acquisition than GMCA, and will also be incentivised to achieve competitive fleet pricing via the procurement process which will evaluate bid price as well as quality. Therefore, GMCA does not propose to recommend vehicle purchase prices.

7.8.34 The fleet specification for entry into the RV mechanism will be designed to broadly maintain the current standard of fleet that is in Greater Manchester. Therefore, assuming that an operator has appropriately maintained their fleet then it will likely be acceptable into the RV mechanism. Where fleet does not meet the criteria for transfer into the RV mechanism at the commencement of franchised services, the outgoing operator would risk these becoming stranded assets. This provides operators with appropriate incentivisation to maintain fleet to the required standards.

7.8.35 The RV mechanism will agree the future value of the fleet at the outset.

7.8.36 GMCA would seek to include on-bus ITS equipment and depot plant and machinery in the RV mechanism as part of any agreement. In addition to mitigating a residual value issue for operators' existing equipment, this will also provide operational robustness during transition to steady state. The mitigation of the potential for stranded assets is further detailed in Section 7.8.55 of this report.

7.8.37 The current assumption is that leased fleet would not form part of the RV mechanism as the ownership and/or financing structure would likely make entry into the RV mechanism too complicated and/or costly. However, in the event that any operators have leased fleet then TfGM would be willing to listen to any proposals that operators may have and explore whether these issues can be overcome. This would form part of the overall engagement with operators on the RV proposition.

Intelligent Transport Systems

7.8.38 Question 24 of the consultation asked for any comments on the approach to ITS under the Proposed Franchising Scheme as set out in the Commercial Case. As stated in Section 26.3 of the Assessment, the proposed state model for each piece of on-bus ITS equipment, with the exception of CCTV, would be for GMCA to procure a chosen provider and system. Note that since the Assessment, the provision of the Driving Standards Monitoring equipment would now also be the responsibility of GMCA.

7.8.39 The Ipsos MORI report (Section 9.7) notes that responses in relation to Intelligent Transport Systems are mostly favourable across statutory consultees (9 favourable comments versus 3 unfavourable comments), non-statutory consultees (14 favourable comments versus 3 unfavourable comments) and members of the public (218 favourable comments versus 56 unfavourable comments). It also provides several examples of positive comments from statutory consultees, non-statutory consultees and members of the public.

7.8.40 The comments received from operators and local authorities in relation to ITS largely focus on whether franchising is required to deliver the benefits involved, the integration of legacy systems and the procurement approach.

Is franchising required to deliver the benefits involved?

7.8.41 Rotala commented that it "*considers that technology is constantly developing and permits interoperability to be implemented on a wide scale. It would not seem necessary to introduce the Proposed Franchising Scheme to achieve the Intelligent Transport Systems sought by GMCA but rather this could be achieved equally well under the Partnership Plus option. Indeed, Intelligent Transport Systems have been introduced in other partnership models such as Brighton and Hove".*

7.8.42 Question 35 of the consultation asked for any comments on the impacts of the Proposed Franchising Scheme on passengers, as set out in the sub-section on impacts of the different options. The Ipsos Mori report notes that in response to this question Go North West were of the view that "*franchised systems tend to be rigid and slow to introduce new technology, which could adversely impact passengers who are as a result denied access to the latest market developments until a franchise contract has come to an end"*.

TfGM response:

7.8.43 The Commercial Case does not assume that franchising is required to deliver the ITS outcomes described in the Assessment (Section 26.3), nor that a franchise model is preferred because it drives the ITS outcomes described. The Commercial Case instead describes how, in the event of a Mayoral decision to introduce the Proposed Franchising Scheme, desired ITS outcomes can be best achieved in order to support the achievement of the Vision for Bus. Therefore, the preferred position to establish

an integrated system with consistency for customers, operators and GMCA is for GMCA to procure a chosen provider and system for each piece of ITS excluding CCTV.

7.8.44 Go North West gave no specific examples of how GMCA may be slow to introduce new technology. One of the desired ITS outcomes of the Proposed Franchising Scheme is being able to provide agility when requiring such change. Whilst individual operators may be able to introduce technological change in small quantities faster than GMCA, when a change is required over the whole network then it is considered that a single solution would allow GMCA to be able to do this quicker than multiple individual operators. It is also considered that a single solution would actually facilitate such change to occur during the life of a franchise in comparison to minimum specifications where an operator may be unlikely to implement technological change towards the end of a franchise contract.

Integration of legacy systems

7.8.45 FirstGroup suggested that *"there is an increasingly viable option to integrate such (legacy) systems to use common standards and protocols rather than replace with common systems – this opportunity should be explored*".

TfGM response:

7.8.46 During transition it is likely that, in each of the Sub Areas, there will be a reliance on legacy (or existing) on-bus ITS equipment whilst new equipment is installed on buses to ensure operational continuity while the steady state solution is implemented. This is likely to be for a circa 12-week period at the start of franchising in each Sub Area. However, for the steady state, GMCA has previously undertaken the analysis suggested by FirstGroup to consider the integration of legacy systems. This analysis concluded that, although specific considerations vary from system to system, there is a risk that attempted integration of legacy operator systems would be unlikely to achieve all of the following outcomes:

- consistency of data (e.g. operational performance);
- operational efficiency (e.g. driver location and communications);
- mitigation of potential compatibility issues for ITS equipment which forms part of the RV transfer (e.g. no operator would be left with ETM equipment from different suppliers); and
- to provide TfGM agility when requiring change.

7.8.47 Therefore, the Assessment concluded that a single system for each element of ITS (excluding CCTV) is the preferred model. However, whilst it is not proposed to integrate whole legacy systems into the steady state, it is possible that certain equipment and infrastructure such as driver radio masts and compatible on-bus signs

may be reused.

Procurement approach

7.8.48 Many operators including Abellio, HCT Group, Go North West and Stagecoach and various local authorities including Bolton Council and Salford City Council stated agreement with the proposed Intelligent Transport Systems strategy. For example, Stagecoach stated "*that the plans to introduce Intelligent Transport Systems under a centralised contract, specified, negotiated and managed by TfGM on behalf of GMCA, make sense under a franchise scenario*".

7.8.49 Stagecoach, however, also noted that *"it places yet further pressures on finite TfGM resources (procurement and legal) to operate yet further procurement programmes in the same timeframe as franchising contests are planned*" and it *also "queried whether a local authority would be able to commercially negotiate contracts to deliver any further value compared to the current market"*. OneBus stated that this "*sounds a very ambitious project and one that their experience shows will not be delivered in a short time frame*".

7.8.50 Rotala stated that the efforts to achieve an Intelligent Transport system should not be underestimated and that it was not clear why TfGM thought it might be better placed, from a resource and personnel perspective, to introduce such a system than the private sector and that it would take longer and cost more than anticipated. The Ipsos MORI report (Section 9.7.3) also notes that ten members of the public stated that as GMCA/TfGM would lack the expertise to implement such systems that it might be better left for the operators to deal with.

TfGM response:

7.8.51 GMCA's proposal to have a common procurement approach for ITS has many advantages including that it establishes a level playing field at bid stage and that it ensures that smaller operators are accommodated. The strategy is also aimed at balancing consistency with the risk associated with additional integration, rather than specifically delivering any further value compared to the current market.

7.8.52 Whilst it is recognised that each element of ITS procurement adds to the overall resource requirement, TfGM has established a programme of work that would begin after any Mayoral decision to introduce the Proposed Franchising Scheme. This includes the identification of specialist resource requirements and the governance arrangements that would be established to ensure that these procurements are completed concurrently with the procurement of the first franchise tranche. This includes the provision of appropriate resource for complex and/or technical procurements such as ITS.

7.8.53 TfGM also has experience of successfully implementing ITS procurements on time and budget, for example the procurement of Ticketer and contactless on behalf of the SME operators in Greater Manchester. The proposal also aims to minimise any

unnecessary system development by procuring commercial off-the-shelf solutions were possible.

7.8.54 The strategy described in the Assessment in respect of a number of elements of ITS equipment, whereby GMCA would undertake a procurement to select a single preferred supplier of a particular equipment type which would be made available to franchise operators, is not based on any conclusion that GMCA would be able to commercially negotiate contracts to deliver any further value compared to the current market. Rather, GMCA has concluded that this approach is necessary to ensure consistency of solution across franchises such that:

- critical data is available, consistent and accurate;
- the customer experience is as consistent as possible across the network; and
- operational and maintenance procedures are standardised and allow ITS equipment to transfer (via the RV mechanism) to subsequent franchisees.

Stranded assets

7.8.55 Multiple operators raised queries relating to whether GMCA had considered the potential for stranded assets across depot, fleet and ITS. For example:

- Transdev suggest that a staged ITS procurement approach may be more effective and cost less for GMCA, as they deem there is a risk that the current proposal creates a residual value issue for operators' existing equipment. Similarly, Stagecoach state that "*there is no allowance for operator equipment write-downs, where new equipment is required by GMCA, for example, for radio, automatic vehicle location (AVL) or Intelligent Transport Systems (ITS) equipment*".
- Arriva question how GMCA intends to compensate operators whose depots are not acquired for franchising, and therefore are left with stranded assets.
- Go North West recommended that GMCA underwrites the risk of all operators' stranded assets.
- The Ipsos Mori report notes that Transdev raised a similar point in response to Question 39 of the consultation which asked if the consultee currently operates local bus services in Greater Manchester, do they anticipate any positive or negative impacts that the different options may have on their business. In response to this question Transdev stated that if a bidder is successful in bidding then there would be "*opportunities for growth*" but that if they were unsuccessful in bidding "*the risk identified revolved around the consultees limit of exposure via their Rochdale depot and fleet*".

TfGM response:

7.8.56 It is accepted that the introduction of the Proposed Franchising Scheme may have differing impacts on operators and the Assessment considered the potential risk of operators being left with stranded assets, particularly in relation to depots, fleet and ITS. That is why part of the consultation was aimed at seeking the views from operators on the proposed approaches for depots, fleet and ITS and what impacts the Proposed Franchising Scheme may have on operators.

7.8.57 The following mitigations will be available in respect of the risk of incumbent operator stranded assets:

- The RV mechanism provides operators with the option to put fleet into the RV pool, with requirements for entry consistent with mix and standard of fleet currently operating in GM, therefore substantially removing the risk of stranded fleet. GMCA would seek to include on-bus ITS equipment in the RV mechanism as part of any agreement. In addition to mitigating a residual value issue for operators' existing equipment, this will also provide operational robustness

during transition to steady state on-bus ITS equipment.

- The depot strategy seeks to acquire strategic depots, including plant and machinery, from incumbents, therefore removing the risk of stranded strategic depots. The Proposed Franchising Scheme does not intend to compensate operators whose depots are not acquired for the purposes of providing depots under the Proposed Franchising Scheme. Any offer to acquire or compensate operators for any fleet or strategic depot that becomes stranded once contracts are awarded would likely deter operators from making those assets available for acquisition by GMCA for the purpose of reducing barriers to entry. To the extent that current owners of strategic depots choose not to engage with GMCA and/or a transfer value cannot be agreed, those operators would remain owners of those facilities (Sections 26.1.18 – 26.1.20 of the Assessment).
- Owners of non-strategic depots, such as Transdev's Rochdale depot, would be expected to make commercial decisions around the future use and ownership of such depots. This may include, but is not necessarily limited to, ongoing provision of bus operations, coach services, MOT/engineering, driver training or disposal (either for its existing use or an alternative use). In particular, owners would be able to use these depots to bid for small franchises and school resource contracts. This is likely to provide them with some competitive advantage over non-incumbent operators who would otherwise need to secure similar depot facilities in order to deliver small franchises and/or school resource contracts. In addition, it is also noted that the packaging strategy (Section 25 of the Assessment) describes how the PVR available to the SME market (either as small franchises or school contracts) would remain largely unchanged compared to the current tendered services which make up the majority of SME operations, and therefore the opportunities available to the SME market should be broadly comparable to those existing now.

7. 9 - Timeframe for implementation, Franchise Design, Procurement and Employees

Timeframe for implementation

7.9.1 Question 7 of the consultation asked for any comments on the dates it was proposed that local service contracts (or franchise contracts) may first be entered into.

7.9.2 Question 8 of the consultation asked for any comments on the nine-month period that is proposed will expire between entering into a franchise contract and the start of a service under such a contract.

7.9.3 The consultation document explained how the dates it was proposed that franchise contracts may first be entered into flowed from any date for making the Proposed Franchising Scheme and in a similar manner to that date, explained how these dates may change.

7.9.4 The comments received from operators and local authorities in relation to the timeframe for implementation largely focus on the implementation timescales, the proposed dates that franchise contracts may be first entered into and the nine-month mobilisation period.

Proposed dates that franchise contracts may be first entered into

7.9.5 Section 6.7 of the Ipsos MORI report found how the majority of the members of the public made favourable comments on the proposed dates that franchise contracts may first be entered into, with there being 263 favourable comments versus 72 unfavourable comments including 203 of the comments containing a suggestion that the dates should be brought forward as far as possible. However, comments from statutory consultees (5 favourable comments versus 6 unfavourable comments) and non-statutory consultees (3 favourable comments versus 3 unfavourable comments) were largely mixed. They did however include some favourable comments from statutory consultees such as Travelwatch North West who stated that they "*accept the need for staging over that period of time*".

7.9.6 Some of the bus operators made favourable comments about the proposals. For example, HCT Group said that *"12 months between [a Mayoral] decision and [contract] award gives ample time for existing and new operators to develop tenders and redesign their business model".* Abellio also said that *"these dates will be achievable, provided that GMCA and TfGM are satisfied that they can complete the procurement process in a manner which allows effective competition by new market entrants in advance of the identified dates. Clearly, successful and unencumbered acquisition of the existing depots by GMCA (should this remain the prime delivery mechanism) prior to the proposed start dates will be critical to meeting these*

timescales".

7.9.7 Other statutory and non-statutory consultees challenged the proposed dates for different reasons including:

- Derbyshire County Council said that "*looking at the experience in London when franchising was introduced there the whole process took a considerable number of years to complete from the late 1980s until the mid 1990s. The timetable proposed in the consultation does seem very quick considering the number of services involved*".
- OneBus commented that "If the do nothing scenario is as bleak as predicted and Bus Reform is needed, why do bus users have to wait 24 months before they see any change at all or wait until January 2024 for only the transition to be completed…when the Partnership offer can deliver much sooner". Rotala also suggested that "*Partnership Plus could be implemented before the first tranche begins in April 2021. Indeed, Rotala considers that, with sufficient engagement from TfGM, it should be possible to implement Partnership Plus within around six months*".
- Go North West said that "*these dates are not achievable for a number of reasons*" including that:
    - "*there are likely to be protracted negotiations with a preferred bidder*";
    - "*GMCA will not be able to obtain depots voluntarily*";
    - the proposed RV mechanism would impact on these proposed dates because "*operators are unlikely to be willing to volunteer the best of their fleet into the RV" and that "the process for agreeing the market price of assets is likely to be complex and time consuming…*"; and
    - "*in preparing its timetable it does not appear that GMCA has taken into account the possibility of legal challenge(s) from operators in respect of the decision to implement the Scheme.*"

7.9.8 Rotala did not challenge the proposed dates, however they did ask "*what precisely will occur on the dates on which Local Service Contracts may first be entered into…given that it is envisaged that there may be up to a nine-month delay until the Local Service Contracts start being provided…".*

TfGM Response:

7.9.9 The Assessment explains the approach to decisions over how best to implement franchising to minimise passenger risk but also minimise implementation risk. It is considered that the current proposals balance these factors appropriately and that extending the implementation timeline, as suggested by Derbyshire County Council,

would cause too much disruption without commensurate reward.

7.9.10 Whilst a partnership may be able to be entered into sooner than the Proposed Franchising Scheme, as explained in Section 4.14.34 of this report, a partnership would not go so far as to achieving GMCA's objectives and there would be significant doubt as to what would be delivered and when, and how long any such measures could last for. Should a partnership be entered into via a VPA, as proposed by the operators and OneBus, there also remains uncertainty around which operators would sign up to it, and a risk that the partnership breaks down, given that it is voluntary in nature.

7.9.11 As described in Section 27.2 of the Assessment, it is assumed that the negotiated procedure of the Utilities Contracts Regulations 2016 would be used to conduct the procurement of the bus franchising operations. Unlike the competitive dialogue procedure, the negotiated procedure provides minimal scope for negotiating with the preferred bidder. As such, it is appropriate that the proposed timeline to implement the scheme does not provide for protracted negotiations with a preferred bidder.

7.9.12 As set out in Sections 7.3.1 - 7.3.26 of this report, it is still considered appropriate for GMCA to provide depots for large franchises but it is accepted that there could be delays in obtaining control over those depots.

7.9.13 As set out in Section 7.8.18 of this report, the commercial model is not reliant on RV take-up. To the extent that incumbent operators choose not to engage in RV negotiations with GMCA and/or agreement cannot be reached for the transfer of incumbent fleet into the RV mechanism, each franchise bidder would be responsible for the provision of fleet to account for any difference between franchise fleet requirements and RV fleet allocation. Therefore, any unsuccessful RV negotiations would not impact on the dates in which franchise contracts may be first entered into.

7.9.14 In the event of a legal challenge in respect of a decision to implement the Proposed Franchising Scheme the relevant dates by which franchise contracts may first be entered into may need to be altered. However, there is no sufficient reason to assume that there would be such a legal challenge or what period of delay to attribute to it. Also, even if such an allowance could have been included in the timetable, it would have provided for an unnecessary delay if no challenge materialised.

7.9.15 The consultation document explained that the dates on which franchise contracts may first be entered into are the dates which GMCA may enter into such contracts, which must be included in any franchising scheme pursuant to the requirements of section 123H(2)(c) of the Act. This means that GMCA would have undertaken the necessary procurement of those contracts and could enter into franchise contracts

in each Sub-Area on or after those dates.

7.9.16 As set out from section 13.2.50 of this report, it is proposed that the date on when the Proposed Franchising Scheme could be made would have to change. It is therefore proposed that the dates that franchise contracts may be first entered into would need to change too.

Implementation timescales

7.9.17 As set out in the Assessment, there is a proposed three-year nine-month implementation plan. This reflects the complexity of concurrently:

- implementing a new target operating model, including people systems and processes;
- managing existing bus services in a potentially disrupted market; and
- procuring, mobilising and managing franchised operations.

7.9.18 Jacobs took the view that *"an implementation period of three years is overly optimistic and that, in order to justify this assumption, TfGM should provide a delivery programme for each of the options".*

7.9.19 OneBus considered that the timescales for the procurement of each tranche were very ambitious. OneBus said that the launch dates "*assume that depots would be available in time for each large franchise to be let and that a large proportion of the existing fleet will be available to bidders … TfGM will have had no time whatsoever for lessons to be learned from the preceding set of franchise procurements… bidding for the second tranche commences well in advance of the first tranche being operational … alternative plans [to provide depots] will likely delay the process*" and incumbent operators may not put their fleet into the RV mechanism.

7.9.20 Transdev likewise note that Sub-Area B will be awarded 3 months after the Sub-Area A becomes live thus providing "*little scope to learn from the implementation of phase 1 [Sub-Area A) before procuring phase 2 [Sub-Area B]*". Whilst Arriva suggest "*a longer period of time (2-3 years for example) to assess the mobilisation and performance of operations under the Sub-Area A contracts before GMCA commits to further Sub-Area deployments. This would ensure that lessons can be learnt and further extension of the franchising scheme is undertaken as efficiently and effectively as possible*".

7.9.21 Go North West state that "*GMCA will not be able to obtain depots voluntarily and that in order to obtain them through CPO this could take from two and a half to three years from preparation to obtaining the depot or depots. Accordingly, GMCA should (a) either amend the Scheme such that GMCA will not provide depots to facilitate the letting of large franchise contracts (and instead the control of depots will remain with operators, with timescales for the procurement amended accordingly to allow operators sufficient time to acquire or build depots in order to bid for franchise*

contracts); or (b) amend the proposed timeframe for procurement and transition significantly (to begin no earlier than 2023) to take account of the likely period of time that will be required for GMCA to obtain depots by use of CPOs". Stagecoach also stated that "t*he timescales for the creation of a franchising scheme, which is proposed to be delivered within less than four years is extremely optimistic*."

7.9.22 Go North West also suggested that in any event the Proposed Franchising Scheme "*should be implemented on a staged basis starting with a trial in sub-area A… followed by… period of consultation and reflection prior to roll-out to sub-areas B or C*".

7.9.23 Stockport Metropolitan Borough Council expressed concern about the period where Stockport Metropolitan Borough Council is paying into a process for which it is not receiving all the benefits of franchising, given Stockport is in the last proposed phase of franchising. They ask that there is consideration given to a greater speed of roll out or the potential to ensure that some benefits are realised in the borough sooner.

7.9.24 Stagecoach stated that it would be optimistic for any authority with significant experience in a mature franchising market to introduce the Proposed Franchising Scheme and complete the letting of all contracts within three years but TfGM is looking to do that with a number of individuals who are yet to be recruited. Stagecoach suggests that there is "*little or no analysis on how GMCA's recruitment strategy fits within the timeline it has set itself for implementing franchising*". It recognised that TfGM has experience of procuring contracts with the private sector through the letting of the Metrolink contract and tendered services but pointed out that specifying and managing bus services for the whole of Greater Manchester is significantly greater and queried whether it had experience of managing mobilisations.

7.9.25 Travelwatch North West also express concern that bus operational experience may currently be lacking within TfGM.

TfGM response:

7.9.26 The Assessment recognised that the timescale of implementation was ambitious but that it is considered to be achievable. The proposed procurement of the first round of franchising would predominantly tender the existing network immediately prior to the start of the procurement activity in order to minimise disruption to the network and passengers during transition.

7.9.27 The comments regarding delivery timescale for all of Greater Manchester to be franchised are recognised. However, it is considered that this is achievable and, with specific challenges in respect of depots and the RV mechanism addressed in this report, has not identified any grounds to require the amendment of the procurement

programme (presented at Section 27.3.6 of the Assessment).

7.9.28 It was never the intention that Sub-Area A would be conducted as a trial followed by consultation and reflection. Further detail on TfGM's response to the suggestions of a trial can be found in Section 13 of this report.

7.9.29 The timeframe for implementation seeks to strike a balance between delivery of key customer benefits (through a faster rollout) and management of implementation risk (through a slower rollout). The commercial model has been considered in depth, including options assessment and benchmarking of global best practice. The decision to phase the implementation of franchising in three Sub-Areas in the stated timeframes was based on balancing a faster roll out of benefits to customers with allowing lessons learned from the previous procurements to be applied to the later Sub-Areas. For example, Sub-Area B will benefit from lessons learned in the contract award process and initial mobilisation of Sub-Area A; and Sub-Area C will benefit from any early lessons learned in the mobilisation and early operation of Sub-Area A and the contract award process of Sub-Areas A and B. This will allow Sub-Areas B and C to benefit from a faster rollout of customer benefits than if the implementation timetable were to be further elongated. In addition, GMCA can also adapt contracts, via a formal change mechanism, mid-life if required and appropriate with there being provisions in the contract to mitigate the risk that pricing of contract change represents poor value for money.

7.9.30 The request from Stockport Metropolitan Borough Council is similar to a comment made by some members of the public who, as set out in Section 13.2.36 of this report, and in response to the proposed arrangements for transition, said that it would be unfair to make changes in one area before rolling franchising out into other areas. However, the intention behind the proposals is to ensure a phased and efficient roll out of the Proposed Franchising Scheme through balancing the delivery of benefits and the management of implementation risk. For that reason it would not be appropriate for this process to be shortened or to be done more quickly and as shown in Sections 7.9.18 - 7.9.21 of this report, some consultees (including some of the incumbent bus operators) have suggested that the timescales are too quick. It is unavoidable that the phased introduction of the Proposed Franchising Scheme would therefore favour some (whether they be passengers, districts or operators) before others and no preferential consideration was given to any one district when considering the ordering of the Sub-Areas.

7.9.31 TfGM acknowledges that it does not currently have existing capabilities and experience managing bus franchise mobilisations. However, as recognised by Stagecoach, it does have significant experience in procuring and mobilising complex programmes including Metrolink contracts, the start of operations on new Metrolink lines and new bus stations around Greater Manchester. Whilst these are not bus franchise contracts they are as complex as bus franchise mobilisations and undertake

similar type activities including:

- Agreeing the scope of activities to be undertaken in advance and allocation of responsibilities;
- Managing activities to an agreed project plan;
- Asset transfers/ handover activities;
- Ensuring activities are resourced properly;
- Data sharing;
- TUPE;
- Identifying and managing risk;
- Co-ordination of multiple parties with sometimes differing priorities;
- Ensuring supplier and other contracts are in place; and
- "Commencement of operations" planning.

7.9.32 Franchise mobilisation is a critical phase of the transition and recognising TfGM's lack of experience in mobilising bus franchises the assessment provides dedicated temporary resources to support the process. The Assessment includes for dedicated additional specialist resources to support the procurement of franchises and also assumes the early recruitment of the permanent franchise management team who would also support the mobilisation. It is acknowledged that operators who have worked in franchised markets will have this experience and therefore the onus would be put upon incoming operators to develop the mobilisations plans and for them to engage with the incumbent operator on the transfer. TfGM would review and approve the plan and monitor progress during implementation intervening when required.

Nine-month mobilisation period

7.9.33 Section 6.8 of the Ipsos MORI report notes that the majority of statutory consultees (10 favourable comments versus 6 unfavourable comments) and members of the public (97 favourable comments versus 46 unfavourable comments) made favourable comments in response to the nine-month mobilisation period. For example, one member of the public said that *"This should allow enough time for operations to be setup and the process to be finalised before the contract begins".* However, the responses from non-statutory consultees were largely mixed (3 favourable comments versus 3 unfavourable comments).

7.9.34 The Ipsos MORI report also noted that of the unfavourable comments from members of the public, 19 of these were general opposition or disagreement, 11 concerned the quality of service, 6 concerned routes that may be cut and 5 mentioned concerns about the timescales. The example quoted in the Ipsos MORI report was that one member of the public said that the proposed dates were "*Too long. Put the travelling*

public at the heart of the strategy. The bus companies need to get on board with this, we are not re-inventing the wheel here. All of this was done years ago in London".

7.9.35 The Ipsos MORI report also notes that 318 suggestions were received in response to this question with 301 of these being from members of the public. The overarching suggestion made by 202 members of the public was that the nine-month period should be shorter, as well as 40 suggestions that it should be a six-month period. This is thought to be because some members of the public appear to want to see the Proposed Franchising Scheme introduced as soon as possible. However, there were also 15 comments that the nine-month period should be longer.

7.9.36 There was a mix of responses from the bus operators in relation to the nine-month period it is proposed will expire between entering into a franchise contract and the start of a service under such a contract. First made a favourable comment about the proposals as it said that *"all other things being equal this is a reasonable time period but will require a degree of flexibility on a case by case basis…"*. Whilst Transdev also said that *"we feel that nine months is broadly reasonable".*

7.9.37 However, a number of operators considered that the proposed nine-month period was insufficient. For example:

- Go North West stated that it made untested assumptions and does not allow for any contingencies. They also state that a PSV operator licence could take up eight weeks from the point of application.
- Rotala considered that the period of nine months allowed for mobilisation was insufficient. It pointed out that the period allowed in London, between eight and ten months, is applicable to franchising on a route-by-route basis involving about 20 vehicles per route. Given the proposed size of some of the large franchises, it considers that the period should be 24 months, particularly where depots are involved.
- Arriva thought the nine-month period highly ambitious and that the period "*will only be feasible if the requirements of the relevant franchise contract are such that ULEV or hybrid vehicles and infrastructure is not required. It would also require a depot to be available for use by an operator (large contracts)*".

TfGM response:

7.9.38 In considering the adequacy of the nine-month mobilisation period, there are a number of challenges that TfGM have recognised in the Assessment which those consulted have also made comments on.

7.9.39 It is recognised that during the first round of franchising, tendering risks may be greater as there would be a transition from the de-regulated market to franchising. The Quantified Risk Assessment therefore includes a number of risks that are weighted towards the first round of tendering resulting in a higher risk provision over

this period, including specific risk provisions (Risks F20 and F41) that reflect the cost and revenue risk of delay in the mobilisation process.

7.9.40 As set out in Section 7.9.31 of this report, TfGM has significant experience in "commencement of operations" planning which includes securing PSV operators licences in advance of start of operations. However, under the Proposed Franchising Scheme it would be a requirement of the operator to ensure that they either have the required operators licence or are able to provide adequate information detailing how it expects to attain the required operators licence as part of the Passport Application process. Notwithstanding this, the timeframe set out by Go North West to obtain an operator licence would run concurrently with the wider procurement process and therefore would be unlikely to impact on the proposed nine-month mobilisation period.

7.9.41 The mobilisation period of nine months is, as stated by Rotala, the average of the period allowed in London. As set out in Section 7.7.6 of this report, the Assessment makes clear (at section 27.3.5) that one of the assumptions underpinning its procurement plan was that depots would be available in time for each large franchise to be let, with the preferred option being that GMCA would gain control via a negotiated depot transfer. However, TfGM also considered that there are a range of viable options available to GMCA to provide depots for the operation of large franchises if such sales did not occur. In the event that it is not possible to negotiate the transfer of some or all of the strategic depots at the transition phase, the route to depot provision that would be used for the transitional stage (Section 26.1.20 of the Assessment) is most likely to be either the provision of short-term depot facilities by GMCA or an altering of the commercial model so that strategic depot provision becomes the responsibility of the operator for the first round of franchising. Both of these options would be deliverable to the timeframes described in section 27.3 the Assessment, but if implemented would require a formal variation of the Proposed Franchising Scheme.

7.9.42 As set out in Section 7.8.21, is it considered that a mobilisation period of nine months is adequate for the manufacture and delivery of both Euro VI diesel, typically six months, and ULEV, typically eight months, but TfGM would continue to review this, including via ongoing discussion with manufacturers, to identify any specific circumstances that may require a longer mobilisation period.

Franchise Design

7.9.43 The questions asked within the consultation document regarding the franchise design under the Proposed Franchising Scheme related to the packaging strategy, the opportunities for small and medium sized enterprises, the contract length and other contract terms.

Packaging strategy

7.9.44 Question 18 of the consultation asked for any comments on the packaging strategy for franchising contracts under the Proposed Franchising Scheme as set out in the Commercial Case. The packaging strategy proposed comprises five to ten large franchises offering a total Peak Vehicle Requirement (PVR) of circa 1,250 and 25 small franchises offering a total PVR of circa 140. Resource contracts for school services not included in the large or small franchises (total PVR of circa 300) would continue to be franchised on a resource basis as they are currently (Section 25.1.4 of the Assessment).

7.9.45 The Ipsos MORI report (Section 9.1) acknowledges that the responses from statutory consultees (9 favourable comments versus 3 unfavourable comments), non-statutory consultees (9 favourable comments versus 2 unfavourable comments) and members of the public (96 favourable comments versus 46 unfavourable comments) are generally favourable towards the proposed packaging strategy.

7.9.46 The CMA consultation response makes a number of comments on franchise design noting that the design and the competition for franchises is "*of paramount importance*".

7.9.47 In their view the impact of franchising on competition will be determined particularly by four key factors: the size of franchises, their length, the frequency of competitions and the ability of the authority to oversee performance and take remedial action.

7.9.48 The CMA states that the proposal to have three sub-areas in the first round of franchising and to roll franchising out in each in turn (albeit with several franchises in each Sub-Area) "*provides the ability to implement and transition to franchise model more quickly, and to deliver the intended benefits at an earlier date*". However, they also suggest that, if the three Sub-Areas "*directly align with areas of particularly high concentration [of market share] for a given firm, there may be a risk that the firm with the largest share has an advantage… which may deter other firms from participating*". They accordingly encourage GMCA to engage with operators to ascertain the expected level of competition for a given individual franchise and whether this can be increased through the design of the tender process. It recommends that GMCA should consider whether smaller franchises (that is more packages of fewer routes) would give greater flexibility and stronger competition in future.

7.9.49 Rotala considered that, if there are 10 large contracts, a number of existing large

operators in Greater Manchester will exit the market as there will be other bus operators with more experience of franchising and who are better placed to win contracts. It would tender for areas in which it already operates but would be unlikely to tender for other large franchises and, while, there may be new entrants to the bus market in Greater Manchester, there would equally be a large number of exits. It also considered that there have been significant developments since TfGM carried out its consultation work which may have the effect of reducing interest in the Greater Manchester market: a significant number of those consulted are European state-owned enterprises whose appetite to invest in the UK market post Brexit is unknown.

7.9.50 OneBus stated that *"in some cases, school services and infrequent services will be operated by the same vehicles as daytime interpeak services. These should be packaged together and share the same contract length, otherwise there will be a duplication of some fixed costs."*

7.9.51 Other specific comments raised by operators including Go North West and Rotala and local authorities including Derbyshire County Council suggested that the packaging strategy should be on a route by route basis. For example, Go North West suggested a route by route franchise model for reasons including the following:

- That it "*would minimise the risks to GMCA*".
- That it "*would enable implementation of franchising on a staggered basis which will limit the disruption to passengers*, enable assessment and evaluation of franchising in a controlled manner".
- That it "*would give operators of all sizes the option to choose how many contracts to bid for and minimise the risk of [SME] operators failing to deliver*".

7.9.52 Conversely, positive comments were received from local authorities including Salford City Council and Tameside Metropolitan Borough Council, as well as Transport User Group Travelwatch North West. For example, Salford City Council stated that "*the proposed approach of franchising packages of routes of varying sizes is considered to be appropriate as it enables operators of varying sizes to be included*".

7.9.53 First agreed that the franchise structure would support the achievement of the key commercial aims and that the model would be likely to be accepted by the operator market. OneBus, however, warned that the market engagement test in 2018 does not give any final indication of cost or that all contracts will be successfully awarded as TfL admit to finding it difficult to attract new operators to the contract market.

7.9.54 The Ipsos MORI report, in Section 9.1.3, also noted that 96 of the 192 comments from members of the public were in support of the proposals. 13 of these stated that the design will allow different size operators to compete for contracts, and 6 stated that it will drive competition across the market. The Ipsos MORI report also noted the comments from some of the other non-statutory consultees, such as the

University of Manchester who gave a generally supportive view toward the packaging proposal, citing the opportunities it might bring to smaller operators. However, the Ipsos MORI report also noted that some statutory stakeholders voiced concern over the proposed packaging scheme, particularly when compared to a route-by-route system.

7.9.55 The Ipsos MORI report, in Sections 10.2.3, 11.1.3 and 11.2.3, also noted that in response to other questions within the consultation document there were many suggestions from members of the public that bus services should be run by a single operator and controlled by GMCA.

TfGM response:

7.9.56 In response to the comments raised by the CMA, the Assessment set out that the franchise packaging strategy has been structured to achieve the optimal combination of value for money, competition and facilitation of the involvement of the SME market. It is intended to give the current GM bus operators opportunities to bid and win franchises but also to encourage new entrants into the market.

7.9.57 Between five and ten large franchises has been determined to be appropriate when considering both the desire to maintain a competitive franchising market whilst delivering economies of scale (section 25.1.1 of the Assessment) and also ensure that strategic depots are of an appropriate size to maximise operational efficiencies (section 26.1.8 of the Assessment).

7.9.58 It is recognised that under the Proposed Franchising Scheme that the current makeup of operators within GM may change, however this would be as a result of a competitive tender process which would improve the quality of service for the customer. The responses received to the consultation from non-incumbent operators, including both European state-owned and other operators, does not indicate that Rotala's concern regarding there being a lack of appetite to operate in the UK post-Brexit to be correct.

7.9.59 It is recognised that packaging school services and small franchises separately may lead to some inefficiencies as stated by OneBus. However, as stated in Section 25.1.4 of the Assessment, this is required to provide GMCA with the flexibility to match the supply of services to demand and to provide further opportunities for small operators to bid into the market.

7.9.60 TfGM considered the 'bookends' of the spectrum of options for packaging which were considered to be letting a single franchise for the entire network through to splitting the network into route-based franchises. It also considered other options on the spectrum involving a splitting the network into a small number of large franchises.

7.9.61 A route by route model is used in London and is the only UK reference model.

However, it was concluded to be suboptimal for the following reasons:

- The low depot density in Greater Manchester which would lead to a risk of limited competition.
- Multiple and changing geographical boundaries between franchise and non-franchise services during the roll-out of franchising, which would likely increase both customer confusion and the requirement on GMCA to manage the interfaces between franchise and cross-boundary services.
- Likely slower roll-out of franchises services, which would delay the rate of realisation of benefits.
- Network management and delivery of network improvements across multiple route by route franchises would be more cumbersome and less efficient than across a smaller number of larger franchises.
- It would not allow GMCA to benefit from the economies of scale associated with larger franchises.

7.9.62 It should also be noted that the London model is unusual when considered against most cities internationally with bus franchise arrangements – typically these include some form of route packaging rather than a route-by-route model.

7.9.63 A single franchise of the whole network would remove the need for TfGM to manage interfaces between franchises, maximise economies of scale and limit procurement costs. However, it was also considered to carry more risk around operator failure and be less optimal in regard to factors such as sustaining an enduring market.

7.9.64 The key risk of a single franchise of the whole network relates to operator failure which would cause a significant amount of disruption to the transport network. This could range from continuous poor performance through to a worst-case scenario where the contract has to be terminated (e.g. when the performance is so poor that there are no alternatives or where an operator goes into liquidation). With a single operator the risks associated with such scenarios are increased significantly as the scale of the problem is greater than with multiple operators and TfGM would have no ready access to other operators who could step in to operate contracts in the event of a termination. Whilst there would be contractual mechanisms to incentivise good performance, if an operator failed to perform, TfGM could be faced with a difficult choice over whether to use mechanisms such as termination (with associated implications for disruption) or seek to manage improvement in the performance (for example if the operator were viewed as too large to fail). This could lead to continued poor performance and extra cost being incurred by TfGM in managing the situation.

7.9.65 Additional factors considered were that the size and scale of a single franchise would likely reduce the size of the bidding market as a number of potential of bidders would consider it too large to bid. Additionally, there is a significant risk that when a

contract of this nature is re-procured there is also limited market appetite due to the potentially strong incumbent advantage.

7.9.66 The Proposed Franchising Scheme will enable GMCA to continue to monitor the market and market appetite following the implementation of franchising noting the CMA's point that "*there is a risk that significant change in the structure of the market in each sub-area will have occurred by the next franchising round*", and to make suitable adjustments. Although the Assessment indicated that an enduring competitive market is best served by between 5 to 10 large franchises, alongside a number of small franchises, it will be possible to continue to monitor this and, as noted earlier, GMCA has the ability to adapt this over time.

Opportunities for Small and Medium sized Enterprises

7.9.67 Question 10 of the consultation asked for any comments on GMCA's plans for allowing small and medium sized operators the opportunity to be involved in the Proposed Franchising Scheme.

7.9.68 Comments received in relation to this question largely focused on the safeguarding and opportunities available to SMEs and the restriction of lots.

7.9.69 The Ipsos MORI report (Section 6.10) acknowledges that the responses from statutory consultees (15 favourable comments versus 3 unfavourable comments), non-statutory consultees (18 favourable comments versus 4 unfavourable comments) and members of the public (376 favourable comments versus 94 unfavourable comments) are generally favourable towards the plans for allowing small and medium sized operators the opportunity to be involved in the Proposed Franchising Scheme.

7.9.70 The favourable comments included OneBus who said it supported the opportunity for SMEs to be involved and Travelwatch North West who stated that "*This seems a reasonable way to protect the smaller operators and possibly introduce some elements of sensible competition and efficiencies*". The report does however note how some other consultees, such as Go North West, made unfavourable comments that some SMEs may not have the experience and capability to participate in the Proposed Franchising Scheme. This view was shared by some other consultees who thought that SMEs may go out of business if they do not have the resource or experience to run services to a higher standard. Some also said that having multiple operators participating in the Proposed Franchising Scheme could be difficult to manage and could increase the likelihood of operational and financial difficulties.

7.9.71 The Ipsos MORI report also states that the main area of support from members of the public was general support and agreement from 302 respondents for the inclusion of smaller operators in the proposals, with a further 81 stating that the inclusion of SME operators could drive competition and prevent a monopoly. A further 195 members of the public also made favourable comments on the condition that one or more things would be improved or achieved. These included 67 favourable comments conditional on improved standards and quality of service, and 28 favourable comments on the condition that the service would be more reliable than present.

Safeguarding and opportunities available to SMEs

7.9.72 The CMA stated that they welcome the proposal to incorporate large and small franchises as part of the scheme, recognising that the small franchises, "*should give smaller operators opportunity to participate in the franchise competition as barriers to participation should be lower*". However, the CMA stated that if, instead of GMCA's general principle of one large franchise per strategic depot (Section 25.1.3

of the Assessment), two or more smaller entrants were able to operate from the same GMCA owned depot, a wider range of operators might be willing to participate in tenders for smaller franchises, as it anticipated that a new entrant would not anticipate sufficient return to invest in acquiring and developing new depot capacity.

7.9.73 The CMA also notes that the packaging strategy means that the scale of the large franchises is considerably larger than that of small franchises. Although it notes that medium sized operators may be able to acquire a number of small franchises, they say that the authority needs to consider the role of medium sized operators as "*market makers and shapers"* and query *"whether and how a small or medium operator could realistically expand their business*" to demonstrate the track record that may be required to win a large franchise.

7.9.74 Arriva also state that they *"believe that the small franchise contracts should have a minimum PVR of at least 10 in order to ensure that every operator has sufficient resource to deliver and manage the demands of a franchise contract".*

7.9.75 Lancashire County Council noted that *"there are currently a number of small and medium sized bus operators running services across the North West of England… it is important that the financial viability of these operators is safeguarded as many of these operators also operate in neighbouring authority areas which would not wish to see a reduction in small to medium sized operators as they provide vital services, often at a lower cost base [than larger operators]".*

7.9.76 Belle Vue stated that *"the reforming will create a market place which only contains the larger bus operators such as in London, and the small to medium sized operators will not be able to compete within the franchising process with these larger conglomerates as they do not have either the resources or financial backing."*

7.9.77 Rotala raised a few comments to challenge the proposals including that:

- SMEs may be impacted and risk insolvency because "the requirement to re-tender the franchise on a five-year basis gives rise to material challenges for smaller bus operators".
- "the consultation does not, provide any further details on the envisaged simplified procurement process".
- "it is not clear what size operators would fall within the category of small and medium bus operators. Rotala has requested that GMCA clarify this aspect of the Proposed Franchising Scheme. In Rotala's view, bus operators need to accumulate in the region of 50 vehicles in order to have an efficient operating platform. Consequently, to the extent that a smaller operator subsequently lost one or more franchises so as to be operating less than 50 vehicles, this might create an incentive to exit the market."

7.9.78 The Ipsos MORI report notes that Rotala, and Go North West, also made the point

that operators may be impacted and risk insolvency in response to Question 37 of the consultation which asked for any comments on the impacts of the Proposed Franchising Scheme on operators as set out in the sub-section impacts of the different options.

7.9.79 Warrington's Own Buses stated that *"small and medium sized operators should be considered eligible to bid for all sizes of franchise, including the larger ones."*

7.9.80 Others including Abellio, Manchester Community Transport, OneBus and Travelwatch North West however, noted their support for the opportunity afforded to small and medium operators. For example, Abellio said that it "*fully supports the GMCA's plans to allow operators of all sizes to be able to be involved in the Proposed Franchising Scheme*" and Manchester Community Transport said that "*GMCA appears to have thought deeply about how SMEs can be part of the transport solution…This is absolutely the right approach as only when you introduce and facilitate competition, will passengers finally get the high-quality service they deserve*". Travelwatch North West stated that the Proposed Franchising Scheme "*seems a reasonable way to protect the smaller operators and possibly introduce some elements of sensible competition and efficiencies*".

TfGM response:

7.9.81 The packaging strategy has been designed to provide a means of continuing opportunities for SMEs to deliver bus services in Greater Manchester whilst also complying with the legal requirements of both the Act and Guidance, which require an authority to consider how it would involve SMEs – particularly from the perspective of ensuring competition in the market.

7.9.82 Around 25 small franchises, of various sizes, alongside resource contracts for around 300 school services would provide opportunities across Greater Manchester for SME operators who would not be of appropriate size to deliver a large franchise alone.

7.9.83 In developing a packaging model that addresses the requirement to consider SME operators a range of factors were considered, as set out in the Assessment. It is the case that SME operators are more active in certain parts of Greater Manchester than others. Therefore, one of the factors considered in establishing the number, size and location of small franchises was the current geographical focus and capacity of the SME market in order that the opportunity for SMEs to tender for services does not materially reduce under franchising.

7.9.84 Should any decision be taken to make the Proposed Franchising Scheme, GMCA would be required to include a statement in its report on how it intends to facilitate the involvement of SMEs into the Proposed Franchising Scheme. Should that be necessary it is proposed that the feedback from the consultation would be considered by GMCA so that it could inform the preparation of that statement and

its consideration of how to involve SMEs.

7.9.85 TfGM remains satisfied that the alignment of franchises under the Proposed Franchising Scheme is suitable and accounts for the existing market characteristics for SME operators.

7.9.86 The comment from the CMA regarding the difference in size between the large and small franchises appears to be based upon the assumption that large franchises will have a PVR of between 125 and 250, compared to a maximum PVR of 14 anticipated for the first round of small franchises. Whilst it is correct to state that the small franchises will have a maximum PVR of 14 in the first round of franchising (Section 25.1.4ii of the Assessment), the assumption regarding the size of large franchises is not correct. In the first round of franchising, the PVRs of large franchises will range from c.35 to c.230, largely depending on strategic depot capacity, with the lower end of the range meaning that it would be feasible for:

- medium sized operators or consortiums of small and/or medium sized operators to bid for the smaller large franchises.
- small operators to expand by winning a number of small franchises such that they grow to a size considered appropriate by GMCA to bid for and operate large franchises.

7.9.87 As a general principle GMCA has set an upper PVR limit of 30 for franchises to be categorised as small franchises, and a lower PVR limit of 31 for franchises to be categorised as large franchises. These sizes are considered to appropriately reflect both the simplified process of the small franchise procurement compared to large franchises and the greater access to small franchise depots in terms of land availability and cost.

7.9.88 The significantly smaller scale of depots required for small franchises mean that these facilities are not considered strategic in nature, and should not present a material barrier to entry to bidders for small franchises and school contracts to be let by GMCA. This is similar to the current market structure for school and tendered services in GM. The intervention proposed for strategic depots for large franchise contracts, therefore, is not considered to be justified for small and medium depots (see Section 26.1.16 of the Assessment). Also, as noted in the Assessment TfGM has concluded that sharing of such depots is suboptimal due to the risk of disputes and coordination difficulties, leading to inefficiencies and the increased likelihood of GMCA intervention. TfGM has also considered examples of where depots are shared between multiple operators both in the UK and internationally and have found few examples of this arrangement taking place. However, as the Assessment sets out, the depot strategy will evolve in the steady state, and this option will continue to be reviewed.

7.9.89 GMCA recognises that there is a particular risk relating to the potential failure of

small operators. However, it is considered that the risk of SME failure is adequately mitigated by the inclusion, and design, of small franchises and school contracts. Specifically, the design of the small franchises seeks to mitigate the risk of operator failure via two key aspects:

- Firstly, as stated above in Section 7.9.88, small franchises are significantly smaller in size than large franchises. This reduces the impact of operator failure as the impact on the network will be minimised and it will be simpler and quicker to replace a failed operator than if a large franchise operator failed.
- Secondly, the small franchise term of between three and five years is shorter than the large franchise term of five years with an optional extension of up to two years. As stated in Section 25.2.5 of the Assessment, the rationale for the shorter term for small franchises is in part because small and medium sized operators are unlikely to be of sufficient size or financial capacity to commit to a contract length of up to seven years.

7.9.90 Large franchises, which have higher PVRs and longer terms than small franchises, are unlikely to be accessible to smaller operators as they would not be able to demonstrate the level of franchise and economic robustness required to proceed to tender stage.

7.9.91 Given the nature of the SME market in Greater Manchester, the franchise sizes proposed for the first round of franchising are appropriate for the current scale of the Greater Manchester SME market, but GMCA will retain flexibility under the Proposed Franchising Scheme to vary the size of franchise packages in subsequent rounds so that they continue to provide operators, and in particular SMEs, with the opportunity to expand.

7.9.92 The suggestion from Arriva that there should be a minimum PVR of 10 for small franchises has not been adopted as it would likely close the market to a number of smaller SME operators and is therefore not compatible with the commercial objectives described at Section 24.2.1 of the Assessment.

7.9.93 GMCA fully recognises and supports the statements made by Lancashire County Council and Belle Vue, and the commercial proposition has been developed with an objective of maintaining access to the market for small and medium-sized operators (Section 42.2.1.ii of the Assessment). This includes:

- Packaging strategy: The inclusion of 25 small franchises and up to 300 schools resource contracts which would specifically facilitate SME participation as they would largely reflect the services currently being provided by those operators.
- Asset strategy: The depot strategy is designed to restrict large franchise operators from using the strategic depots to operate either small franchises or resource contracts for school services. Without this restriction, it is considered likely that large franchise operators would benefit from economies of scale and

other efficiencies in bidding for smaller franchise packages by operating them out of a strategic depot.

- Procurement strategy: The procurement process for the small franchises and schools resource contracts would be simpler and less onerous than for large franchises, reflecting the size, scale and risk of these franchises, and to avoid creating barriers to entry. Also, a restriction would be placed on the number of small franchises awarded to any single bidder in each tranche of procurement.

7.9.94 TfGM accepts that having to bid and re-tender for franchises would have an impact on all operators. However, the proposals around packaging and franchising design are seen to mitigate these risks by ensuring that there is a competitive and open market for operators to bid into, should they wish to.

7.9.95 Section 27 of the Assessment sets out the proposed simplified procurement process for small franchises and resource contracts. This is proposed to be negotiated ITN procedure for round one of franchising followed by the restricted procedure from the second round due to the reduced complexity compared to large franchises. Resource contracts would also use the restricted procedure due to these contracts being smaller, less complex, can be sufficiently specified and are of lower risk.

7.9.96 It is not intended that there would be a specific restriction stopping SMEs bidding for large franchises. Instead there would be a number of tests of economic and financial robustness that act as a hurdle to determine whether an operator is of sufficient size and strength to bid for franchises (including the larger small franchises). In reality, it is unlikely that an SME will pass the hurdle for a large franchise, but equally there will be some large operators who are unlikely to be of sufficient size and strength to bid for the biggest large franchises.

7.9.97 TfGM carried out a piece of work to determine the existing cross boundary services that may require change to mitigate potential adverse effects of franchised services. This found that only one of these services was operated by an SME operator. Therefore, it is not considered that the effects of the Proposed Franchising Scheme on cross boundary services would be a particular concern to SME operators in Greater Manchester.

7.9.98 The Assessment was also clear in proposing how the small franchise and resource contracts would closely reflect that existing market, which means that they should not require an operator to have "*in the region of 50 vehicles*" as Rotala suggest.

Restriction of lots

7.9.99 The CMA recognises that the proposal to restrict the number of small franchises any given operator can hold should limit the potential for smaller firms to be excluded by large or incumbent operators.

7.9.100 OneBus considered that, if the objective was to introduce "*competition for the*

market", there should be no restrictions on bidding and that introducing any restrictions risks distorting bids, as knowledge that another operator cannot bid will affect what another operator may bid.

7.9.101 Go North West suggested that, to preserve competition but still enable value for money, any restriction on the number of small franchises an operator may be awarded should be limited to that operator's market share in Greater Manchester as a whole.

7.9.102 First stated that contracts must be awarded on the basis of best value and comply with procurement law: simply stating that a certain number of contracts will be the maximum awarded is a potential market distortion and would be open to challenge by an unsuccessful bidder.

7.9.103 HCT Group suggested that the restriction on the number of small franchises that could be won curtails the ambitions of SMEs and should therefore either be extended to large franchises or removed altogether.

TfGM response:

7.9.104 To facilitate competition in the market, a restriction would be placed on the number of small franchise lots that any operator can be awarded in each tranche of procurement. This restriction is intended to a) reduce the risk of a large operator being able to dominate the market through marginal pricing, to the detriment of SME operators; and b) to manage the risk for both TfGM and the operator of an operator overstretching their business in too short a timeframe (Section 25.1.6 of the Assessment).

7.9.105 The general principle is that it is not intended to place any restrictions on the number of lots that each bidder can be awarded unless it is considered that the dis-benefits to such an approach from a competition perspective are outweighed either by:

- Significantly reducing the risk to operators by mitigating the risk of operators growing too rapidly and unsustainably, giving rise to an increased risk that operators are unable to fulfil franchise requirements resulting in significant contractual financial penalties, contract termination and/or insolvency. In turn this would offer protection to GMCA and the public from the risk of poor levels of operator performance, and disruption in the event of operator termination or insolvency.
- The potential for long term competition in Greater Manchester to be materially reduced. Section 25.1.6 of the Assessment proposes that restrictions on the number of small franchises awarded to any single bidder would be placed at tranche level rather than across the franchise market as a whole.

7.9.106 TfGM notes that regulation 65(3) of the Utilities Contracts Regulations 2016 expressly permits a restriction to be imposed on the number of lots which any

operator may be awarded. The contention that none may be, as suggested by First, is incorrect. Any restriction on the number of lots which may be awarded would comply with the applicable procurement rules at the time of procurement.

7.9.107 The Assessment describes the following restrictions that would or could be applied to the scheme:

- a restriction on the ability of large franchise operators to use strategic depots to deliver either small franchises or resource contracts for school services;
- a restriction on the number of small franchises awarded to any single bidder in each tranche of procurement (Section 25.1.6 of the Assessment);
- a minimum threshold (set on a franchise by franchise basis) on the economic and financial standing of potential franchise bidders which will be set at a lower threshold for small franchises to provide SME operators in particular with the opportunity to grow and expand.

7.9.108 The first two of these restrictions are intended to reduce the risk of a large operator being able to dominate the market through marginal pricing, to the detriment of SME operators. The purpose of the third is to ensure that operators are of sufficient size and financial robustness relative to each franchise opportunity.

7.9.109 The option to restrict small franchises based on an operator's Greater Manchester market share was considered in the development of the Assessment. It was concluded that the tranche procurement structure means that restrictions can only be placed at tranche level (i.e. not across the whole of Greater Manchester). Regulation 65(3) of the Utilities Contracts Regulations 2016 expressly allows a utility to award a contract in the form of separate lots and to restrict the number of lots which any operator may be awarded. Whilst market share may form part of the objective and non-discriminatory criteria which will be applied to determine which lots will be awarded to a particular operator (in the event that it would otherwise be successful in more than the maximum number stipulated), the permissible restriction under the regulation is on the number of lots that may be awarded to a single bidder when a contract is awarded.

7.9.110 Although HCT Group suggests that small franchise restrictions are intended to limit the ability of SMEs to grow, the intent is actually to provide a degree of protection for SMEs from large operators and ensure that there remains a competitive market at small franchise level. As noted above, these restrictions would be applied at tranche, not across the whole franchise market, so will enable operators to grow by bidding across multiple tranches.

7.9.111 In response to the CMA's caution that care is needed to ensure that the *"potential exclusion of a large firm (having reached a cap) does not reduce the level of competitive pressure on firms participating in a later competition",* section 25.1.6 of the Assessment proposes that restrictions would be placed at tranche level rather

than across tranches/competitions, and therefore it is considered that this risk is appropriately mitigated.

Contract Length

7.9.112 Question 19 of the consultation asked for any comments on the length of franchise contracts under the Proposed Franchising Scheme as set out in the Commercial Case. The proposal was that the large franchise lengths in the steady state would be five years with an optional extension, initially at GMCA's discretion, of up to two years (Section 25.2.2 of the Assessment).

7.9.113 The Ipsos MORI report (Section 9.2) shows that responses from statutory consultees were largely positive, with 11 favourable comments versus 6 unfavourable comments. However, generally responses from non-statutory consultees (6 favourable comments versus 5 unfavourable comments) and members of the public (142 favourable comments versus 134 unfavourable comments) to the proposals for contract length were relatively divided. 83 members of public provided general support without elaborating on their particular reasons whilst the unfavourable responses from members of the public were broadly split further between those who thought the length too long (27) and those that thought the length too short (23).

7.9.114 Comments received from operators and local authorities in relation to contract length focused on whether longer contract terms should be permitted and the rationale for short term contracts.

Longer contract terms

7.9.115 Rotala state that five-year franchise contract cycles will *"shift operators' focus to short-term profitability, while at the same time stifling investment and the long-term development of routes, personnel and infrastructure. The proposed five-year length for a franchise contract appears to have been based on the London experience. However, the franchising market in London is radically different from the system proposed by GMCA. In London, franchises are granted by route in a cycle which ensures that there is a continuous series of route franchises to be bid for. Every operator in the London market therefore sees an opportunity to build its market share and is a long-term player in that market. In contrast, GMCA intends to use a system of 10 or so large franchises based on area and the same five-year contract duration as in London. This approach gives operators very little prospect of building market share and brings with it the considerable risk to the operator of being completely out of the market at the end of the franchise contract… If these large, by area, franchise contracts are to be used, it is clear that the franchise length would need to be much longer – probably at least ten years – in order to avoid these pitfalls. However, to adopt such a long period would inevitably reduce competition as such lengthy franchise periods would favour the incumbent operator*".

7.9.116 First state that *"the most advantageous contract value will generally be realised when contracts are awarded for the maximum permitted term under the prevailing procurement rules*", as it allows bidders the greatest long term security to reduce the risk of business change at the end of the contract and more cost effective means of

procuring vehicles and other capital assets. FirstGroup go on to note that "*the proposed period of 5 years plus two-year extension is slightly shorter than the maximum legally permitted 8-year contract duration currently in force".*

7.9.117 Transdev state that their preference is for contracts of up to 10 years to "*allow fleet to be leased at the most economic rates*".

7.9.118 Go North West were supportive in principle to GMCA's proposed contract length for large contracts subject to a) buses being used on a five-plus-two-year contract being able to be used on a further such contracts (to avoid wastage and increased prices) and b) transparency about the circumstances in which the two year option will and will not be exercised (so that operators are aware of the impact on their asset values).

7.9.119 Salford, Stockport and Tameside Metropolitan Borough Councils and Travelwatch North West stated their approval of the proposed contract lengths. For example, Salford City Council stated that the proposed length of contract for the large and small franchises is considered appropriate as it will "*provide operators and passengers with consistency for long term planning and investment in a service*". The Ipsos MORI report (Section 9.2.3) also noted that a member of the public stated that "*The proposed lengths of franchise contracts are sensible and appropriate. They provide GMCA and TfGM with appropriate flexibility and will be attractive to operators*".

TfGM response:

7.9.120 Determining the most appropriate contract length requires the balancing of a number of factors. The points raised by operators are recognised. But the proposed contract lengths have been designed to create a balance between, amongst other things:

- offering a sufficient period for operators to mitigate the risk pricing associated with longer franchise terms due to uncertainty around long-term cost forecasting; and
- the need to provide GMCA with the flexibility to make changes to the franchising proposition at regular re-procurement intervals (Section 25.2.3 of the Assessment).

7.9.121 In the steady state GMCA anticipates that, subject to franchisee performance, it would most likely automatically apply the maximum extension period to enable a franchise length of seven years. On this basis, the contract would be of sufficient length to balance the investment in bidding and mobilizing a new franchise but not so long that the bid submissions include significant risk pricing due to the uncertainty inherent in long-term cost forecasting.

7.9.122 It is recognised that the lengths of franchises during the transitional period would

vary which may result in a less optimal contract length, however this is required to achieve a regular and consistent procurement programme in the steady state, with a similar number of franchises are let each year (Section 25.2.6 of the Assessment). This should mitigate the concerns raised by some consultees such as Rotala.

7.9.123 Also, in terms of maximum allowable contract length for franchised bus services, Article 4(3) of EU Regulation 1370/2007 generally places a limit on the length of public bus service contracts of 10 years. This regulation has been adopted directly into UK law under the European Union (Withdrawal) Act 2018.

Shorter term contracts

7.9.124 OneBus state that *"short-term contracts may be unattractive to some operators and will be met with a higher cost per annum charge to TfGM than for a longer contract. Operator set up costs will be spread over a much shorter timescale and vehicle leasing costs will be higher for a shorter term."*

7.9.125 Go North West suggested that "*the difference in duration between large franchise contracts and small franchise contracts may present difficulties for an operator considering whether or not to rebid for contracts with a lack of certainty as to its contractual position".*

TfGM response:

7.9.126 It should be noted that the steady state shorter franchise lengths of three to five years are in respect of smaller franchises only. As no further context is provided as to what OneBus are classifying as 'short-term contracts' it is therefore assumed that this comment is in respect of small franchises only rather than all franchises. The small franchise length has been set to support the achievement of the commercial model objective of maintaining access to the market for small and medium-sized operators. Whilst the small franchise length may be unattractive to some operators and may result in a higher cost to GMCA than for a longer contract, this is a trade-off in order to support maintaining of access to the market for small and medium-sized operators.

7.9.127 GMCA recognises the potential implications of different durations of large and small franchises, but there is a clear rationale (Section 25.2.5 of the Assessment) for this:

- SMEs are unlikely to be of sufficient size or financial capacity to commit longer contract lengths.
- Shorter franchise terms provide SMEs with greater flexibility and scope to evolve.
- Lower pre-qualification threshold for small franchises and school contracts would increase the GMCA's risk in signing long-term agreements.

Other contract terms

7.9.128 Question 20 of the consultation asked for any comments on the proposed allocation of risk between GMCA and bus operators under the Proposed Franchising Scheme as set out in the Commercial Case. The Proposed Franchising Scheme is intended to allocate risk to those best able to manage it, which supports value for money and ensures that risks are most efficiently managed on an ongoing basis. The operator's risk profile changes to facilitate GMCA gaining greater control of the passenger offer in order to achieve its strategic objectives, and the GMCA's risk profile adjusts to control and mitigate any commercial risks imported through the process (Section 25.3 of the Assessment).

7.9.129 The Ipsos MORI report (Section 9.3) shows that generally responses from members of the public to the proposed allocation are supportive, with 108 favourable comments versus 76 unfavourable comments. However, comments from statutory consultees (9 favourable comments versus 8 unfavourable comments) and non-statutory consultees (7 favourable comments versus 4 unfavourable comments) were generally mixed. The positive comments from non-statutory consultees and members of the public included the potential for simpler fares and tickets achieved in GMCA taking revenue / patronage risk. The overarching concern of the unfavourable comments was that GMCA will retain too much risk or responsibility.

7.9.130 The responses received from operators, local authorities and Transport User Groups largely focused on the performance regime and revenue risk.

Performance regime

7.9.131 Arriva and Go North West state that they agree with the principle of a performance regime being applied to franchise contracts.

7.9.132 Arriva also suggested that the calibration of the performance regime should be "*reflective of the interventions and action of GMCA to address issues which are outside the control of operators and such impact our ability to deliver to the performance standards (e.g. congestion hot-spots, poor roadside infrastructure or lack of bus priority measures)".*

7.9.133 Go North West made several suggestions around the design of the performance regime. In their view it should be kept within clear and workable rules; that it should only measure aspects of service delivery that are within the bus operators' sole control; and that "*it is important that funding arrangements are set up in such a way that GMCA is not reliant on penalties for non-compliance to fund payments for good performance; GMCA's budget should be based on paying 100% of incentives*".

7.9.134 Rotala state that they have "*considerable concerns with the proposed risk allocation between GMCA and the bus operators*". If the GMCA takes the wage inflation risk, they question what incentive operators will have to resist requests for wage increases and, if it includes pensions, what incentive would operators have to resist

increases in these only partially controllable costs. They state that "*the Commercial Case Risk Allocation Paper envisages that bus operators will take the congestion risk. However, there is no commentary as to how this might affect tender prices and certainly more details should be provided before GMCA can take an informed view on this element of the Proposed Franchising Scheme*".

TfGM response:

7.9.135 It is recognised that there are factors, such as congestion and others noted above by consultees, outside of the control of operators and these will be taken into account in the contract and performance regime. For example, these could be taken into account directly in the calibration of the performance regime, or alternatively by reflecting them in the franchise network requirements (e.g. timetable requirements) contained in the contract specification. Additionally, operators will have the opportunity to take into account such factors at bid stage. The intention is that all bid documentation, including contract and performance regime calibration are shared with the bidder market prior to the commencement of the procurement of Sub-Area A to obtain preliminary feedback, and will also be subject to negotiation with bidders as appropriate during the main tender stage.

7.9.136 A bonus mechanism that relied on income from penalties for non-compliance would not be applied. Conversely, GMCA's aspiration is that operators deliver franchise operations to the required operational and service quality standards such that 100% of performance adjustments are earned, as this will support GMCA's ambitions to drive patronage, revenue and benefits realisation.

Revenue Risk

7.9.137 Transdev suggested that there should be an element of revenue risk sharing "*which incentivises operators to deliver high standards and to promote and market the network to maximise customers and revenue in a collaborative manner with TfGM*". HCT Group goes further than this in suggesting that *"in subsequent tranches, GMCA should consider reallocating the revenue risk to operators. This increases the incentive of providers to deliver and invest*".

7.9.138 Abellio and First, some local authorities and Travelwatch North West stated that the allocation of risk between the GMCA and operators is considered to be appropriate. For example, Abellio stated that they "*believe that the proposed allocation of risk is appropriate in order to achieve the submission of bids at the competitive margins indicated in the Assessment*."

TfGM response:

7.9.139 It is considered that risk and reward is appropriately allocated with GMCA having control over the customer relationship, given that this sits most naturally with the party taking revenue and patronage risk, and will also set the franchise specification in respect of operational and service quality standards. However, as noted in in

section 25.3.11 of the Assessment, in the steady state GMCA would consider the introduction of offering franchisees direct patronage incentivisation via additional performance adjustments.

Procurement

7.9.140 Question 25 of the consultation asked for any comments on GMCA's approach to procuring franchise contracts under the Proposed Franchising Scheme as set out in the Commercial Case.

7.9.141 The Ipsos MORI report (Section 9.8) states that the majority of the responses from, non-statutory consultees (4 favourable comments versus 1 unfavourable comments) and members of the public (48 favourable comments versus 38 unfavourable comments) to the approach for procuring franchise contract are positive). Positive comments included the approach being fair and accessible (comment from the University of Manchester in Section 9.8.2) and the likelihood of it driving up competition between competitors. However, responses from statutory consultees were largely mixed, with 7 favourable comments versus 6 unfavourable comments including. The Ipsos MORI report further noted that Go North West were very unsupportive of the proposed approach as set out in Section 7.9.142 of this report, and that Rotala, as set out in Section 7.9.49 of this report, queried whether a general opposition to franchising from operators may drive down competition.

7.9.142 Go North West suggest "if *GMCA invokes the CPO process for acquiring strategic depots, in order to ensure continuity of service and an effective transition to franchising, it would be necessary to award interim contracts to the incumbent operators running routes out of those depots until such time as the CPO process is complete and the franchise awards can be made. Given that, prior to successful conclusion of the CPO process, the owner of each strategic depot will be the sole possible provider of bus transport services from that depot, we consider that interim contracts in respect of services from those depots can lawfully be awarded to the owner of the depot on the basis of the single supplier exception in regulation 50 of the Utilities Contracts Regulations 2016".*

TfGM response:

7.9.143 As set out in Section 7.9.58 of this report, the responses received to the consultation from non-incumbent operators does not indicate that Rotala's concern regarding there being a lack of appetite for franchising in Greater Manchester to be correct.

7.9.144 TfGM does not consider that there would be a lawful justification (under regulation 50 of the Utilities Contracts Regulations 2016) for GMCA to award contracts directly for interim services to incumbent operators operating out of existing strategic depots and, to do so, would expose GMCA to claims for damages and other relief. GMCA could however consider using other powers available to it under the Transport Act 1985 to justify the direct award of any services from those strategic depots however, the use of those powers would be subject to other restrictions and the value of any

such contracts.

Employees

7.9.145 Question 21 of the consultation asked for any comments on the potential impacts of the Proposed Franchising Scheme on the employees of operators as set out in the Commercial Case. Operators raised multiple points relating to employees. These are largely addressed within Section 6.2.45 of the Financial Case and Section 8.5 of the Management Case. This section focuses on those comments relating to risks associated with comprehensive data being made available at bid stage. This is to ensure a level playing field amongst bidders and minimise unnecessary risk pricing.

7.9.146 The findings of the Ipsos MORI report (Section 9.4) show that the feedback received from members of the public tended to be favourable towards the proposals, reporting 171 favourable comments versus 136 unfavourable comments. However, comments received from statutory consultees were largely unfavourable (6 favourable comments versus 9 unfavourable comments) and comments received from non-statutory consultees were largely mixed (6 favourable comments versus 6 unfavourable comments).

7.9.147 Some of the comments from statutory and non-statutory consultees on this question included:

- Abellio state that "*it is clear that full employment details (incl. pay rates, pension arrangements, all terms & conditions of employment etc.) of all staff in scope will be needed in order to avoid inclusion of unnecessary risk premiums that will inevitably flow through if gaps in knowledge exist within this vital cost area*". They also suggest that "*a short delay could also help TfGM ensure that all relevant employment details are provided by incumbent operators for inclusion in the data room*".
- OneBus stated that the complexities of pension arrangements and TUPE mean it will always be difficult to estimate the employment costs associated with the Franchising proposal.
- Stagecoach state that they have concerns regarding the quality of data that will be made available at bid stage, especially around the risk of TUPE assumptions.
- Transdev and Go North West stated that the application of TUPE is appropriate.

TfGM response:

7.9.148 It is not considered that a delay to the procurement process itself would resolve the specific issue raised by Abellio as incumbent operators are not required to provide employment data other than in respect of TUPE legislation.

7.9.149 It is anticipated therefore, that GMCA will instead provide assumptions for bidding purposes in the first round of franchising to ensure consistency of bidding assumptions, particularly between incumbents and non-incumbents. It intends to

mitigate and manage this through the following process:

- The procurement documentation would provide a set of bidding assumptions. This would ensure that all bidders price on the same basis.
- The local service contract will contain a mechanism to compensate the successful bidder (or GMCA) in the event that final TUPE data differs from that which bidders were instructed to use for bid purposes. This will ensure that franchise operators are compensated adequately for the true costs associated with TUPE transfer and do not benefit unfairly from any errors.
- The local service contract will contain obligations on the incumbent franchise operator to provide relevant information to inform the subsequent procurement process, with this being made available to bidders and forming the basis of the biding assumptions noted above. This will ensure that bidding assumptions are based on the most accurate and recently available data.

7. 10 - Commercial Case Conclusion

7.10.1 The consultation document asked a number of questions in respect of the Commercial Case. These questions covered the various aspects of the franchise commercial proposition including asset strategy, the implementation timeframe, franchise design, and procurement strategy, along with additional questions on the impacts of the options on the achievement of the objectives of neighbouring transport authorities and the partnership commercial proposition. The question relating to the impacts of the options on the achievement of the objectives of the neighbouring transport authorities is considered further in Section 4.8 of this report. The questions relating to the partnership commercial proposition are considered further in Section 4.9 of this report.

7.10.2 As reported in the Ipsos MORI report (Section 9.10) the majority of responses from members of the public were favourable towards the Commercial Case conclusion with 108 favourable comments and 57 unfavourable comments from members of the public. However, the views of statutory consultees (5 favourable comments versus 5 unfavourable comments) and non-statutory consultees (5 favourable comments versus 6 unfavourable comments) were generally mixed, some specific examples of which are set out in this report.

7.10.3 A number of challenges and critiques arose regarding the appropriateness of the proposed commercial arrangements, and specifically:

- A range of comments, both favourable and unfavourable were received. In general, there was a distinction between large incumbent operators, who made more unfavourable comments, and other operators, who were more positive about the commercial proposition.
- Comments covered a range of aspects of the commercial proposition, including the asset strategies in respect of depots, fleet and ITS franchise packaging, contract length, risk, SME facilitation, procurement and employees.

7.10.4 Most incumbent large bus operators raised challenges surrounding GMCA's proposals on depots. These areas of challenge included the following:

- The first area of challenge was whether GMCA should be providing any depots and if so which. TfGM remains confident that such an intervention by GMCA will deliver significant competition benefits and that the strategic depots identified in the Assessment collectively provide the most efficient model for delivery of large franchises during the transitional phase.
- The second area of challenge was whether incumbents will sell the strategic depots to GMCA voluntarily. TfGM notes the position of the respondents on this area, however part of the rationale for the proposed approach was to reduce the impact of franchising on those operators as it would mitigate the risk of stranded

assets as well as reducing the impact on employees. In the event of a Mayoral decision to introduce the Proposed Franchising Scheme, GMCA would therefore continue to seek its preferred option of negotiated depot transfer through proactive dialogue with operators.

- The third area of challenge was whether the alternatives for large franchises, apart from compulsory purchase of strategic depots, are feasible. The Assessment sets out a number of alternative routes to depot provision at the transitional stage. However, with the exception of CPO, there has been little comment in the consultation response in relation to these alternative routes. It is considered that they continue to provide viable strategies for the provision of depots.
- The fourth area of challenge was whether GMCA can legally use CPO powers to acquire strategic depots. TfGM remains confident that it has the legal powers to undertake CPO if required. TfGM's preferred route to depot control remains via negotiated transfer, which will also help mitigate operator impact, but in the event that this is not achievable it would seek to deploy one or more of the alternative viable options described in the Assessment.
- The fifth area of challenge was the timeline for delivering the Proposed Franchising Scheme in the event that strategic depot owners are unwilling to sell those depots to GMCA. The Assessment considers a range of viable options available to GMCA to provide depots for the operation of large franchises and is not reliant on CPO.
- The final area of challenge was regarding the reasonableness of the costs allowed for in the Financial Case in respect of the depot strategy. The Assessment makes a prudent estimate of the cost of acquiring control of strategic depots, including a combination of a likely negotiated transfer valuation and an independently obtained CPO valuation. In addition, the Financial Case (Section 20 of the Assessment) includes a Quantified Risk Assessment which estimates the cost of specific uncertain events, including additional costs in the delivery of the depot strategy, which may occur.

7.10.5 A number of operators argue that the success of the fleet RV mechanism is dependent on take-up by operators. However, to the extent that incumbent operators choose not to engage in RV negotiations with GMCA and/or agreement cannot be reached for the transfer of incumbent fleet into the RV mechanism, each franchise bidder would simply be responsible for the provision of fleet to account for any difference between franchise fleet requirements and RV fleet allocation. However, analysis performed by TfGM, which includes consideration of maintenance cost and fuel efficiency benefits, indicates that the whole life cost of new fleet would not materially exceed that of existing fleet. It has therefore concluded that the franchise cost implications of different courses of action by incumbent operators in

respect of RV are likely to be neutral.

7.10.6 There was a range of views on the appropriateness of the packaging strategy for franchising contracts, with comments ranging from those supporting the proposition to those arguing in favour of route-based franchises. Whilst a route based model was considered in the development of the Assessment, it was concluded to be suboptimal for reasons of low depot density in Greater Manchester, customer confusion, multiple changing cross-boundaries, slow roll-out of benefits, less efficient network management, and not benefiting from the economies of scale associated with larger franchises.

7.10.7 Some operators stated that the franchise term should be longer, either to encourage investment or to provide more efficient periods for leasing fleet. Other operators, local authorities and Transport User Groups stated their approval of the proposed contract lengths. The proposed contract length has also taken account of the need to provide GMCA with the flexibility to make changes to the franchising proposition at regular re-procurement intervals, whilst also noting that it is unlikely that contracts over ten years would be permissible pursuant to UK law.

7.10.8 There were positive responses about the principles of a having an appropriately calibrated performance regime, although a number of operators were clear that the performance regime should not include measures outside of the operator's control. TfGM agreed with this principle and intends to manage this directly via the calibration of the performance regime, or alternatively by reflecting such factors in the franchise network specification.

7.10.9 Having considered all the responses in respect of proposed commercial arrangements, it is considered the principal risk to the successful delivery of franchising within the timeframe described in the Assessment is the delivery of the depot strategy in respect of large franchises. Although consultation responses from owners of strategic depots indicates that there is limited appetite to engage in negotiation with GMCA in respect of the potential transfer of depot control, the Assessment describes a number of alternative transitional models which would deliver franchising to the timescales described. In conclusion, it is considered that the proposed commercial proposition, including the impact on competition and the facilitation of cross-boundary services, remains appropriate.

Section 8 - Management Case Response Themes

8. 1 - Summary

8.1.1 The Management Case section of the Assessment considered how GMCA would make and operate the Proposed Franchising Scheme. Consideration was given to the proposed target operating models and risks, including for transition and implementation. Consultees were asked to consider three questions relating to the Management Case. These were:

- Q32: Do you have any comments on the approach to managing franchised operations under the Proposed Franchising Scheme as set out in the Management Case?
- Q33: Do you have any comments on the approach to the transition and implementation of the Proposed Franchising Scheme, and the conclusion that TfGM would be able to manage franchised operations on behalf of GMCA, as set out in the Management Case?
- Q34: Do you have any comments on the proposed approach to the implementation and management of the partnership options; and the conclusion that TfGM would be able to implement and manage partnerships on behalf of the GMCA as set out in the Management Case.

Summary of Ipsos MORI's consultation analysis

The Proposed Franchising Scheme

8.1.2 Ipsos MORI's report identifies a number of themes from the consultees that are consistent with the TfGM analysis of responses received through the consultation. Key themes on managing the Proposed Franchising Scheme from the Ipsos MORI report from statutory consultees, although relatively few, tended to focus upon the costs and difficulties associated with securing sufficiently qualified staff for the relevant core and support teams. There was also concerns raised around the risks associated with additional management costs. Members of the public making favourable comments thought that the Proposed Franchising Scheme would create jobs, boost employment and/or lead to the recruitment of more staff and drivers and that the Proposed Franchising Scheme would give TfGM/GMCA more authority and control of bus services, "*Allowing Manchester to control its buses for the benefit of its residents and visitors is a huge improvement to the current inadequate system*".

8.1.3 For transition, a number of the statutory consultees focused their response on timescales and the apparent lack of time built in for evaluating and reviewing progress during the transition period. Others expressed similar opinions that the associated risks and costs of this transition had been under-estimated. Less favourable members of the public raised concerns regarding the proposed objectives and the feasibility of timescales, referring specifically to the length of transition and potential for delays to implementation and viewed the approach to transition

management as over-complicated.

8.1.4 Some non-statutory consultees agreed that TfGM would be capable of managing franchised operations throughout transition and implementation. More favourable comments were made by members of the public, with the majority agreeing with the approach and that risk would be inevitable in such a change.

8.1.5 The response below covers the key themes identified from the Ipsos MORI report and the consultation responses but also responds to comments relating to pensions and employee terms and conditions that were not explicitly covered by Ipsos MORI. The key themes that have been identified and responded to are as follows:

1. Management of the existing bus contracts
2. Cost and complexity of managing Franchised Operations
3. The difficulty of transitioning from a commercial to a franchised operation
4. Impact upon the employees and operators
5. Impact upon pensions as result of TUPE
6. Confirmation statement on no changes to employee terms and conditions

8.1.6 Section 11 of the Ipsos MORI report identified a number of further favourable and unfavourable comments, as well as suggestions, raised by consultees in respect to questions 32 and 33 which did not relate to the Management Case. These are therefore addressed elsewhere in this document. These include:

i. Unfavourable comments around increases to council tax and precept payments and the use of public funds for further subsidisation through taxation. This is covered at Section 6.4 of this report.
ii. Consultees suggested that improvements could be made if there were more buses and they were more widely available with considerations being given to re-organising the routes and timings of the service and bus services running 24/7, 365 days a year. This is covered in Section 8.6 Further 'Phase 2' Measures to Support the Bus Network in the Assessment. Franchising however creates the best opportunity to implement such investments but would have to meet value for money criteria. It is important for the start of franchising to minimise the network and service changes to avoid the risk of confusion for customers.
iii. Consultees suggested that consideration should be given to performance reviews of services and that poor performance should be penalised with fines, penalties or contract termination. The performance regime is discussed in section 25.3 Risk Allocation in the Assessment. The Management Case for franchising identifies the resources (people and systems) to manage the

performance regime and operator payments. A proportion of the operator payments are related to achieving operational performance targets. Performance improvement plans will be implemented where required.

iv. Consultees suggested that there should be a simpler, single fare or oyster style system and that bus services should be run as 'not for profit'. The ticketing proposition is considered in Section 7.3 of the Assessment. The proposal is that the commercial operators continue to operate the bus services and will be paid a service fee that includes an appropriate profit element. Profit margin is discussed in Sections 6.2.47-6.2.60 of this document.

Partnerships

8.1.7 Section 11.3 of the Ipsos Mori Report notes that 168 responses were received, the majority of which 83 were favourable, with 69 unfavourable comments and a further 21 responses in the form of suggestions. Around a third of the unfavourable comments were specifically opposed to partnership options as they were supportive of the Proposed Franchising Scheme. A number of operators commented on GMCA costs for managing partnerships, stating that they were too high and could be managed with no additional resources. A number of the unfavourable comments from members of the public were on the costs and TfGM's ability to manage the partnerships.

8.1.8 GMCA's response to Question 34 is covered in Sections 4.10.11- 4.10.17 of this report and addresses the comment around the costs associated with managing Partnerships. The remainder of Section 8 responds to comments and critiques of the management case for the Proposed Franchising Scheme.

8. 2 - Theme 1: Management of the existing bus contracts

8.2.1 Question 32 of the consultation asked whether TfGM would be able to manage the franchised operations on behalf of GMCA. Section 11.1.3 of the Ipsos MORI Report notes that the most common suggestion received from the members of the public was that bus services should be "*run by a single operator and controlled by TfGM / GMCA"*. From a customer's perspective with franchising the bus services would appear to be run by a single operator (livery, brand and interoperability of tickets). The approach to the design and implementation of franchises and the proposal to maintain market competition through the tendering of the packages are discussed in section 7.9 above.

8.2.2 OneBus has drawn attention to what it sees as TfGM's poor track record of awarding and managing the current small number of contracts and its management of Manchester Metroshuttle / Free Bus.

8.2.3 The first issue cited by OneBus regarding the late award of the school contracts in 2019 (not 2018 as stated by OneBus) and not having sufficient time to register the services, recruit sufficient staff or acquire vehicles was driven by unprecedented levels of staff sickness where 3 of the 4 Operational Planners were absent at various points in the spring and summer. However, the contract letters were issued in May/ early June in line with normal timescales and not during the summer holidays as stated. This would have allowed sufficient timescales to secure any additional vehicles required and to recruit drivers. The route specifications however were issued during the school holidays and some in early September. Since then TfGM's Bus Services Team have implemented a number of measures within the existing Operational Service Planning Team to increase its resilience and flexibility.

8.2.4 The second issue raised by OneBus concerns Free Bus/ Metroshuttle, which is a free bus service provided in Manchester City Centre (a separate Metroshuttle service operates in Bolton) to connect the major stations and commercial areas of central Manchester. This service also promotes a secondary, but important, objective, to support the tourist economy, by providing a free city centre bus.

8.2.5 OneBus state that, following four years of significant passenger decline, changes were made to services in October 2018 with revised routes and an expensive rebrand. Overall patronage fell by 15.7% in 2018/9 and further radical changes nonetheless had to be made in October 2019. Since 2008 the cost per passenger has increased as patronage has declined, and service levels reduced. The management of this service, OneBus claims, "*is a matter of grave concern*"

8.2.6 The four years of patronage decline coincides with the construction of and subsequent opening of the Metrolink Second City Crossing (a new tram line through Manchester City Centre). During construction all bus services in the city centre were severely disrupted and customers would have sought alternate ways of making their

city centre journey's including walking. After the opening of the new Metrolink line some customers will have switched to Metrolink and others will have continued to walk. The budget was reduced in 2017/18 and the TfGM Bus Services Team developed and implemented modifications to safeguard key elements of the services within reduced levels of funding.

8.2.7 As a result of the funding reduction the number of services were reduced thus not serving all the same areas as previously. This has resulted in a further decline which TfGM sought to address with additional changes. The team have also recently implemented extended evening services to increase the service relevance in supporting evening economy. Patronage continues be monitored and TfGM seeks to maximise the attractiveness of the service to customers with the significant financial constraints that exist. This is a unique service which Manchester City Council wish to continue to operate despite significant budgetary pressures and declining patronage. As a result of the patronage decline the cost per passenger has increased however it is worth noting that the cost per passenger is lower than the cost per passenger than many of the supported general services.

8.2.8 TfGM has over 30 years experience of managing the supported and school services since de-regulation. Despite a static budget since 2016/17 and the ongoing withdrawal of commercial services, TfGM continues to develop efficient and innovative ways to fill the gaps left by the commercial market de-registering services, where funding allows. The existing TfGM Bus Services team currently manages over 500 contracts, which cannot be considered a small number. The annual spend on the subsidised network (including schools) reduced by £7.5 million between 2012/13 (£34.6 million Net) and 2016/17 (£27.1 million Net), since then the budget has remained static. These savings were delivered by seeking procurement efficiencies and service rationalisation where possible.

8.2.9 It is acknowledged that with the level of commercial de-registrations, TfGM is not always able to intervene. In the case of general commercial services, TfGM are given very little warning beyond the 70 days pre-notification of a commercial operator's intention to de-register services. TfGM's Operational Service Planning team will:

i. evaluate how it should respond to the proposed de-registration including

assessing

a. the need

b. the remaining network

c. Access/population

d. Demand

e. Available budget

ii. if it considers a need to intervene, assess how to meet the requirements achieving best value for money on behalf of the GMCA and customers

iii. specify the required services and issue a tender for a supported service

iv. evaluate the responses

v. seek internal and external approvals

vi. award a contract ready to commence mobilisation, and

vii. if required support operators in the short notification application to the Traffic Commissioner***.***

8.2.10 Following contract award, TfGM's Network Performance Team ensure that the operators are both supported and held to account in delivering the requirements of the contact by monitoring performance to ensure operators comply with contractual requirements. The Network Performance team:

i. work with the operators to address performance issues.

ii. implement PIPs (Performance Improvement Plans) where operator performance issues are not resolved in a timely manner.

iii. hold regular review meetings.

iv. address queries or complaints raised by operators.

v. run a contract end date and performance tracker.

8.2.11 Given the funding constraints within which TfGM operates and the ongoing pressure of commercial de-registrations it is considered that TfGM do award and manage their existing contracts effectively.

8. 3 - Theme 2: Cost and complexity of managing franchised operations

8.3.1 This theme addresses Question 32. Overall, Ipsos MORI reports that out of the 183 responses to managing franchised operations under the Proposed Franchising Scheme, 73 provided favourable comments while 56 were unfavourable. Of the 13 statutory consultee responses, 6 were favourable and 6 were unfavourable. Those which were unfavourable were mostly from bus operators. There were 62 favourable comments from members of the public with 47 unfavourable. The favourable comments focussed on: the Proposed Franchising Scheme would create jobs, boost employment and/or lead to the recruitment of more staff and drivers (7); and would give TfGM/GMCA more authority and control of bus services (3).

8.3.2 Of the 47 unfavourable comments towards the management of franchised operations, the most frequently cited comments concerned costs, affordability and value for money of the proposed approach (13).

8.3.3 The Ipsos MORI report notes that responses from statutory consultees, although relatively few, tended to focus on the costs and difficulties associated with securing sufficiently qualified staff for the relevant core and support teams. There were also concerns associated with additional management costs.

8.3.4 Comments from bus operators (Go North West, Rotala, First and Stagecoach) were generally unfavourable and operators agreed that the additional required full-time employees would be difficult and costly to attract, recruit and train and would not ultimately be sufficient to cover the necessary responsibilities. Go North West noted critically the proposed size of TfL operations compared to the additional resource proposed by TfGM. The members of the public making unfavourable comments were also concerned with costs, affordability and value for money of the proposed approach. The Chartered Institute of Logistics and Transport- North West Policy Group were of the view that the number of qualified staff required for TfGM to manage the bus network in Greater Manchester was underestimated, considering the intention to recruit.

8.3.5 The main points raised through consultees and the Ipsos MORI report are addressed below:

Operating resource required

8.3.6 The Assessment recognised the complexity in managing the delivery of the Proposed Franchising Scheme. The future target operating model, with associated incremental resources, developed by TfGM on behalf of GMCA, has been designed to deal with these challenges and was created by using a combination of:

i. a bottom up view of the future requirements based around the development of new processes and capabilities required to plan and manage franchised

operations.

ii. data modelling (e.g customer contact resources driven by volume of calls).

iii. benchmarking with other organisations that manage franchises and experience with Metrolink.

iv. input from advisors with significant bus operations experience.

v. benchmarking of salaries, including estimated market adjustments where salaries do not align to TfGM pay scales.

8.3.7 The Assessment identified that an additional 102 roles would be required to deliver the Proposed Franchising Scheme. This is made up of 71 management and supporting roles and 31 revenue protection roles. After taking account of roles that would transfer from the operators (25) and existing roles in TfGM that would no longer be required under franchising (20), the net impact anticipated was 57 additional roles. Section 46, 'The Future Operating Model' and Section 47 'Organisational Change' of the Management Case identifies that TfGM already has some of the existing capabilities. However, there would also need to be a significant organisational wide change to the way TfGM currently operates to manage or support franchised operations.

8.3.8 OneBus have suggested that it is *"It is also very unlikely that there are 25 staff employed in roles by the operators that would TUPE to TfGM*".

8.3.9 OneBus have provided no further evidence to support this statement. TfGM have used operator information to assess the likely number of individuals that would transfer and therefore believe the figure contained in the Assessment was accurate.

8.3.10 Rotala considered that the bus operators will be unlikely to be willing to release the best qualified and most experienced employees and it is likely to retain staff as its Bolton depot services the whole of its North West region activities. If an operator's bid was unsuccessful, they may choose to offer their best and most talented resources alternative roles within their existing organisation. If the principally connected rule applies, then it is up to the individual to decide whether to transfer to the new operator or to remain with their existing employer if they are offered an alternative position. If an individual chose to stay with their existing employer, then the successful operator would need to recruit to fill the vacancy created by the individual not transferring. This is a risk that the successful operator will need to manage.

8.3.11 Travelwatch Northwest suggested that Transport for London (TfL) could be looked at as a possible role model when setting up and managing new structures under the Proposed Franchising Scheme. In developing the management case TfGM considered several organisations which manage franchised operations including TfL and the

Transit Authority in Perth West Australia.

8.3.12 A comparison has been drawn by several consultees, including Go North West, between the proposed TfGM model and that of TfL bus, which employs 800+ people in non-operational roles and 200+ revenue protection officers, a total of circa 1000-1100 staff, suggesting that TfGM's proposed staffing levels are not realistic.

8.3.13 As mentioned above, in addition to the 102 new roles this would be supplemented with the need for a significant organisational wide change. There are a number of existing roles across TfGM that currently, and that will continue to, support bus. As bus services transition to franchising a number of existing roles will have an increased focus on bus as a priority under franchising. When these roles are added (to the 102) then the size of the organisation supporting franchising increases to circa 150+ FTEs. In relative terms the proposed number of resources identified in TfGM is commensurate with TfL for the following reasons:

i. TfGM is between 10-18% of size of TFL (in terms of passengers, revenue and PVR) depending on which metric is used. The 150+ is approximately 15% of the size of TfL bus resource.

ii. TfL has been set a 30% back and middle office efficiency target which will reduce the overall number of TfL non-operational roles.

iii. TfL manage the ITS (Intelligent Transport Systems) on behalf of the operators, whereas the TfGM model leaves the operational management with the operators.

iv. TfL buses run a semi open network (2 door buses). The TfGM proposal is for a closed network (single door next to the driver) which reduces revenue protection requirements.

v. TfL has 500+ route-based contracts, whereas TfGM will have 10 Large and 25 small franchise contracts.

8.3.14 Go North West have suggested that GMCA may have underestimated the number of employees required to undertake direct monitoring of performance data and on street monitors. This is not the case. The Management Case of the Assessment identifies additional people (12+) in TfGM to manage operator performance and a significant investment in systems to capture performance data and generate the required reports. Operational performance remains as it is today the responsibility of the operator and therefore on street monitoring should be undertaken by the operators as it is at present. However, through Real Time Passenger Information systems (or "RTPI"), TfGM will also be able to monitor and manage where required operational performance. TfGM bus station staff would be able to monitor some of the qualitative operational performance measures (such external cleanliness of buses, driver appearance and displaying the correct destination blinds). TfGM has included a significant additional annual survey budget which includes for activities

such as "mystery shopper" which will provide feedback on the quality of service offered on the bus including driver behaviour and appearance.

Recruitment

8.3.15 The Ipsos MORI "*Doing Buses Differently: Consultation on a Proposed Franchising Scheme for Greater Manchester"* report identified additional favourable comments from the public that were supportive of the Proposed Franchising Scheme as it would create jobs, boost employment and/or lead to the recruitment of more staff and drivers.

8.3.16 Ipsos MORI reports that unfavourable comments were received about a lack of competency, expertise and poor track record of TfGM / GMCA who they said should '*leave it to the experts'*, it meaning managing the running of the buses. Additional conditional supportive comments of TfGM's ability to manage franchising from members of the public highlight the need:

- for openness, honesty and transparency (5);
- that TfGM/GMCA possess the required competency and expertise (4); and
- there is consideration for staff support and training (3).

8.3.17 Most bus operators responding to the consultation provided unfavourable comments on the proposed recruitment plans. A number of operators including Go North West, Rotala and First commented upon the potential difficulties in recruiting employees. Stagecoach noted that individuals to fill a number of significant strategic level roles would have to be recruited from authorities (TfL and DfT) which have the necessary experience and expertise, that the talent pool for these roles is limited and that the individuals will have long notice periods. In its view assembling the team halfway through tranche one is overly optimistic. There is also a risk that TfGM recruits from the operators, which will damage delivery of the bus service, and that there will be over-reliance on contractors and consultants (who may themselves have limited experience) to fill crucial roles, increasing costs.

8.3.18 Go North West state that TfGM will have to recruit individuals in incredibly specialist area of expertise that exist only in TfL in the UK and it is not clear whether that is realistic. They also suggest that nine months is not a sufficient period for the GMCA and/or operators to recruit and train the extra staff to deliver an effective scheme: recruitment processes can take months and some individuals may be subject to three month's notice period in leaving their current employer.

8.3.19 TfGM's HR Resourcing department can demonstrate a successful track record in attracting quality talent to the organisation, including for senior leadership roles. TfGM have engaged with industry leading search and selection partners who have supported it in attracting quality candidates to senior leadership roles. TfGM

has also completed high volume recruitment campaigns, directly targeting the employment market for a wide range of skills, a highly successful apprenticeship recruitment programme and engaged short term contractor resource where required. TfGM uses a variety of leading and innovative sourcing and selection methodologies. In addition, the Project Management Services team currently recruits assistant project managers, project managers and senior project managers to a talent pool. The people in the talent pool are then offered positions in TfGM when projects arise. This approach has worked very successfully for TfGM and could be expanded for other roles.

8.3.20 The business change costs in the Assessment includes for additional and specialist resource to support the recruitment activity acknowledging that the existing team may not have the capacity to recruit the volumes and calibre of people required in the short timescales.

8.3.21 During the transition period TfGM will need to employ a number of contractors and consultants to support these activities whilst concurrently recruiting to fill the permanent roles. TfGM's intention is to fill the permanent roles as soon as is practically possible but has costed (in the Management Case and in the risk register) the need for external support in the short term.

8.3.22 The Assessment acknowledges that the recruitment and resourcing will be challenging. There are number of areas where TfGM will need to recruit specialist resource, including sales and marketing, procurement, asset management and finance. TfGM recognises that there are some skills shortages in the market more generally. TfGM would take and indeed already has relevant measures in place. For example, TfGM currently has 42 apprentices covering a range of disciplines including Commercial Procurement and Supply Chain, Transport Planning, Customer Services, Operational Management and Business Administration. The market for the key resources, however, is bigger than just the bus sector and local bus market. The following paragraphs identify alternatives sectors, as well as its own employees, where the specialist resources could also be recruited from. This approach would allow TfGM to get a blend of bus expertise with that of other sectors importing new thinking and best practice approaches.

8.3.23 With regards to Franchise Management bus is one of many sectors which operate in a franchised environment. TfGM would not look to recruit the extra required resources exclusively from the bus market but would look to attract talent from other areas including rail, logistics and from other sectors such as retail or facilities management where suppliers are managed against robust service level agreements. TfGM already employs experienced contract managers with significant local knowledge and there is the potential to continue to build on current capabilities and develop a high performing team and combine these resources with the relevant experience and expertise from other commercial sectors. A capability development plan will be put in place to ensure that members of the existing team have

appropriate opportunity to acquire additional skills and develop the right capabilities to drive impactful franchise management.

8.3.24 The second area is Network Planning. With the level of transport infrastructure investment nationally, the Assessment recognises that this resource is heavily in demand with market supplements where appropriate and a risk provision where higher salaries are required to attract people from the commercial sector. As with Franchise Management, TfGM would not just be seeking to recruit from the bus sector. With wider responsibilities for planning for both bus and trams, and potentially the rail network in the future, TfGM would be looking for wider transport experience. The pool for this resource could come from other transport sectors and transport planning consultancies. In addition, there is resource within the existing bus services team who, should they be successful in applying for these roles, would work with externally recruited network planners, blending wider network planning experience and perspective with bus experience and local knowledge.

8.3.25 Operators have raised concerns that TfGM "*recruits from the operators themselves*" damaging current delivery. TfGM acknowledges that the recruitment of key resources could come from the operators. It is the right of the individual to apply for such roles. However, as previously discussed, TfGM believes the potential talent pool goes beyond the bus sector. By recruiting from a wider resource pool in other sectors TfGM increases the likelihood of securing resources locally. However, TfGM would not just be looking to recruit locally, and TfGM has experience in attracting talent nationally and from different sectors other than public transport. Individuals move between bus companies currently and the scale of the TfGM bus operations requirement in comparison to the scale of the whole bus sector is quite small. This combined with recruitment from other sectors should minimise the impact upon existing operators. It is expected that operators would be able to replace resource and should have sufficient resilience, if some staff successfully applied for TfGM positions, without adversely impacting existing operations.

8.3.26 Between 6 and 9 months has been included in the programme for recruitment and the likely notice period for specialist and senior roles, experience of previous recruitments has shown that this is normally achievable. However, risk F026 includes a cost provision for the risk that there may be a delay in the recruitment of key resource.

Salary Costs

8.3.27 It has been suggested by several operators that the salary costs may have been underestimated and that additional costs may be incurred to secure the right expertise. This included comments from Go North West and Rotala and indicated that they believe the required salaries "*are approximately 10% too low*" and therefore TfGM would not be able to attract staff with the requisite experience. Go North West note that given the specialist nature of the skills, there should be

sufficient cost factored in to GMCA's estimates for attracting high quality candidates.

8.3.28 The salaries that have been included in the Assessment have been developed by:

- benchmarking with similar roles in TfGM
- developing and evaluating high level role profiles for key and senior roles
- market comparisons for similar roles
- applying market supplements to roles which are either specialist or a scarce resource.

8.3.29 Whilst a robust approach was adopted, and it is believed that the salary costs are not too low, it was recognised in the Assessment that higher salaries may still be required to attract key specialist resources. A provision was quantified and included in the risk register, see Risk F081 in the Assessment.

Revenue Protection

8.3.30 Stagecoach, Rotala and a member of the public have commented on the scale of revenue protection stating that a) it is not sufficient and b) noting that the numbers drop down to 13 by 2027, which may potentially impact revenues.

8.3.31 The proposal increases the level of revenue protection to circa three times that of the current provision by the existing commercial operators to manage fare evasion. The Assessment did not include any fare evasion benefits associated with increased revenue protection. The introduction of significant additional resource reflects the need bring a consistency in approach across the network which has seen a variety of approaches adopted depending upon the requirements of local operators. Currently some parts of the GM network have little or no revenue protection while other parts are better covered. This approach aims to bring consistent level across the network.

8.3.32 The subsequent reduction back to current levels reflects the need to assess future long-term revenue protection requirements and to ensure that there is a funding stream to support the higher level of revenue protection cover. There are a number of factors which will influence future approaches to revenue protection, including technological change and the opportunity for a joint bus and Metrolink approach. If a business case (post implementation of the Proposed Franchising Scheme) demonstrates that continuing with or increasing the proposed levels delivers financial and customer benefits, then the higher numbers would be retained or increased. This would be explored during the early phase of franchised operations and would need to be self-funding. At no point in the Assessment does revenue protection drop below today's existing levels.

TUPE and Other Costs

8.3.33 It has been suggested by Stagecoach that transferred staff should be treated as an

incremental cost as they formed part of the Do-Minimum case. They assert therefore we have understated the costs.

8.3.34 This is not correct. The Assessment considers the incremental costs above the Do Minimum option. Therefore, to include any transferred resource as an additional cost in the Assessment would result in including the same costs twice, irrespective of whether the costs transfer from operators to TfGM and therefore this would overstate the costs.

8.3.35 Having reviewed the responses received and the evidence outlined above, it is considered that the approach to developing the future target operating model does not underestimate the cost and complexity of managing a franchised operation.

8. 4 - Theme 3: The difficulty of transitioning from commercial to a franchised operation

8.4.1 The Assessment recognises the scale and complexity of the transition and acknowledges the risks associated with it including the risk that it may not be delivered to the proposed timescale and budget. A number of considerations were taken into account in determining the most appropriate period for transition. These included the need to minimise the impact on customers by prolonging a transition period; enabling the market to manage the bid process; and enabling TfGM to reduce transition risk, including learning lessons from the procurement, and mobilisation of the initial tranche of procurement. The approach to transition and implementation detailed in the Assessment shows how the risks that the transition may not be delivered to the proposed time and budget were accounted for and how it was planned to mitigate them.

8.4.2 Question 33 of the consultation asked for comments on the approach to the transition and implementation of the Proposed Franchising Scheme. Ipsos MORI notes that 130 comments were favourable, and 81 unfavourable, of the 258 comments that were received. Of the statutory consultees (13) who responded 5 provided favourable comments and 6 unfavourable. Of the non-statutory consultees (9) who responded 4 provided favourable comments and 1 an unfavourable comment. Of the members of the public who responded (236) 121 provided favourable comments and 74 unfavourable comments.

8.4.3 The most commonly cited favourable responses provided by members of the public were about general agreement/support for the approach to the transition and implementation period as set out by the Management Case (92). A further 13 members of the public were confident in TfGM/GMCA's competence and expertise to deliver the proposal, with nine members of the public stating that this transition is long overdue and should be implemented as soon as possible.

8.4.4 Around a third of those statutory consultees which provided comments made favourable ones while around a half made unfavourable comments. The main concerns were related to timescales and lack of time built in for evaluating and reviewing progress during the transition. Others expressed opinions that the associated costs had been underestimated. The feasibility of the timescales was the main point from unfavourable comments from the public. As Ipsos MORI notes, there were favourable comments from a non- statutory consultee, the University of Manchester, that agreed that TfGM (on behalf of the GMCA) would be capable of managing franchised operations throughout transition and implementation; and favourable comments from members of the public agreed with the approach whilst accepting that there was a level of risk that would be inevitable in such a change.

8.4.5 A number of bus operators focused their criticism relating to on the proposed timescales. Arriva commented that the proposed timescales are highly ambitious

and Arriva and Go North West specifically noted the lack of time built in for evaluating and reviewing progress. As noted by Ipsos MORI, the Oxford Road Corridor group stated their fundamental belief that the long-term benefits here would outweigh any short-term disruption that they acknowledge with implementation, recognising the potential challenges posed by transition.

8.4.6 A number of operators (including Stagecoach, Go North West, First) have stated that GMCA may have underestimated the cost and complexity of the transition and as the Ipsos MORI report states, Stagecoach believed that the stated "*£1.7m earmarked for business change could be better spent enhancing existing services*".

8.4.7 This section addresses customer experience and risk management during transition. The implementation timescales challenges have been merged and responded to with a similar section 7.9 above, in the Commercial Case to avoid duplication of responses.

Customer experience during transition

8.4.8 The Ipsos MORI report identified that some members of the public have recognised that risk is inevitable with change and that there will be some initial challenges. Several operators have indicated that TfGM may have underestimated the potential level of confusion for customers during transition and the inconvenience to them through journey disruption.

8.4.9 First emphasised that the complexity and confusion that bus users would experience should not be underestimated. The threat of franchising may lead operators to seek to maximise short term profit on a temporary basis, removing the incentive for collaborative working, and they may also choose to cease service operation (which may require or warrant service replacement by GMCA).

8.4.10 Go North West commented that the stability enjoyed by the existing market will be disrupted and may be subject to significant turmoil during transition. There is a risk that a lack of knowledge and experience could adversely effect the reliability and punctuality of services during transition and while a new operator mobilises. In its view the arrangements for transition would expose passengers and GMCA to an unacceptable risk that services will not be operated. In its view the new arrangements are likely to lead to customer confusion, especially when travelling between the franchised and non-franchised network. Passengers will experience a change in the appearance and livery of buses and will also be affected by the new fare structures that will be inconsistent across the three Sub-Areas during transition. GNW also said that in its view GMCA did not appear to have given any sufficient consideration to passenger communications.

8.4.11 From a customer perspective it is important that the transition period is minimised in order to realise the full benefits of the Proposed Franchising Scheme as soon as is practically possible and to minimise the period of operating a mixed commercial and

franchised environment.

8.4.12 As noted by First there is a risk some operators would seek to maximise short term profits, withdraw services (which may require GMCA to replace them) and withdraw co-operation for working collaboratively. While the risk register recognises this risk and the risk register has provision against services withdrawals (Risk F003) TfGM envisages that operators would not act in way that unnecessarily impacts their customers by withdrawing profitable services and behaving in a uncollaborative way which might impact customer experience and their incomes.

8.4.13 It is not expected that operators would abandon the commercial networks as many of the routes are profitable and this would impact upon returns to shareholders. However, the Assessment recognises this risk and the risk and mitigation plans in this regard are included at risk F003 of the risk register.

8.4.14 The Assessment does recognise that there is a short term risk of confusion to some customers during transition with the introduction of franchised services. A number of mitigating measures have been identified in the Assessment including:

- The use of the marketing and communications materials to inform customers of the change –this expenditure is included in the transition costs budget. University of Manchester suggested a need for timely communication material to be circulated with contact details for specific queries to support the transition. TfGM has significant experience in using marketing material (in all media, digital, paper, TV and radio) to engage with customers including the launch of new or changed Metrolink services and with the launch of the Metrolink Zonal Fare structure across Greater Manchester. TfGM would draw on this experience to support transition.
- The early recruitment of the customer contact resources.

8.4.15 The transitional ticketing arrangements will ensure that for customers who need to transfer between franchised and non-franchised services the additional costs are largely eliminated or significantly reduced. The detail of the transitional ticketing arrangement; in the event that the Proposed Franchising Scheme be made, would be developed in conjunction with the existing operators post a mayoral decision.

8.4.16 The proposal to minimise network changes when procuring the first round of franchises will also minimise the impact upon customers and the operators

Risk Management during transition

8.4.17 Stagecoach stated in their response to the consultation that the risk assumptions appear overly simplistic and favourable to franchising. It states two stand out: (i) no reference is made to the negative image already existing among passengers UK-wide regarding franchising, particularly passengers in the North, and (ii) there is a question whether the potential 2 to 4 year delay from not being able to negotiate depot sales

has been costed in a meaningful way. Further it claims that the cost of tendering, contracting and paying for any new depot has not been fully factored in.

8.4.18 The risk cost and mitigation plans have been developed following a robust and rigorous process adopting best practice approaches (which is known as a Monte Carlo simulation). A significant number of risk workshops were undertaken by TfGM to identify and quantify the risks that needed to be managed; and detailed mitigation plans were developed for each of the risks where appropriate.

8.4.19 The mitigation plans were reviewed for deliverability; and sections 46.7 and 48.4 of the Management Case summarises how ongoing and transition risks would be managed under the Proposed Franchising Scheme. These sections contain a table summarising the risks and sets out the mitigations.

8.4.20 Stagecoach noted that TfGM made no reference to the negative image of franchising already existing among passengers UK-wide regarding rail franchising, particularly passengers in the North. However, this scheme proposes bus franchising and 4 members of the public who responded to the consultation management case questions suggested the transport systems should be based upon the TfL model which is franchised. In addition to London, bus franchising has also been successfully implemented in other countries such as Singapore and Australia. There is no necessary reason to assume that there is a significant risk that attitudes to rail franchising will materially affect the prospects of bus franchising in Greater Manchester.

8.4.21 Stagecoach's challenges on whether the potential 2-4 year delay on depots and the consideration of the costs of tendering and procuring depots are dealt with adequately in the Assessment are addressed in Section 7.8 of the Commercial Case response above.

8.4.22 It is considered that the approach to developing risk costs and mitigations plans were robust and thorough and that the mitigation plans are deliverable.

8.4.23 The risk register includes a provision and contingency plans for any potential over runs, notably in relation to risks F003, F004, F008, F012, F020, F026, F027and F041. In addition to the risk mitigations set out above, GMCA would be able to postpone any of the dates included in the Proposed Franchising Scheme (such as the dates for when GMCA would enter into a franchise contract and/or when services would start to operate for each Sub-Area). Section 123I of the Act makes provision for this and as already set out in section 7.7.10 above, GMCA would be able to postpone these dates after consulting bus operators and others. This means that, even though the assessment believes that the implementation timescale is achievable, there would be a number options available to GMCA to either minimise the impact of any delays and/or postpone implementation of the proposed franchising scheme.

8.4.24 Having reviewed the responses received and the evidence outlined above, it is

considered that assessment does not underestimate the scale, complexity and costs of transitioning from a commercial to a franchised operation.

8. 5 - Theme 4: Impact upon employees and operators

8.5.1 The areas below cover the main themes raised from consultees in relation to impact on employees and operators from the management case perspective.

TUPE

8.5.2 The Act envisages that, whether or not it would otherwise apply, the provisions of TUPE will apply to an organised group consisting of those employees of a former operator whose employment is principally connected with the provision of local services in a franchised area or sub-area. A number of concerns have been raised by operators around the application and definition of "principally connected" and the impact that this may have upon the workforce. The Franchising Schemes and Enhanced Partnership Schemes (Application of TUPE) (England) Regulations 2017, provide that, in the absence of agreement, a person's employment is treated as "principally connected" with the provision of affected local services if that person spends, on average, at least half of their working time assigned to the provision of affected local services assigned to activities connected wholly or mainly to the provision of affected local services.

8.5.3 Abellio thought that there would be no adverse impact on the employees of operators given these regulations. Arriva considered, however, that there may be employees "*left behind*" post franchise scheme commencement who may have to be made redundant. First considered that, while drivers and maintenance staff may have the opportunity to transfer to the new operator under the TUPE provisions, the same is far less likely to apply to its management and support staff. Go North West expressed concern about the potential for redundancies as a result of the Proposed Franchising Scheme. It is concerned that there will be persons working on the provision of services being transferred who are not "principally connected" with them and will not be transferred but who may find that they are redundant having lost part of their role. It considers that an operator still operating commercial services outside Greater Manchester may have engineers and other staff who may never be principally connected with the services transferred while being directly affected by the loss of work who may be vulnerable to redundancy.

8.5.4 TfGM will work with the operators in detail, much of which will only emerge as the transfer approaches, to ascertain which employees may or may not transfer. TfGM's approach is to procure the large franchises around the strategic depots. This means that by and large services operating from that depot at the point of transition would continue after the transition. As a result of this approach it is envisaged that drivers and engineers based at the depot would be likely to be covered by TUPE if the incumbent operator was unsuccessful. TfGM cannot guarantee that there will not be redundancies but the risk to many drivers and engineers should be small. As a consequence of implementing the Proposed Franchising Scheme there could also be a small number of local management posts and roles such as engineers who may also serve operations outside of Greater Manchester that may not be required by the

existing operator in the future and may not be covered by TUPE. In the event that these members of staff are made redundant by the incumbent employer it is assumed that the operators would act in accordance with the law and collective bargaining agreements. Any head office roles which are outside the scope of TUPE and do not transfer to TfGM, which are made redundant because the Proposed Franchising Scheme, would need to be addressed by the operator. Any redundancy costs would be incurred by the operator. It has been suggested by Arriva that, if an employee declines to transfer to the new operator, the incumbent operator will incur the redundancy cost. This is not the case as an employee can chose not to transfer but this means that they have effectively chosen to resign rather than work for the new operator.

Other effects on employees

8.5.5 OneBus stated that the allocation of contracts may mean staff not working from the depot nearest to their home. Transdev raised a concern that the planned use of strategic depots may require some employees to relocate, particularly employees that are currently located at non-strategic depots.

8.5.6 The current transition plan in the Assessment involves making use of the strategic depots and the intention, as noted above, is that franchise contracts replicate the services at the point of transition. Such service movements, therefore, are likely to be relatively limited in nature at the outset of franchising (to minimise transition risk). This will reduce the relocation issues rather than increase them.

8.5.7 First Group have raised a concern about the uncertainty that the franchising proposal is causing to its workforce. Stockport Metropolitan Borough Council has raised a similar issue driven by the longer period until transition in the South and therefore a longer period of uncertainty for operators' employees. The Ipsos MORI report highlights that of the 13 conditional comments made by the public offering support, three respondents identified the need to provide staff support and training.

8.5.8 TfGM's intention is to procure the franchised network as quickly as is practically possible which in part is driven by the desire to reduce uncertainty. Staff support and training is important and should be provided by the operators.

8.5.9 Rotala expressed concerns about the lack of work stability under franchising, stating that "*in essence every member of staff would need to re-earn their position every five years*", something inimical to job loyalty removing the sense that working for a bus operator can be a career for life, increasing concerns about job security considerably.

8.5.10 If an operator was unsuccessful in bidding, TUPE and the "principally connected" rules would apply to existing employees. They will not have to apply for their existing roles. The issue of having to "*re-earn their position every 5 years*" is no different to when there is a change in senior management or a director. In this case employees have to demonstrate the capabilities to a new manager. However, it is expected that

operators managing franchises would have effective performance management systems in place and therefore employees during the life of a franchise would be given every opportunity develop their skills and address any deficient areas. The transfer from one operator to another should be an extension of that system. For staff who have performed well during the duration of the previous franchise should have no concerns about performance related job security.

Effects on operators under local service contracts

8.5.11 OneBus have stated that the operators would need to increase headcount, to:

- Ensure that data required by TfGM is collated and maintained
- Manage the punctuality and reliability of buses to provide the level of service as dictated by the contract and to ensure any operational penalties are avoided

8.5.12 TfGM agree that operators will have to factor these costs into their bids. However, some operators already employ resource to ensure the level of their performance, and the benefits this brings, in customer satisfaction and patronage. Consistent standards will only be achieved if effort is made into these areas. Some costs have been assumed. OneBus have not disputed or justified why they are not adequate. In due course levels of services and calibration of performance regime will be refined and managed by TfGM and informed by increased insight in this regard.

8.5.13 Whilst revenue risk transfers to GMCA, the majority of operating risk will remain with operators and therefore the associated operational management will remain with the operator as it does at present. Although data in relation to punctuality and reliability will need to be collated and monitored, this is also the case under the current market. Additionally, the proposed new ITS systems should generate most of the required reports and should minimise the need manual intervention by operators. It is not expected that a franchised environment would require operators to increase their costs as day to day operational management should form part of the existing operation.

8. 6 - Theme 5: Impact upon pensions as result of TUPE

8.6.1 Pensions issues were considered in the Assessment and a separate supporting paper - the Pensions Impact Supporting Paper ("PISP"). These considered impacts on incumbent operators; impacts on prospective operators; and, set out options for how pension arrangements could be delivered under franchising to meet the requirements of enhanced pension protection under the Act.

8.6.2 A number of comments were raised around pensions implications. It should be noted, however, that the concerns raised in relation to pensions matters are related to defined *benefit* arrangements. As set out in the PISP, TfGM understands that the vast majority of current pension provision is now through defined *contribution* schemes. TfGM is not aware of any specific concerns raised in the context of defined contribution arrangements. The PISP, however, acknowledges that, for the minority accruing benefits in defined benefit arrangements, the issues are inherently more complex.

Exit Debts / Covenant Impacts

8.6.3 OneBus stated that there will be implications for pensions liabilities which should not be considered lightly, but gave no independent assessment of them. First considered that the pensions implications would vary considerably dependent upon the circumstances at the time of any market closure – including wider economic considerations. Stagecoach suggest in their response, however, that, as franchising weakens the business model for an operator, it may result in a more cautious, more conservative funding basis and will also increase the risk that a pension exit charge could arise as active members are forced to transfer to other operators. Thus the Proposed Franchising Scheme could crystallise a Greater Manchester Pension Fund (GMPF) 'exit debt' that could be in the range of £30m to £60m for all current GM operators. In their response to Question 39 regarding any positive or negative impacts for existing operators, Stagecoach also refer to pensions as a cause for concern.

8.6.4 As set out in the PISP, franchising does not introduce a new requirement that an incumbent operator should be liable for any of its past service pension liabilities. The PISP acknowledges, however, there is a risk that incumbent operators who participate in defined benefit arrangements may lose flexibility as to how and when they may be required to fund any past service pension liabilities. Essentially the risk that Stagecoach highlights, and seeks to estimate in its response, is one which could arise if a cessation event is triggered by the last active member employed by an operator leaving the scheme.

8.6.5 The PISP sets out at paragraph 1.2.3 the factors that would influence the likelihood and scale of this risk. It also sets out TfGM's understanding of the specific circumstances of the large operators who participate in the GMPF. In particular their

schemes are closed to new entrants, have relatively low numbers of active members and do not have guarantors. When a scheme is already closed to new entrants, there will necessarily be a time when the last active member leaves.

8.6.6 The PISP considers these circumstances, the public information from GMPF's Funding Strategy and the high contribution rates to GMPF paid by operators over the 2016-19 period. This was 30.4% of pensionable pay for Stagecoach plus a further £2.4 million per annum; and 31.4% of pensionable pay for First plus a further £5.17 million per annum. This indicates that these operators' pensions costs are already assessed on a more conservative basis than an 'ongoing' employer. That would be likely to continue as their active members reduce and this would thus lessen any cessation impact.

8.6.7 Stagecoach notes its youngest active GMPF member is aged 45 and, absent franchising, they would expect to have active members in the GMPF for at least 20-25 years. It states that *"The Pensions Impact Supporting Paper wrongly alludes [at paragraph 1.4.7] that because there are relatively few active members employed by operators "there could be a cessation point in the near future" [leading to additional pension funding] - this is seeking to infer that the crystallisation of these punitive pension exit costs will not be caused by the franchising proposals. This is incorrect".*

8.6.8 Paragraph 1.4.7 of the PISP in fact only describes the GMPF's Funding Strategy. TfGM's understanding of the substantial point that Stagecoach seeks to make is that it considers that, in the absence of franchising, it would have between 20-25 years, based on the retirement age of its youngest current member, to plan for its last active member leaving the GMPF. TfGM is not privy to an employers' specific funding assumptions, but it would not normally be the case that GMPF or their actuary would use the age of the youngest member to assess the funding basis (as the member could leave the employer or retire early). It would be more usual for GMPF to use a basis, such as a weighted average of all the employer's active members, which would be a shorter time frame than the age of the youngest member suggested by Stagecoach.

8.6.9 Absent franchising, however, it would be expected in any event the funding assumptions would increasingly tend towards a more conservative basis over time as active member numbers reduce. The effect of franchising may be to reduce the remaining active members that Stagecoach and other operators may employ, depending on the outcome of the competition for local service contracts, with the possibility that the trustees of the scheme may seek more prudent funding arrangements if it is considered an operator's financial position has weakened.

8.6.10 It was accepted in the Pension Impact Supporting Paper (at 1.4.17) that franchising may increase the risk of an earlier date on which an operator's last active member

may leave a scheme as a result of TUPE transfers to a new franchised operator.

8.6.11 No supporting evidence has been provided by Stagecoach to justify the estimate that current operators in GM could be faced by franchising with an exit charge in the range of £30-£60m. No explanation of the basis for that estimate was provided. It would appear to require all of the participating operators to have ceased employing any GMPF active members for the risk to occur. Whilst this eventuality cannot be precluded, it is considered unlikely that it would occur across all participating operators and operators can themselves influence this risk, for example by bidding for local service contracts.

8.6.12 Even if a cessation event were to arise, TfGM considers there would be options for an operator to mitigate the impact of any debt, including negotiation with the GMPF around the basis on which exit debts are calculated and the associated payment terms.

8.6.13 In this regard, GMPF states in its Funding Strategy that mitigations could involve the GMPF entering into an agreement with the exiting employer to accept appropriate security to be held against any deficit and to carry out the exit valuation on a less prudent valuation basis or recover the deficit over an agreed period. The form of security could potentially include a bond, indemnity or guarantee (for example, a parent company guarantee).

8.6.14 The Ministry of Housing, Communities and Local Government ("MHCLG") has also consulted on proposals in 2019 which, if enacted, could formalise future flexibilities around exit payments, including delaying triggering of exit debts when the last member leaves and the option to spread exit payments once crystallised.

8.6.15 In conclusion, franchising does not introduce a new requirement that an incumbent operator should be liable for any of its past service pension liabilities but, as acknowledged in the PISP, franchising may increase the risk of an earlier date on which the last active member may leave a scheme or, where the incumbent operator still continues to employ at least one active member, the possibility that the trustees of the scheme may seek more prudent funding arrangements.

8.6.16 Whilst TfGM cannot validate, or otherwise, the £30m-£60m exit debt estimate provided by Stagecoach, it is considered the likely extent of this risk has been overstated; and, even if an exit debt were to arise, GMPF's Funding Strategy sets out mitigations that an operator could seek to negotiate with it.

Future exit debts / pension costs for operators under the Proposed Franchising Scheme

8.6.17 OneBus (as set out in the Jacobs review) suggest that, if franchising is introduced, it is not clear which party would be responsible for meeting any potential pension deficits. Rotala raise a concern that a franchised operator could be left with exit debts or deficit payments at the end of its contract term in particular should TfGM take the

wage inflation risk. TfGM understands this concern is raised in the context of any franchised operators who become Admitted Bodies in the GMPF. No new prospective operators who responded to the consultation raised this point.

8.6.18 In response to these points, and the concern that a franchised operator could be liable for pension deficits, it should be noted that incumbent operators are liable for past service liabilities, and any associated deficits, built up to the point franchising is introduced. Furthermore the pension liabilities and associated risks under franchising are expected to be much smaller compared to current arrangements as: i) there are relatively few active members of defined benefit schemes who could be in scope to transfer to a franchised operator and ii), on the basis incumbent operators are responsible for past service liabilities, liabilities under franchising would reflect future service.

8.6.19 A scheme actuary would set pension contribution rates with the expectation of fully funding liabilities. It is possible, however, that there could be a deficit or surplus at the end of a franchise term. The PISP sets out that, in circumstances when franchisees become Admitted Bodies and the administering authority requires financial security, the preferred approach would be the provision of a guarantee by TfGM/GMCA (for the reasons set out in the PISP at paragraph 1.5.13) and that a contractual risk sharing arrangement would be put in place between the franchised operator and TfGM, in conjunction with the GMPF. The factors that would be expected to be included in the risk sharing arrangement are set out in the PISP at paragraph 1.5.15, which specifically acknowledges exit and succession arrangements at the end of a franchise term.

8.6.20 Whilst the contractual allocation of risk is not formalised at this stage, the expected risk allocation principles are set out in the PISP at paragraph 1.5.16. TfGM acknowledges that it would not be desirable, based on these principles, for a franchisee to bear risks (or opportunities) it cannot control or influence, such as a deficit (or surplus) at the end of a franchise term. It considers that the guarantee and risk sharing arrangement, with appropriate safeguards, would address these concerns.

8.6.21 In relation to pension contribution costs, as noted, the current GMPF contribution rates paid by operators are high relative to the Fund's average, which TfGM considers is likely to be reflective of the nature of their participation as 'closed' employers without a guarantee. These current high contribution rates would not be expected to be reflective of the costs an incoming franchised operator would incur. For example, putting in place security or a guarantee is likely to result in a stronger covenant assessment which could mean lower contributions.

Response from Unions

8.6.22 Unite, in its response, sought protection for bus workers' pensions and ideally the ability for workers to re-join the Local Government Pension Scheme ("LGPS") or the

setting up of a Greater Manchester specific bus workers scheme. The TUC in its response considered that access to the pension schemes set out in the Assessment, including the LGPS, would be a positive step.

8.6.23 In response to these points it should be noted that the Act specifically provides for enhanced pension protection compared to TUPE and requires 'broadly comparable' pension accrual for transferring employees. TfGM's understanding is that this pension protection is 'enduring' (i.e. it applies upon the introduction of franchising, and for any original transferees the protection would also apply on any subsequent transfers).

8.6.24 The PISP also sets out at paragraph 1.5.10 that continued access to the LGPS for employees currently accruing benefits in these schemes is considered the most practicable approach to providing "broadly comparable" benefits; and the options for defined contribution provision include a GM 'master trust' scheme.

8. 7 - Theme 6: Confirmation statement on no changes to employee terms and conditions

8.7.1 This section addresses a TUC request that *"it would be important that there is a statement of intent from GMCA that cost savings from operators who bid for franchises would not come from staffing reductions or worsening terms and conditions"*. This point was also raised by Go North West that new entrants may use this "*race to the bottom*" approach to submit competitive bids.

8.7.2 Set out below are extracts from a letter that Andy Burnham, the Mayor of Greater Manchester issued to Unite on 24th December 2019 this addresses the TUC and Go North West's Concerns:

> *"However, I agree that in the event that bus franchising is introduced in Greater Manchester that should not lead to any worsening of Terms and Conditions of employment for staff working in bus companies that operate any franchise. Secondly I would reiterate my commitment to ongoing and open dialogue with Unite and any other recognised Trade Unions to ensure that people working in the bus industry in Greater Manchester benefit from any improvements that franchising may bring*
>
> *In the event that the decision taken is to introduce bus franchising I am prepared to commit to the following actions at that time and I am happy for you to share these with your wider membership:*
>
> 1. *TfGM will provide, in advance of 5th January 2020, clarity on the additional protections that the Transport Act 2000 (as amended by the Bus Services Act 2017) provides with reference to transfers of staff and pensions under separate cover.*
> 2. *TfGM will enter into meaningful discussions with the bus operators and unions aimed at establishing a suitable minimum standards charter.*
> 3. *TfGM will discuss with the trade unions and bus operators the potential for establishing a Greater Manchester defined contribution pension for employees.*
> 4. *TfGM will set out the terms of reference of any steering group and confirm the mechanism by which consultation on the above items can take place*."

8. 8 - Conclusion

8.8.1 Overall, there were more favourable than unfavourable comments on the approach to the transition, implementation and management of the Proposed Franchising Scheme. All responses from statutory and other consultees have been reviewed carefully and in detail.

8.8.2 Of the 183 responses to managing franchised operations under the Proposed Franchising Scheme, 73 provided favourable comments while 56 were unfavourable. Of the 14 statutory consultee responses, 6 were favourable and 5 were unfavourable. Those which were unfavourable were mostly bus operators. There were 62 favourable comments from members of the public with 47 unfavourable. Most of the concerns raised focus on the costs and difficulties associated with securing sufficiently qualified staff for the relevant core and support teams. There were also concerns associated with additional management costs. Comments from bus operators were generally unfavourable and operators agreed that the additional required full-time employees would be costly to attract, recruit and train and would ultimately be not sufficient to cover the necessary responsibilities. The members of the public making unfavourable comments were also concerned with costs, affordability and value for money on the proposed approach. Most of the favourable comments from the public where on the opportunity to boost employment and that the Proposed Franchising Scheme would give TfGM / GMCA more authority and control of bus services.

8.8.3 On the approach to the transition and implementation of the Proposed Franchising Scheme, of the 258 comments, 130 were favourable and 81 unfavourable. Around a third of those statutory consultees which provided comments made favourable ones while around half made unfavourable comments. The main concerns were criticism relating to timescales and lack of time built in for evaluating and reviewing progress during the transition. Others expressed similar opinions that the associated costs had been underestimated. The feasibility of the timescales was the main point from unfavourable comments from the public. Favourable comments from non-statutory consultees agreed TfGM would be capable of managing franchised operations throughout transition and implementation and favourable comments from members of the public agreed with the approach and accepted there was a level of risk that would be inevitable in such a change.

8.8.4 The Assessment acknowledged the complexity that would be involved during implementation, transition and management of the Proposed Franchising Scheme but also identified sufficient resource and existing capability and processes from which to build on and what was required to be added. Complex areas such as the transfer of staff, staffing requirements, current capability and the need to undertake a wider organisational change have all been planned for and allocated resources. Recognising the complexity of implementation, transition and management of the Proposed Franchising Scheme risk provisions and mitigation plans were included in

the Assessment.

8.8.5 In conclusion, for the reasons given, there are no challenges arising that require alterations to the Management Case or would impact the ability to deliver the transition, implementation and management of the Proposed Franchising Scheme as outlined.

Section 9 - OneBus' Partnership Plus partnership offer

9. 1 - Introduction

Background

9.1.1 As required by the Act, in preparing its Assessment of a Proposed Franchising Scheme on behalf of GMCA, TfGM was required to compare the Proposed Franchising Scheme with other options. An extensive amount of engagement took place with OneBus and its members in order to consider what could be achieved under a partnership option. At the point the Assessment was completed, TfGM had held approximately 50 meetings with OneBus and its members. It used the outputs of this extensive engagement to compare the Proposed Franchising Scheme against that partnership option (i.e. the Operator Proposed Partnership). In their response to the consultation OneBus have stated that they were not told at the time the Assessment was concluded that this was being considered as their best and final offer. This claim has been addressed within section 4.10.3.

9.1.2 In the Assessment, TfGM also considered an Ambitious Partnership option which detailed TfGM's view of what more could be done under a partnership, albeit using an Enhanced Partnership Scheme ("EPS"). The Ambitious Partnership was therefore used to assess what theoretically at best, could be delivered through a partnership.

9.1.3 Although the Assessment has been completed and has since been subject to an audit and a consultation, discussions with OneBus and its members on partnerships have continued, with more than 40 further meetings taking place (as at the date that this report was prepared) since completion of the Assessment. TfGM have continued to engage with the operators in an attempt to develop their proposals further. Recent engagement has included developing a number of key commercial principles for the VPA and how these would work in practice under a partnership. As such, engagement has also continued with the respective parties' legal advisors as the VPA drafting has continued to be updated, to reflect discussions held to date with the operators.

9.1.4 As part of its consultation response, OneBus submitted an updated version of the partnership offer previously discussed with TfGM. This was described as "*an improved Partnership offer*" and referred to as "Partnership Plus". TfGM have reviewed the Partnership Plus offer, and sought clarification on a number of matters, given that, in the main, the level of detail provided for the new commitments is relatively low and a number of the commitments could be described at best, as 'commitments to commit'.

9.1.5 The purpose of this section is to detail TfGM's review of the Partnership Plus proposal, using the same structure as the Assessment.

Nature of the proposals

9.1.6 OneBus state that its proposals for a VPA for an initial period of five years are

"*designed to deliver the changes that communities, customers and politicians want to see, without the need for extra public funds and delays that franchising brings."* The proposals highlighted in bold below (a consolidated summary of points taken directly from the Partnership Plus proposal), indicate that these are some of the additional proposals provided to TfGM as part of the consultation response, which are therefore different to the Operator Proposed Partnership which was considered in the Assessment. The remaining text re-confirms previous commitments.

9.1.7 To provide *better journeys*, operators would sign up to a performance regime and **regular audits, with financial penalties for failure**; work with GMCA and TfGM to **allocate resources where they will best improve service; to review bus stops to ensure that they are as close to Metrolink and busy rail stations as possible**; to identify congestion hotspots and interventions; provide 450 new buses in the first three years, maintain a seven year average bus age, and **add 30 extra buses to the network; recruit additional customer service staff** to provide a single point of contact; give drivers further training on customer care; **brand buses to identify where they can take a customer**; and work with the authorities to make sure passengers receive information that is comprehensive, consistent and easily understood.

9.1.8 To provide *better value for passengers* operators will fund the staff needed to operate the refreshed bus network; **set up a profit share scheme to allocate a share of the benefits to improving services**; simplify multi-operator tickets, introduce a clear simplified fare structure and retain single operator tickets for those that require them; work with local authorities to deliver contactless payment technology, with daily and weekly capping, similar to London; and **give those coming off Our Pass an opportunity to sign up for half fare discounts for up to six months**.

9.1.9 OneBus state that their proposal, to be funded through "*operator revenue and public sector funding*" (but without any "*increase in council tax*"), will deliver simpler, "*more cost-effective ticketing systems across Greater Manchester; new, faster and more reliable routes; more convenient bus stops; better equipped buses; less congestion; greener buses; better air quality; ticketing inspectors to reduce fare evasions and more staff to support passengers wherever they want to go*". To maximise the benefits OneBus say that they require "*measures to address congestion on the road network."*

9.1.10 As noted above, the Partnership Plus proposal contains a mixture of commitments, some which are new proposals and some which were previous commitments. This section of the report will focus on the new, "Plus," elements of Partnership Plus, or anything incremental to the partnership considered in the Assessment. Commitments that have previously been discussed with TfGM and have not changed since the Assessment, are not considered in further detail in this section of the

report.

9.1.11 In terms of the mechanism for delivery of Partnership Plus, there are no changes to what was understood at the time of the Assessment, i.e. the operators' preferred delivery mechanism is via a VPA, initially for a term of five years. At the stage of expiration of the partnership it could be re-negotiated, a new partnership agreed, or operators could choose to return to the previous, wholly unregulated market. The partnership would cover the whole of Greater Manchester, and as stated on the front of the Partnership Plus brochure, would be "*supported by bus operators including Arriva, Centrebus, D&G Bus, First, Go North West, High Peak Buses, Jim Stones Coaches* (note that they ceased trading on 18 April 2020), *Transdev, R. Bullock & Co, Rotala – Diamond Bus North West and Stagecoach."*

Structure of document

9.1.12 The rest of this section will consider the Partnership Plus proposal and its implications on the five case model used in the Assessment, i.e. Strategic Case, Economic Case, Commercial Case, Financial Case and Management Case. It will also consider any legal considerations in relation to the proposal.

9.1.13 The sections are as follows:

- Section 2 – Strategic Implications;
- Section 3 – Economic Implications;
- Section 4 – Commercial Implications;
- Section 5 – Financial Implications;
- Section 6 – Management Implications;
- Section 7 – Legal and other considerations;
- Section 8 – Conclusion.

9. 2 - Strategic Implications

Introduction

9.2.1 This section sets out the extent to which the aspects of the Partnership Plus proposals which differ to those considered under the Operator Proposed Partnership in the Assessment, are likely to achieve GMCA's objectives. GMCA's objectives are derived from policies in the Local Transport Plan and other adopted policies, and therefore achieving these objectives illustrates the extent to which the Partnership Plus proposal would contribute to the implementation of these policies. This section follows a similar method to that shown in Section 9 of the Strategic Case of the Assessment. Under each objective the relevant proposals from the OneBus Partnership Plus proposal are listed, the text then goes on to evaluate those that are considered "new" or have altered since the Assessment was finalised i.e. the proposals that differ from those considered as part of the Operator Proposed Partnership in the Assessment.

9.2.2 It is worth noting that the operators' preferred mechanism for delivering Partnership Plus is via a VPA for an initial period of five years. There is no guarantee that this would include all of the operators in the market, given it is a voluntary agreement and the operators within Greater Manchester would have a choice as to whether they would choose to sign up to the VPA or not. Therefore, across all of the objectives, the extent to which they would be met and continue to be achieved, would also depend upon the percentage of operators within Greater Manchester that sign up to the VPA and what may happen after its five year period. This is recognised by The University of Manchester in their response to Q36 as they state that there is no guarantee that operators will stay in a partnership over a long-term period unless legally bound to do so.

Network

1. Reach and stability of the bus network
Objective
• Comprehensive network • Simple network • Frequent services • Direct services • Stable network • Responsive network Accessibility improves by comparison to the scale of the network within 3 years; continued improvement to 2040. Improvement in simplicity of the network within 3 years of intervention.

9.2.3 Relevant proposals, taken directly from the OneBus proposal and a supporting word document (provided by OneBus and considered as part of their consultation

response) state that:

- The network would be planned with GMCA and using a percentage of incremental profits from highway interventions that improve bus services we would work with TfGM to identify where this value could be used to meet agreed network deficiencies.
- This proactive, positive partnership will quickly deliver new, faster and more reliable routes.
- Operators will fund the staff needed to operate the refreshed bus network directly from existing revenue.
- The bus operators have agreed to provide 30 extra buses, to be used on a mix of 'kickstart' style services and to reinforce the existing network, on a basis that would be agreed locally in each district. The stated intention is to improve connectivity by trialling new services and links that can be grown into new, self-sustaining services while improving connectivity across Greater Manchester.

9.2.4 *New Proposals:* The principle of a profit share scheme mechanism to allocate a share of benefits back into improving services further, and the provision of 30 extra buses are considered new proposals under Partnership Plus and are discussed further below.

9.2.5 *Likely extent of network improvements*: Performing a systematic review of the network to ensure sufficient deployment of bus resources (which may include delivery of new, faster and more reliable routes) was considered in the Assessment. Comments noted by consultees in relation to the network included Arriva North West who note that a partnership would improve the bus network in the most effective way possible whilst delivering value for money and significant benefits. First state in their response to the consultation that assuming more change to the network can occur under franchising than under a partnership is speculative and that there are no restrictions on what could be agreed under a partnership. Go North West also stated that the ways in which a partnership model could achieve the network objectives has been underestimated.

9.2.6 Since the finalisation of the Assessment, TfGM have continued to engage with operators to refine the network review process, completing the proof of concept for services in the Tameside area. The fundamental principles of the network review have not changed since the Assessment. Nothing further in terms of specific new proposals have been provided as part of Partnership Plus in relation to the network reviews. Comments made by consultees in relation to the extent of network changes achievable under a partnership have been considered. Insufficient reason has been found, however, to change the implications and benefits appraisals included within the Assessment. Operators will still be facing competing commercial pressures under a partnership environment and they may not be aligned in their views, therefore, on

what changes are necessary and there would not be any redistribution of resources between operators under a partnership.

9.2.7 *Profit share schemes mechanism*: Operators have offered that a percentage of incremental profits derived by operators from specific interventions to improve the bus network e.g. infrastructure, would be put back into the partnership, and there would be management of a partnership fund, to further improve services. This may go some way to improving the network and meeting the objective noted above for reach and stability of the network, by improving network deficiencies. However, the mechanics have not been worked through and there are, therefore, a number of uncertainties around how the incremental profit arising from the specific interventions would be identified, measured, realised and used. This is considered further in sections 9.2.73, 9.3.51 and 9.5.17 below. When this would likely be achieved, and its anticipated value is not known.

9.2.8 *Provision of 30 extra buses*: Operators would fund the additional buses based broadly on their proportion of market share. Whilst this would help GMCA achieve their objective of a comprehensive network, potentially allowing for more frequent services, the proposal is unclear as to how the deployment of these 30 extra buses across the network would be monitored throughout the duration of the VPA. The operators have indicated that the agreed process for performing a network review would be used to facilitate the decision of where these buses would initially be deployed.

9.2.9 Whilst the deployment of the 30 buses could lead to passenger benefits, this exercise would be bound by the limitations of a commercial network run by individual operators and rules around competition. This is explained in more detail in the Network Supporting Paper. The operators have proposed a mechanism to demonstrate that there are always an incremental 30 additional buses across the Greater Manchester network. They have provided a very simple formula: the peak vehicle requirement plus 30 buses. No further detail was provided around how the peak vehicle requirement would be identified. Despite the intention that this would be fixed at the outset of the VPA, concerns were raised with the operators that there would inevitably be marginal changes in the overall fleet provided across Greater Manchester and that the new buses may merely replace the buses on services which will be deregistered. There is also concern that the requirement for new or improved services will not necessarily be in the same area as the operator willing to provide the new buses. For these reasons, there is difficulty in identifying the additional resource introduced over time given the likely changes and competing commercial pressures in the market. It is therefore not possible to assume this commitment would lead to improvement in the reach and stability of the network within three years.

9.2.10 The VPA would be for an initial term of five years and there would be some benefits recognised within this timeframe as a result of the additional 30 buses. However,

noting the objective above of "continued improvement to 2040", there is little assurance that this would occur under a VPA given there is further uncertainty beyond the initial five year period.

Network Conclusions

9.2.11 The conclusions of the Partnership Plus offer in terms of GMCA's objective to have a comprehensive and stable network are as follows:

- Potential reduced network change compared to franchising, leading to less progress towards achieving a comprehensive, simple, frequent, direct, stable and responsive network.
- Limited potential benefits compared to the Proposed Franchising Scheme in respect of the objectives and continuation through to 2040.
- Potential value and realisation of profits under the proposed profit share schemes is uncertain.

2. Integration and efficiency
Objective
• Integrated within itself, planned as a single network within one year of intervention. • Efficient deployment of bus resources, with frequencies appropriate to demand levels • Integrated with other transport, particularly public transport Improvement in measures of efficiency within three years of an intervention Benchmarking of GM network by 2040

9.2.12 Relevant proposals taken from the Partnership Plus offer include:

- Working with TfGM, bus services would be revised to call at new bus stops sited as close as possible to Metrolink stations and heavy rail stations to improve interchange and connectivity.
- This proactive, positive partnership will quickly deliver more convenient bus stops.

9.2.13 *New Proposals:* The proposals under Partnership Plus in relation to bus stops are new and therefore were not accounted for under either the Operator Proposed Partnership or the Ambitious Partnership option in the Assessment.

9.2.14 *More convenient bus stops:* It is worth noting that TfGM currently works with the relevant highway authority to renew and improve the siting of bus stops, including those adjacent to the transport modes. Previous programmes and initiatives have seen work in this regard and such work is likely to continue, irrespective of any

regulatory model or regime. TfGM currently has a process in place for determining bus stop locations which was explored with operators, through the continued engagement with operators on developing the partnership option over a year ago, and operators confirmed that they felt the current process was adequate. Operators input, whilst always welcome, is very limited as they do not have any powers in this regard.

9.2.15 *Value of relocating bus stops to be as close as possible to Metrolink and heavy rail stations*: Whilst this would go some way to improving integration of the bus network with other public transport, the total benefit of such a proposal is unclear without simultaneous commitments to introduce multi-modal ticketing across different public transport services. Simply locating bus stops closer to other public transport stations would not in itself guarantee an increase in the use of these other public transport modes. The details of where the new bus stops would be located is also not provided, and operators have indicated that the process and approach for this review would be picked up by the network working group under a partnership. Therefore, at this stage, there is not currently a process in place to perform this review and any proposed changes would entail a cost and benefit analysis, additional resource and a separate business case.

Network Conclusions

9.2.16 The conclusions of the Partnership Plus offer in terms of GMCA's objective to have an integrated and efficient network are as follows:

- The extent to which bus stops would be relocated and the value of the offer is unknown. The location of bus stops is only part of the solution when it comes to providing an integrated network, for example planning and timing of services between modes will also be a contributing factor which will not be met under partnership to the same extent they could be under the Proposed Franchising Scheme.
- The extent to which integration with other transport, particularly public transport, would be increased over what would otherwise occur, is not altered from the conclusions drawn in the Assessment. Given that the network would still remain composed of multiple networks under Partnership Plus, the objective of changing the integration of the network

and its planning as a single network within a year, would not be met.

3. Quality of service provided – reliability of the service
Objective
A high standard of reliability (whether the services run) punctuality (whether scheduled services are on time) and regularity (whether frequent services come at the stated intervals) is maintained across the network. Reliability, punctuality, regularity of services improves within three years of an intervention; improvement continues year on year. The bus service provides journeys that take as short a time as possible given the distance and the nature of the journey. Speed of bus journeys stabilises or improves in each year; no deterioration within 3 years of intervention.

9.2.17 Relevant proposals taken from the Partnership Plus offer include:

- Introduction of a joint process to identify congestion hotspots with interventions to increase bus speeds.
- Consistent, comprehensive and easily understood information provision, with additional resource to monitor and manage performance.
- GMCA and TfGM will work together to allocate resources where they will best improve the service.
- Consistent service standards across all operators with regular audits.
- Operators have agreed to sign up to a performance regime and regular audits. If the operators fail to perform, there would be financial penalties.
- Introduction of some form of liquidated damages for significant breach by any party.

9.2.18 *New Proposals:* Other than the introduction of some form of liquidated damages, the above proposals are re-confirmations of commitments made in the Operator Proposed Partnership included in the Assessment and do not provide anything materially new. Under the Operator Proposed Partnership considered in the Assessment, the operators had welcomed the idea of having a performance regime in the form of "Measures of Success." However, the details had not been finalised. Therefore, the Partnership Plus offer and the engagement with operators since the Assessment has further developed the idea of this and of there being regular audits to monitor performance.

9.2.19 The VPA would include key performance indicators (or KPIs). Whilst operators have included a performance regime as part of their Partnership Plus commitments, along with regular audits of performance, the details of how the performance regime would work have not been agreed and finalised by operators. It would be up to

operators to determine how to meet such targets, what the targets would be and how performance should be measured against the agreed targets. Operators have a commercial incentive to perform well in any event. It is unclear, therefore, whether this regime would provide for significant improvements that would not otherwise occur.

9.2.20 *Liquidated Damages*: as part of the Partnership Plus proposal, operators are proposing to use a liquidated damages mechanism to sanction any significant breach by any party and to incentivise and penalise operators for failure to perform against their commitments. It is likely to be used in conjunction with a broader KPI regime that would be primarily used to monitor performance as noted above. The details of the liquidated damages mechanism, including what performance issues it would be linked to, are not yet finalised and continue to be developed by operators. It is likely to be linked, however, to five or six key KPIs. Careful drafting would be needed in the VPA to ensure appropriate and effective assigning of responsibility or any failure to meet a KPI. Any penalties would negatively impact the operator's bottom line. Moreover, as discussed in the commercial implications section, there are legal difficulties in enforcing any terms which may be classified as a penalty. Liquidated damages and the associated legal limitations are discussed further in the commercial implications section below.

9.2.21 Overall, the introduction of liquidated damages does not alter the conclusion reached in the Assessment, which was that a great improvement in reliability, punctuality and regularity of services is unlikely to be achieved within three years of the introduction of the partnership and maintained thereafter. The conclusions made in the Assessment at section 9.2.20 in relation to punctuality remain unchanged.

9.2.22 The Ambitious Partnership in the Assessment considered a potentially stronger remedial process than the Operator Proposed Partnership. It was not clear at the time the Assessment was written what this would look like, but it is likely to be similar to that proposed under Partnership Plus and would therefore remain effectively voluntary.

Network Conclusions

9.2.23 The conclusions of the Partnership Plus offer in terms of GMCA's objective to have a reliable service are as follows:

- The nature of the proposals leads to uncertainty that there would be significant improvements beyond the current status quo given the limited impact and meaningfulness of a performance regime and of financial

sanctions under a voluntary partnership agreement.

4. Harmful emissions from buses are reduced and CO_2 emissions from buses are reduced.
Objective
Harmful emissions such as NO_2 and particulate matter together with CO_2 from buses are reduced. All buses are Euro VI standard or better sooner than the current predicted date of 2030 (including alternative fuel) across GM, with an aim of achieving it by 2024 (the date GM anticipates meeting the legal limits for NO_2) All buses should conform to any required standards of a CAZ to the extent that this is implemented.

9.2.24 Relevant proposals taken from the Partnership Plus offer include:

- Operators would renew their fleets to maintain the seven year average age with at least 450 new buses over the first three years of the partnership, and these would be the greenest ever seen on our roads. These buses would feature additional standard equipment as determined by a conversation exercise run by the Mayor.
- This proactive, positive partnership will quickly deliver greener buses.

9.2.25 *New Proposals:* The above proposals which form part of the Partnership Plus offer have been considered. However, they do not provide anything new compared to what had already been assessed under the Operator Proposed Partnership option in the Assessment. No reason has been found to change the appraisal given to these commitments in the Assessment. The Ambitious Partnership option went further than the Operator Proposed Partnership and considered that minimum standards for fleet or stronger commitments to invest in new vehicles to improve air quality or reduce CO_2 emissions could be included as part of an EPS.

Network Conclusions

9.2.26 The conclusions of the Partnership Plus offer in terms of GMCA's objective to reduce harmful emissions are as follows:

- No further conclusions drawn compared to what has been considered in

the Assessment.

Fares and Ticketing

5. Integrated and simple fares
Objective
The fares system is simple to understand and convenient to use: • Period tickets should be valid on any bus service within one year of an intervention. • There should be equivalent period tickets covering bus and Metrolink within one year of intervention and, in time, local rail services in Greater Manchester. • Single fares should be standardised so that there are similar fares for similar journeys within one year of intervention.

9.2.27 Relevant proposals taken from the Partnership Plus offer include:

- All multi operator period tickets (e.g. Day or week) would be valid on all buses within Greater Manchester.
- Operator own tickets would be simplified to a single suite to offer better value for money.
- Introduce a clear simplified fare structure.
- Universal ticket and fares structure across Greater Manchester and a significant reduction in the number of tickets available.
- 1.5% of operator bus only GMTL turnover be pooled promoting only all operator (bus only) products.

9.2.28 *New Proposals*: The first four proposals listed above do not differ to what has been assessed under the Operator Proposed Partnership option in the Assessment. With regards to the commitment to pool a percentage of turnover to be used for marketing multi-operator products, the amount considered in the Assessment was 1%. This commitment has now increased to 1.5%, and is considered in further detail below. The Ambitious Partnership considered in the Assessment went further than the Operator Proposed Partnership and Partnership Plus such that the provisions under an EPS could be used to allow requirements as to the price of multi-operator tickets to be set.

9.2.29 *Greater emphasis on all-operator ticket*: Through ongoing discussions with the operators since the finalisation of the Assessment, operators have indicated that, while their own tickets would continue to be available, more emphasis would be placed on the all-operator ticket, by using 1.5% of operator bus only GMTL turnover to promote multi-operator products. The marketing budget for GMTL products as at July 2019 was c. £385k and 0.86% of turnover. It is worth noting that OneBus and its members had previously committed to increasing the 0.86% marketing budget to 1% at the time the Assessment was finalised. Therefore, the increase of the commitment from 1% to 1.5% would result in an additional increase of c. £224k and a total budget

of c. £672k. This increased marketing spend could encourage more people to purchase System One tickets. However, operators would retain and continue to promote their own period tickets at the same time.

9.2.30 In addition to the above proposals, TfGM have also considered any commitments developed further through the continued engagement with OneBus and its members since the Assessment. With the intention of providing an improved customer offer, OneBus have developed a proposal to address the challenge that under the current contract conditions, operators of TfGM subsidised services are under no obligation to accept the time based tickets of the commercial daytime operator of that same service, where it is provided by a different operator. Operators believe this can be an inconvenience to a small number of passengers who either purchase a single ticket for one off journeys, or purchase the multi-operator product where regular journeys are taken.

9.2.31 The proposal put forward by OneBus to address this is that where a subsidised service is let as a supplement to an existing commercial service, for example to enable that service to be provided later into the evening, the operator running that subsidised service would be able to sell a £1.00 add-on ticket to any customer using the daytime operator time based product covering the same route but run by a different operator. Therefore, the subsidised service journey would cost the passenger £1.00 rather than the full fare of the subsidised service. Operators have clarified that there would be no additional add on fare if the subsidised service is run by the same operator as the commercial day time service in this scenario. Operators will retain this charge for three years, after which there would be a review. OneBus have indicated that the partnership would work together to ensure that customers and staff are aware of services or journeys to which this offer would apply. OneBus have also proposed that TfGM should consider revising their contract conditions going forward to make acceptance of the daytime operator's products part of the bid.

9.2.32 This approach would reduce the impact under partnership of this interface between different operators running commercial and subsidised services on the same route. It would not, however, fully mitigate the impact, as it would still lead to an additional cost to passengers where they had to travel on buses of two different operators on the same route. This is discussed further in the economic implications section below.

9.2.33 Whilst TfGM have considered these benefits of the Partnership Plus proposal, there remain some outstanding concerns as to whether this proposal would be practically deliverable, which would require further exploration prior to implementation.

9.2.34 In letting secured services, TfGM (on behalf of GMCA) is required to have regard to the competitive effect of the proposed approach to tendering, applying the Part 1 Competition Test under Schedule 10 Transport 2000. As a transport authority there is also a requirement to have regard to value for money. This proposed approach

would appear to lead to a situation where there would be a continuing material benefit to passengers in letting this service to the incumbent operator, rather than awarding it to a third party, as, from a passenger perspective, an incumbent day ticket will still be £1.00 cheaper than making the same journey but returning on a competitor's bus that has been procured as a separate subsidised service. Therefore, whilst this proposal is intended to make the barriers between a day-time commercial service and an evening or morning secured service lower, and allow for increased competition in the marketplace, there is concern that it will still leave the incumbent with a significant advantage.

9.2.35 TfGM would need to consider whether a tender process that allowed for this distinction between the incumbent and competing operators satisfied their obligations under the Transport Act 1985 in respect of fairly tendering any service, or whether this proposal could lead to distortion of competition in the bus market. TfGM would also need to consider whether the benefits that would flow from this would be justified under the Part 1 Competition Test that applies to subsidised services. This decision would need to be made in respect of each service let, rather than generically, and it is difficult to identify in advance, therefore, the extent to which this proposal will bring material benefits.

9.2.36 Whilst OneBus' proposal has support from a broad range of operators in Greater Manchester, it is not clear that it is supported by all operators who would tender for such add-on services, leaving a residual risk of challenge, if they felt that this approach unfairly discriminated against them.

Fares and Ticketing Conclusions

9.2.37 The conclusions of the Partnership Plus offer in terms of GMCA's objective to have integrated and simple fares are as follows:

- Some simplification may be possible, but the existence of multiple operators offering their own tickets means the overall ticket offering would remain relatively complex compared to ticketing under the Proposed Franchising Scheme.
- The approach to add-on fares for subsidised services would need further development, and may add complexity to the customer proposition. It would require further detailed work with operators to confirm that it would work in practice, and deliver the benefits proposed.
- A greater emphasis on all-operator ticketing may provide some benefits to those not aware of the current multi-operator tickets available, however this would not provide the same level of benefit as under the Proposed Franchising Scheme as operators would still retain and promote their own

period products.

6. Fares should offer value for money
Objective
• Fares offer value for money to customers while supporting a balanced funding position for the bus market. • A framework approach is taken to consideration of any further discounted tickets within one year of intervention.

9.2.38 Relevant proposals taken from the Partnership Plus offer include:

- Operator own tickets would be simplified to a single suite to offer better value for money.
- Simplify multi-operator tickets, already valid across all Greater Manchester buses.
- No change to fares on discounted corridors.
- With agreement through GMTL, the Partners would introduce a transitional arrangement for those Young People coming off Our Pass providing the opportunity to sign up to half fare discounts for up to six months.
- A price would be agreed for multi operator tickets at £x per week from January 2021 with annual increases after a two-year price freeze. Single operator tickets retained to offer the customer choice.

9.2.39 *New Proposals:* In relation to the above proposals, the only new commitment is the offer to introduce a transitional arrangement for young people in the six months following the ending of their eligibility for Our Pass. The other commitments were considered under both partnership options in the Assessment. The conclusions drawn in relation to the appraisals of the other proposals listed above, and their implications and benefits have been considered and remain unchanged since the Assessment. It is worth noting that Our Pass was directly excluded from the Assessment in terms of its impact and consideration given that it is currently being run on a two year trial which began in September 2019.

9.2.40 Both the Operator Proposed Partnership and the Ambitious Partnership included a benefit to recognise the commitment to freeze System One ticket prices for two years and hence reduce the differential between the operator's own tickets and the multi-operator tickets. Under the Ambitious Partnership considered in the Assessment, it was considered that the potential reduction could be more certain, and the level of the all operator fare could be fixed as part of an EPS, making the differential more stable.

9.2.41 *Transitional arrangement for Young People coming off Our Pass to sign up to half*

fare discounts for up to six months: The commitment being offered by OneBus is to work with TfGM to extend their current entitlement by a further six months offering half fare discounts. The operators have confirmed the mechanics of how the proposal would operate but the associated costs are yet to be determined. It is suggested that subject to how the back office would be set up, the Our Pass card would be converted to an "igo" product with "igo" entitlements being available. (An "igo" card provides benefits and the opportunity to buy a range of additional bus and tram tickets, for people aged 5 to 16 years old and who are either a permanent resident of, or go to school in, Greater Manchester). Operators have confirmed that if Our Pass becomes permanent after the two year pilot, this proposal would also continue. In order for this proposal to offer long-lasting benefits, it is therefore conditional on Our Pass becoming a permanent scheme. The potential for making it permanent is being reviewed by GMCA over the course of the pilot.

9.2.42 This proposal would provide a discount to young people for a relatively short period after the withdrawal of Our Pass, the intention being to continue to encourage them to use bus services. OneBus have confirmed that their view is that this proposal would not require any surcharge payable by the customer and no reimbursement would be sought as the discounts would be funded by the operators on a commercial basis. The extent to which this would provide a benefit to passengers is discussed further in the economic section below.

9.2.43 With regards to the back office implications, a new card type would be required. Operators have not yet worked through the technical details of this or who would cover these costs. However, it is assumed that the same information provided for the existing Our Pass cardholder could be used to issue a new card to those Our Pass cardholders whose card would otherwise expire (i.e. 31st August after the cardholders 18th birthday). The new card would be valid for a further six months.

9.2.44 It is recognised that there would be an administrative cost associated with issuing the new cards, for example the "igo" product currently costs £10 (administration fee). It is unclear how OneBus would arrange and also fund this initiative, including the costs of issuing a new card and the marketing and promotion of the product.

9.2.45 It is assumed that the card holders would have access to the GMTL products that are the same price as the junior products (i.e. half the adult price), and that, therefore, there would not be a need for a new set of products.

9.2.46 *Discounts:* Under Partnership Plus, there would be no change to fares on discounted corridors. Although this provides comfort that these discounted products would not be removed, the Partnership Plus proposal does not contain a framework approach for any consideration of further discounted tickets. Under a partnership, operators would continue to have control of their fares and be subject to the commercial considerations which would lead them to offer discount fares on the current pattern. Therefore, the objective of having a framework approach to discounts would be

unlikely to be introduced within one year of intervention.

9.2.47 Given that pricing decisions for single fares and daily, weekly and monthly tickets would still be made by the operators, the objective of achieving value for money would not be met to the same extent as could be met under the Proposed Franchising Scheme, whereby GMCA would have control over pricing decisions. Section 9.3.12 of the Assessment considers this point in further detail. The Assessment concluded that the Proposed Franchising Scheme would achieve the objective of value for money of fares to the greatest extent of the different options. The comments from consultees in relation to value for money of fares, along with the proposals under Partnership Plus have been considered, however, insufficient reason has been found to change the conclusion reached the in the Assessment that under franchising, the greatest level of value for money of fares would be achieved.

Fares and Ticketing Conclusions

9.2.48 The conclusions of the Partnership Plus offer in terms of GMCA's objective to have fares that offer value for money to customers are as follows:

- Pricing would not necessarily offer any greater value for money for customers than is currently available in the market however there would be a benefit recognised for the price freeze on multi-operator tickets.
- Compared with franchising across the whole of Greater Manchester, GMCA would have limited scope to determine and carry through fares policies, only being able to partake in the discussions with partners.
- A framework approach to discounts is unlikely to be introduced within a year of a partnership being introduced.
- The mechanics of the extension of the Our Pass proposal have not yet been confirmed, however it is likely this would only benefit a relatively small number of people. Our Pass is also currently only being run on a trial basis.

7. Account-based smart ticketing introduced as soon as possible
Objective
Quick introduction of account-based smart ticketing, enabling a 'fair price promise' for different modes. • Whole bus network capped products for day and week tickets available as soon as possible, offering the lowest possible fare. • A multi-modal capped product introduced as soon as possible.

9.2.49 Relevant proposals taken from the Partnership Plus offer include:

- The partners commit to a TfGM or TfN led 'fair price promise' scheme

across all operators in Greater Manchester.

- Operators are committed to working with local authorities to deliver contactless payment technology across all buses in the region, with daily and weekly capping, similar to London.

9.2.50 *New Proposals:* These commitments were considered within the Assessment under both partnership options. However, since the Assessment was developed, in early 2020 TfN announced that they will no longer be progressing an account based back office solution for bus services in the north of England. This was partly due to the fact that operators have been developing their own account based solutions and the UK bus industry have committed to introducing contactless, multi-operator, price-capped, daily and weekly tickets by 2022 in urban areas. The general consensus from operators, therefore, is that they believe they can work together to deliver a "fair price promise" and overcome the technical barriers.

9.2.51 Given the wider commitment from the UK bus industry, these proposals would generally be delivered even if a VPA was not entered into. It is not clear whether those operators, that do not currently deliver a "fair price promise" in the way that others in the industry do, would sign up to doing so under the VPA. If it was the case that they would be willing to sign up to the commitment under the VPA, this would represent a benefit under the partnership option compared to a Do Minimum scenario, such that there would be additional operators signing up to deliver a "fair price promise." However, whether those operators would be willing to sign up to the VPA is currently not known.

Fares and Ticketing Conclusions

9.2.52 The conclusions of the Partnership Plus offer in terms of GMCA's objective to have account-based smart ticketing are as follows:

- It is likely that account-based smart ticketing, enabling a "fair price promise" would be delivered even if a VPA was not entered into, given the wider commitment from the UK bus industry.
- There may be an additional benefit realised if there are operators who would not deliver a "fair price promise" under the Do Minimum option but

would be willing to sign up to this commitment under the VPA.

Customer

8. Ease of understanding of the bus service is improved
Objective
The ease of understanding of the bus service is improved for users and there is a high quality of information available (at stops and stations; on buses; and on the web). Branding is clear and enhances improved perception of the service. • Comprehensive information is put forward covering the whole of the public transport network, whether provided by GMCA or third party. • Accurate information is provided - information that is up to date, consistent, correct and where relevant, in real time. • Information presented in an easy to understand way on a number of channels. • All buses fitted with audio and visual communication systems to convey information to customers during journeys about stops and routes. • Branding and marketing - a unified brand is there for the bus network to ensure that the public transport network is simple to understand and easily recognisable, giving customers confidence in using the network. • Customer contact - a single point of contact for customers to make enquires. Each of these should be achieved within one year of any intervention.

9.2.53 Relevant proposals taken from the Partnership Plus offer include:

- Recruit additional customer service and revenue protection staff (to reduce fair evasions).
- A single point of contact for customers to resolve issues with the addition of operators retaining the direct link to maximise customer accountability with them.
- Consistent and comprehensive information provision, with additional resource to monitor and manage performance.
- Comprehensive unified livery with customer focussed route or corridor branding to identify where the bus is going.

9.2.54 *New Proposals:* Of the above proposals, the new proposals that were not considered under the partnership options in the Assessment are the additional customer service and revenue protection staff (which are discussed further below), and the customer focused route or corridor branding. The proposal to have comprehensive unified livery is offering no more than what was previously considered in the Assessment.

9.2.55 Under Partnership Plus operators have proposed to introduce specific route or corridor branding. It is proposed that this would be *"in the form of an agreed high quality design."* Operators have clarified that it is likely that only routes with substantial PVR levels would be considered. However, there would be no minimum level imposed. Operators have confirmed that it would be the decision of each

operator to determine which services they would want the route or corridor branding to apply to in order to promote them in this way. However, they would follow the brand guidelines and would need to ensure that allocation of route or corridor branding to services was managed. At this stage it is not clear how many routes in Greater Manchester this would apply to, or exactly what this route or corridor branding would look like other than the intention that it should be a consistent design across Greater Manchester.

9.2.56 There would be constraints as to how far this approach can go toward providing a unified brand for the network given that the buses (and other marketing material) would still need to make it clear to customers who is accountable for a given service. Thus there could be buses which have up to three brands visible i.e. the partnership branding (included as a commitment under the Operator Proposed Partnership in the Assessment and referred to as "*comprehensive unified livery*" in the proposals above), the operator's own branding (if only to identify its buses on which its tickets may be used), and the specific route or corridor branding. This may inevitably cause confusion to the customer although its extent would depend on exactly what the route or corridor branding looks like and how it was implemented on the buses. It may be that this benefits the routes on which it is implemented (although the number of these is not known). If many operators choose to implement it, there could be numerous different types of route or corridor branding, with a need to differentiate between the different routes or corridors, although as noted above the operators would be required to follow the brand guidelines.

9.2.57 Operators have provided an example of where such arrangements are in place elsewhere, although, in the example provided, there is mutual acceptance of ticketing therefore offering a greater level of benefit as passengers are able to use their ticket across more than one operator.

9.2.58 The objective of a unified livery could be partly achieved for individual routes or corridors however, unification across the network is not possible under a partnership arrangement since some level of operator branding is required in order to allow passengers to identify which buses their ticket is valid on. The extent to which a unified brand would be achieved, is therefore less than that which could be achieved under franchising. The objective of having a unified brand for the network is to enhance improved perception of the service as a whole across Greater Manchester giving confidence in using the network. This proposal enables customers to better understand, or recognise, where a particular bus may be going but arguably would undermine the comprehensive unified livery proposed with certain services having up to three brands visible, as noted above. It does not therefore, lead to a unified brand across the whole of Greater Manchester.

Customer Conclusions

9.2.59 The conclusions of the Partnership Plus offer in terms of GMCA's objective to

improve the ease of understanding of the bus service are as follows:

- Branding under a partnership is more complex than under the Proposed Franchising Scheme.
- Route or corridor branding would enable a customer to more easily recognise where a bus may be going but does not result in a comprehensive unified brand across the whole of Greater Manchester.
- There is no consistency in the approach put forward by OneBus and its members to deliver this given that it would be up to each operator to decide which services they would want to apply route or corridor branding to in order to promote the service.
- The limitations under a partnership mean that it would not be able to show a unified offer to customers or to have the value of a unified brand across Greater Manchester.

9. Safety of travel is improved
Objective
Safety is improved and incidents of crime or anti-social behaviour on buses are reduced. There is a perception of improved safety on the bus network, encouraging bus use within three years of intervention, and continued improvement after that. • There is active management to improve safety in partnership with the police, and to reassure passengers and potential passengers that the bus is a safe form of transport to use. • All buses installed with CCTV within one year of intervention. • Off-bus safety – there are well-lit and maintained, easily navigable interchanges with appropriate staffing.

9.2.60 Relevant proposals taken from the Partnership Plus offer include:

- Additional customer service and revenue protection staff

9.2.61 *New Proposals:* The operators have agreed to provide 14 additional customer focused staff at their own expense. The roles of the 14 additional staff would be split between customer service and revenue protection responsibilities. The operators have shared a suggested job description for these staff. This includes representing the company at any major incident or other event that occurs within his or her sphere of responsibility, and liaising with staff of TfGM, other operators and third parties, including the emergency services, as required to resolve problems and ensure normal service operation would be resumed as rapidly as possible.

9.2.62 Their role would also include undertaking all aspects of revenue protection duties in a tactful, courteous, discreet and firm manner, having due regard to the company's public image and the sensitivity of certain situations, and to assess and evaluate

potential fraud or fare evasion and to undertake appropriate preventative and remedial action. This would contribute to reassuring passengers that the bus is a safe form of transport and increase the level of safety on the network, therefore adding value. However, it is also worth noting that given the scale of the Greater Manchester network and the reality of them working over a system that operates seven days a week, the number of additional staff deployed at any one time is modest. If the operators feel that the 14 additional staff would add value to the network, they could be provided regardless of whether a VPA is entered into.

Customer Conclusions

9.2.63 The conclusions of the Partnership Plus offer in terms of GMCA's objective to improve the safety of travel on buses are as follows:

- The proposal to provide 14 additional customer focused staff would not make a significant change in itself to the safety of passengers across the entire network.

10. Improvement in on-bus experience
Objective
Consistent high standards are achieved for the cleanliness of buses and for driver behaviour, and the quality of vehicles improves. • Cleanliness - commitment to a high standard of cleanliness across all services. All buses to receive external clean daily; light interior clean pre-service; interior deep clean once a month within one year of intervention. • Bus drivers - continuous improvement in driver behaviour to improve customer experience. Appropriate professional standards and training of drivers. All drivers to have undertaken appropriate customer service training within the last year within three years of intervention. All buses fitted with Eco drive systems within three years of intervention • Quality of assets - improved vehicle quality and connectivity for passengers.

9.2.64 Relevant proposal taken from the Partnership Plus offer includes:

- Improvements in driver training around customer care to encourage more people out of their cars and onto public transport and the aims of the partnership.
- In-service cleaning which would involve the removal of rubbish and general sweep of the bus.
- Accelerated rollout of Wi-Fi and other equipment on board (better equipped buses).

9.2.65 *New Proposals:* The operators have committed to provide in-service cleaning. The proposal to provide driver training is not new but has altered since the Assessment and there is no change to the commitment in relation to Wi-Fi. Both the Operator

Proposed Partnership and the Ambitious Partnership option considered in the Assessment recognised benefits associated with improvements to driver training and accelerated roll out of Wi-Fi. The operators have not been specific about what other onboard equipment there would be but have confirmed that, within the first year of the partnership, the internal fittings that would be deemed as standard across all buses would be agreed. The commitment to provide driver training results in a reduction compared to the time assumed would be spent on driver training under both partnership options considered in the Assessment. Although the commitment to a cleaning regime was considered, the commitment to provide in-service cleaning was not specifically considered within the partnership options in the Assessment. These new commitments are considered in further detail below.

9.2.66 Under the Operator Proposed Partnership, operators indicated that they would commit to a cleaning regime for buses and standards of cleanliness as part of a partnership. Through continued discussions with the operators, in-service cleaning has also been discussed. This would entail a cleaning resource being available at bus interchanges that would involve the removal of rubbish from buses and a general sweep of the bus. It has been agreed that a trial of one month at the start of a partnership would be carried out to confirm the cleaning times, locations and working practices.

9.2.67 Under the Operator Proposed Partnership operators would commit to accredited driver training. Through continued discussions with the operators since the Assessment, they have confirmed that the driver training would form part of the annual Certificate of Professional Competence (CPC) driver training requirements (currently 35 hours over a five year period, therefore a minimum seven hours per annum on average). It is agreed that all drivers recruited in Greater Manchester would receive new driver training and an induction provided by the operators. This would include customer service training and an update on what the Greater Manchester partnership is. It would form part of the operator's current driver training induction. This would contribute towards meeting the objective that all drivers have had appropriate customer service training within three years. However, this is a reduction (both in terms of costs and benefits) in time spent on driver training included within the Assessment for the partnership options, which was that an *additional* one day, per driver, per annum would be spent on driver training, whereas under Partnership Plus it would form part of the current training provision.

Customer Conclusions

9.2.68 The conclusions of the Partnership Plus offer in terms of GMCA's objective to improve the on-bus experience are as follows:

- Cleaning commitments may contribute overall to an improvement in on-bus experience however this would not be determined until the trial has been carried out. Providing an in-service minimal clean is unlikely to have a significant impact to the customer experience, given daily cleaning regimes

already exist.

- Driver training is likely to lead to benefits being provided in terms of improving the customer experience. However, the current proposal is a reduction in the driver training assumed in the Assessment. Overall, therefore, this would reduce the costs and benefits associated to the partnership option.

Value for Money

11. Value for money for public investment
Objective
The best value for money for public investment into the bus market, specifically the options being considered as part of the Assessment to reform the bus market. The best value for money for any other specific intervention in the bus market. Both of these will be measured by (i) the social value of any public investment, taking into account all of the costs of the intervention, measured by a Net Present Value calculation (the benefits minus all of the costs), and (ii) the benefits of the investment with regard to the constrained budget of public sector investment (money available to the Mayor and GMCA), measured by a BCR of the benefits divided by the costs to that constrained budget.

9.2.69 Relevant proposals taken from the Partnership Plus offer include:

- In order to tackle congestion, operators would like to pool resources with TfGM to agree interventions on congestion hotspots jointly to increase bus speeds and reduce variability.
- Operators continue to take the revenue risk and decline the option of accepting a guaranteed publicly funded profit margin under the Proposed Franchising Scheme.
- Profit share scheme where partnership interventions grow profit to be put back into the services rather than being passed to shareholders.

9.2.70 *New Proposals:* Under the partnership options considered in the Assessment, it was considered that some savings could be reinvested through an operator based fund for innovative schemes, however it was not clear how the amount of savings would be ascertained and verified. Operators continuing to take the revenue risk does not differ to the assumptions in the Assessment for the partnership options and is considered further below.

9.2.71 *Tackling congestion:* The proposal to work with TfGM to prioritise investment in highway infrastructure, by identifying congestion hotspots, to reduce the impact of congestion is not a new commitment as this was included in the Assessment under the partnership options. However, comments that have been made about congestion measures under a partnership have been considered and the discussions

with operators post Assessment completion have been taken into account. There is insufficient reason as a result of this to change the appraisal of the implications and benefits of this proposal. However, it is worth noting, in the context of value for money of public investment, that this proposal would be conditional on funding being obtained for the measures to tackle congestion. It is likely that implementing such measures would result in a passenger benefit if they were to reduce congestion and journey times, but, at this stage, it is not possible to determine the types of changes that might take place should the funding become available. For these reasons, no benefits in relation to highway infrastructure were modelled in the Assessment under either the Operator Proposed Partnership or the Ambitious Partnership.

9.2.72 *Value for money across the Greater Manchester network*: As noted in the Assessment, under a partnership the fundamental structure of the bus market in Greater Manchester would not change. The GMCA would spend money in supporting and monitoring the partnership. Improvement in value for money associated with the Partnership Plus proposals compared with the existing options contained in the Assessment has been reviewed further in the Economic Implications section below.

9.2.73 *Partnership fund/ Profit share scheme*: Operators have indicated that profit share schemes would be set up to allocate a share of benefits, derived from increased profits as a result of specific interventions into the bus network (e.g. infrastructure), back into improving services further. The identified gain would be shared on a 50%:50% basis between the bus operator that realised the gain and the partnership fund. Of the 50% allocated to the partnership fund (which would be held and managed by OneBus), 50% of this would be available to fund schemes involving other operators and/or districts and 50% retained for bus-based projects involving the operator that realised the gain. Therefore, the operator that realised the gain would essentially end up with 75% of the benefits derived from its use under the scheme (or potentially a share of this if it involved more than one operator). The proposal does not contain details around restrictions of its use by operators who realised the gain, for example whether it would be required not to be distributed as profit to shareholders.

9.2.74 All operators would face pressure to improve margin earnt and for any operator currently operating at a low margin this pressure would be greater, which in turn may lead to a reluctance to share any gain amongst the partnership. Despite this, the operators have agreed that there should be no lower level of operator margin before the benefits are shared under this proposal. It is not clear, however, how the amount of any gain would be ascertained or verified, and how the governance of the partnership fund would work. For these reasons, along with the fact that the VPA would initially be for a term of five years, there is significant uncertainty about the likelihood that any significant profits would be reinvested into the partnership and how any that are, will be used. Therefore, there remains a need to ensure transparency and clarity over how the gain would be identified, measured and used.

It is also of uncertain value given it would be contingent on highway investments that would be dependent on GMCA's funding contributions. This proposal is considered further in the sections below.

9.2.75 It is worth noting that under franchising, any increase in revenue resulting from public investment in infrastructure would go to the GMCA. This would not be the case under Partnership Plus. The extent to which gains identified would be used for bus related projects under Partnership Plus may differ to how the GMCA would otherwise choose to use the additional revenues to maximise the benefits for Greater Manchester as a whole. Similarly, the extent to which revenues may be distributed to shareholders would differ under each option. For example, an operator might choose to distribute gains to shareholders, whereas under the Proposed Franchising Scheme it is proposed that the gains are instead used to further improve services.

Conclusions

9.2.76 The conclusions of the Partnership Plus offer in terms of GMCA's objective to improve the value for money for public investment are as follows:

- Implementing measures to tackle congestion would provide a level of benefit if they were to result in reduced congestion and journey times. No change to conclusions drawn in the Assessment in relation to this proposal are warranted.
- The partnership profit share scheme/fund proposal would present value for money should gains be reliably identified, measured, realised and used.
- Value for money would be reduced compared to franchising because of the reduced scope for action to make a change to network and fares and other factors. Under franchising, the long term value of the use of public investment would be greater as any increase in revenues as a result of investment would go to the GMCA.

12. Any market intervention is sustainable in the long-term
Objective
Any intervention in the market should be feasible in its commercial and management arrangements. Any intervention in the market is long lasting, given the need to create a sustainable improvement in the Greater Manchester Bus market. It should be still in place in 2040 at the least.

9.2.77 *Longevity of a partnership*: Partnership Plus would be mostly feasible in its commercial and management arrangements but would not necessarily be long-lasting. There is nothing further in the Partnership Plus proposal about longevity. As

noted above, the initial term of the VPA is for a five year period, after which there would then be the option to either re-negotiate the terms, agree a new partnership or return to the previous wholly unregulated market. There is little assurance, therefore, that any benefits would continue to be enduring and realised in the long term. There is no guarantee that the partnership would still be in place in 2040.

Conclusions

9.2.78 The conclusions of the Partnership Plus offer in terms of GMCA's objective to ensure any market intervention is sustainable in the long-term are as follows:

- As with the partnership options tested in the Assessment, the longevity of the partnership is not certain and may well not be in place in future years.

13. Any market intervention is affordable
Objective
Any intervention in the bus market is affordable for GMCA over the long-term. Affordability in each year following intervention.

9.2.79 Partnership Plus has not added any further information regarding this objective.

Conclusions

9.2.80 The conclusions of the Partnership Plus offer in terms of GMCA's objective to ensure any market intervention is affordable are as follows:

- The costs to GMCA of Partnership Plus would remain affordable to GMCA, given the onus would continue to be on the operators to implement network interventions.

9. 3 - Economic Implications

Introduction

9.3.1 A number of comments were raised by consultees in relation to the benefits associated to the partnership options considered in the Assessment, the value of branding under each option and the value for money of the partnership options. These have been considered in further detail in the Economic Case Response Themes section of this report.

9.3.2 This section considers the implications of the Partnership Plus proposal on the recommendations contained in the Economic Case of the Assessment. The Partnership Plus proposal was received by OneBus as part of their consultation response. It is worth noting that the detail contained in the proposal is insufficient to undertake a comprehensive economic and financial appraisal of the type undertaken for the options contained in the Assessment. It is however sufficiently detailed to understand the likely performance of the option when compared with the three reform options described in the Assessment. The aim of this section, therefore, is not to create a new Economic Case. It is to assess the incremental performance of the option over those previously assessed and to determine whether the Partnership Plus proposal would deliver a significantly greater level of benefit than the Ambitious Partnership option and change the conclusion of the Economic Case in the Assessment.

9.3.3 GMCA remain of the view that implementing a partnership would lead to additional costs and that the costs set out in the Assessment are reasonable for the partnership options considered in the Assessment. The Financial implications section below contains a discussion of the cost implications to GMCA of the Partnership Plus proposal.

9.3.4 The commentary below is divided into sections in line with GMCA's objectives (including the Vision for Bus) as set out in the Strategic Case – which include simplified and integrated fares (including interoperability and value for money), customer experience and network (including fleet investment and congestion and service punctuality).

Simplified and integrated fares

9.3.5 Under the franchise option, it would be possible to unify tickets across Greater Manchester, and it is proposed that there would no longer be a premium for "all operator" ticketing products. Nonetheless no benefit was modelled for simplicity. For the partnership options in the Assessment no benefit was assumed for simplicity. Individual operators would continue to be responsible for setting their individual fare scales and there is no expectation that a single unified fares system could be introduced across Greater Manchester under any partnership option. The current System One premium for "all operator" integrated ticketing products would also

continue to exist, although the level of premium may be reduced by the commitment to freeze prices for two years.

9.3.6 Under the Partnership Plus proposal, there is no change in terms of the commitment offered in relation to simplification of fares or removal of "operator own" ticketing products that are sold at a lower price than System One "all operator" ticketing products. Partnership Plus, therefore, has not added anything that would change the conclusion in the Assessment.

9.3.7 The Partnership Plus proposal does not go any further in terms of transparency of fares and therefore the Assessment remains unchanged in relation to this.

Affordability and Value for Money Considerations for Passengers

9.3.8 The Assessment included a benefit under the Operator Proposed Partnership (as well as the Ambitious Partnership) in relation to the operator commitment that System OneBus only fares would be subject to a two year price freeze, following a review of all ticket products and prices, subject to GMTL agreement. Under the Partnership Plus Proposal, the same commitment is referred to but with the addition that the price would be agreed for multi operator tickets at a set amount per week from January 2021. This reinforces the benefits that were associated with this commitment in the Assessment. However, this equates to approximately half of the benefit realised under franchising (i.e. that System One tickets would be reduced to operator own levels).

9.3.9 Under the Operator Proposed Partnership in the Assessment, the partners commit to a TfGM or TfN led "fair price promise" scheme across all operators in Greater Manchester. The Partnership Plus offer reiterates this by referring to the commitment that operators would work with TfGM to deliver contactless payment technology across all buses in the region, with daily and weekly capping. This has been discussed further in the strategic implications section above.

9.3.10 In relation to Our Pass, at the time the Assessment was written this had not yet been implemented but the intention was for it to be introduced on a trial basis for a two year period beginning in September 2019, offering free bus travel at any time of day to 16-18 year olds during the academic years of their 17th and 18th birthdays. No benefit was modelled for this in the Assessment due to the fact that it is currently being piloted as a two year trial.

9.3.11 Partnership Plus includes a new commitment in relation to Our Pass, such that young people who no longer benefit from Our Pass can sign up to half-fare discounts for up to 6 months, as discussed in the strategic implications section above (section 9.2.42). This offers a further benefit in comparison to the reference case. However, there are already a number of discounted products available to young people such as the operator own student tickets (e.g. the Stagecoach unirider tickets available to students aged 16 and over) and the System One tickets available to 16-21 year olds,

for example the "get me there 7 Day Any Bus Young Person" ticket is available for £14.00, which offers approximately a 28% discount on the "get me there 7 day Any Bus Adult" ticket. Therefore, the additional benefit from this commitment and the number of people that would benefit from it, whilst welcome, is likely to be fairly modest. Further consideration has been given in the section below, to the extent to which this provides a benefit.

9.3.12 Within the new Partnership Plus offer there is a commitment to achieve better value for passengers and to help with that, as noted in the strategic implications section above, operators have committed to provide 14 additional customer service and revenue protection staff. There was no commitment from operators to provide additional staff within the network at the time the Assessment was written and hence no benefit was included for this within the Assessment.

Benefit Implications

9.3.13 In the Assessment, no benefit associated with the adoption of smart integrated ticketing in the form of a "fair price promise" which was included for any reform option. The benefits accruing to this were considered to be similar under any type of market reform and not to impact directly on the relative performance of any of the reform options. Under Partnership Plus there is no reason to change these conclusions reached in the Assessment. Such a system would arguably be easier to implement, however, under franchising.

9.3.14 As noted above, within the Assessment no benefit was attributed to commitments in relation to Our Pass under any model, although the proposal could be implemented under any reform option, or indeed under the deregulated market structure. To estimate approximately the impact that the additional six month transitional discount might generate, consideration was given to the original Our Pass business case. The Our Pass business case estimated that there had been 8.3m trips per annum made by the Our Pass cohort prior to its introduction, and that this would increase to 23.7m trips per annum with the introduction of the Our Pass scheme, generating £19.6m per annum in benefits (largely user fare benefits). Assuming an equal spread across the two year cohort, an additional six months could be assumed to benefit 2.1m (one quarter of 8.3m) existing trips. The generation would be expected to be less since (a) the fare reduction is 50% rather than no cost; (b) many 18-19 year olds, who would be eligible for the six month extension, may also be entitled to reduced fares regardless of this scheme e.g. student fares or young person System One fares as noted above; (c) a number of young people would be likely to move out of Greater Manchester as they go on to university, further studies or seeking job opportunities; and (d) the number of trips made by the Our Pass cohort to date has been considerably less than expected, with the majority of journeys being made in the week when the 16-18 year olds are travelling to and from college. It is therefore reasonable to assume that the benefit would be less than one eighth of that calculated for Our Pass (one quarter of passengers and less than half

of the fare benefit), which would be less than £2.5m per annum.

9.3.15 The additional revenue protection and customer service staff being offered by the operators is one of the soft factor interventions that is included in franchising but not partnerships in the Assessment, along with branding. Including this commitment within the benefits associated to the Operator Proposed Partnership option would marginally increase the partnership benefits. Under franchising, a willingness to pay (WTP) value was applied to recognise the benefit of 30 inspectors by year three of franchising, which is then reduced to 13 by year seven and then remains constant thereafter. Applying 14 inspectors would therefore yield slightly less benefit than the franchising assumptions. In the franchising case additional ticket inspectors adds approximately £10-15m to the PVB in the form of user benefits, plus a small additional benefit from decongestion and additional revenue (from additional trips, not through reduced fraud).

Interoperability

9.3.16 In the Assessment, under the Operator Proposed Partnership it was concluded by operators that, although interoperability could be undertaken in principle, there were no corridors in Greater Manchester at present that met the appropriate criteria operators set out. Under the Ambitious Partnership limited interoperability benefits were applied on two defined corridors.

9.3.17 As noted in the Strategic Implications section above, since the Assessment was completed, operators have proposed an additional £1.00 add-on fare which would be aimed at passengers boarding a subsidised service run by a different operator to the daytime commercial service on the same route. This fare would only be available to passengers already holding a daily or weekly ticket issued by the commercial operator and is designed to avoid the need for the passenger to pay an additional full single fare to the operator running the subsidised service. The £1.00 fare would be retained by the operator running the subsidised service.

9.3.18 The customer would not pay an additional add on fare if it was the same operator running the subsidised service as the commercial service in the day, for example if a customer had a Stagecoach ticket for a commercial day service, they would be able to use that ticket on the subsidised evening service covering the same route and would not need to pay the additional add on fare. The price of the add on fare would be reviewed in January 2021 and frozen in line with freezing of GMTL products. The operators have not proposed any reimbursement mechanism, and the £1.00 would simply be retained by the operator running the subsidised service. Through further discussions with the operators on this proposal, they confirmed that it has not yet been thought through how this mechanism would work with concessionary fares such as a child fare. It is also not clear whether the smaller operators would sign up to this proposal given that they would only receive £1.00 from a passenger in this scenario as opposed to a full single fare and would not receive any revenue from

GTML that they would otherwise receive if passengers bought a GMTL product.

Benefit Implications

9.3.19 In relation to interoperability, the Partnership Plus offer does not go any further than the original commitment under the Operator Proposed Partnership.

9.3.20 In relation to the £1.00 add on fare, it is reasonable to assume the benefits whilst welcome, would be fairly minimal. Total patronage on all subsidised services between September 2018 and August 2019 was 19.4 million trips, of which 4.9 million were on school services and a proportion of the remainder (approx. 25%) were ENCTS passengers who do not require a ticket. Hence the total potential pool of passengers who might benefit would be less than 11 million, representing less than 6% of the total annual bus trips in Greater Manchester of circa 190 million. Of these 11 million, many would not benefit due to:

- Many passengers using services that are run by the same operator day and night;
- Some passengers would be taking trips only on the subsidised services and therefore the add on fare would not be relevant for them;
- Some passengers would have purchased a multi-operator ticket which would allow them to travel without the need to purchase an additional ticket; and
- Some passengers would only be travelling in the evening or only travelling in the day.

9.3.21 In addition to the above some further examples highlight different ticketing arrangements which would either result in little or no benefit of providing the add on fare. Currently, a Stagecoach dayrider adult ticket is £5.00. If passengers travel in the evening on a subsidised service run by a different operator, they could purchase an add on fare for £1.00 and their daily travel would cost them £6.00. This is the price of a System One / get me there 1 day Any Bus Adult ticket. It would, therefore, offer no saving. It may offer a level of pecuniary benefit if they found themselves having to use a subsidised service in the evening when they did not anticipate having to do so as they would only have to buy the add-on.

9.3.22 In terms of daily and weekly tickets, the £1.00 add on fare may offer a minor reduction in fares for some passengers who currently buy an additional single ticket, either because that is cheaper than System One or because they did not know it was a different operator or they were later than expected travelling. However, if this happened more than a couple of times a week, it would become cheaper to buy a System One weekly ticket.

9.3.23 There may be a small number of passengers who would benefit from a reduction in fares in cases where they are travelling on a discount corridor and purchase a specific day ticket, for example for a passenger purchasing a £4.00 Middleton day rider ticket,

and then buying a £1.00 add on fare. This would be a total cost of £5.00 and would, therefore, be cheaper than the System One day ticket. However, for this to be the case, there would presumably be no commercial service running in the evening in order for the passenger to purchase the add on fare, which is unlikely given the discount corridors tend to be the busier corridors where evening services are run commercially.

9.3.24 As pointed out in the section above, this proposal would require further detailed work with operators to confirm that it would work in practice, and deliver the benefits proposed and it may add complexity to the customer proposition. For the reasons given above, it is reasonable to assume that any benefit in relation to the add on fare for subsidised services would apply to only a very small number of trips. But this does however provide some benefit relative to the current partnership case in the Assessment. Moreover, it would provide some level of benefit in terms of the convenience aspect, such that customers are able to change their travel plans without a significant penalty.

Customer Experience

Bus service should be easy to understand

9.3.25 In relation to customer experience and the objective that the bus service is easy to understand, no benefits were modelled in the Assessment for the commitments offered under the Operator Proposed Partnership.

9.3.26 Under Partnership Plus, there is no change in relation to the partnership point of contact. A partnership point of contact would help, but ultimately it is the individual operators who would be responsible for the customer service, so passengers would need to be "passed on" from the initial point of contact. Therefore, it is likely any benefits would be offset by some disbenefits of making the bus system more complex. The point of contact is only a subset of achieving the unification of Greater Manchester buses and achieving the objective noted above, that the ease of understanding of the bus service is improved.

9.3.27 Under Partnership Plus the operators have proposed that there would be comprehensive unified livery with customer focussed route or corridor branding, along with operator own branding remaining. As noted above in the Strategic Implications section, the route or corridor branding may provide some level of benefit to the passengers which use the services to which it would be applied, such that they would be better able to recognise where a particular bus may be going. However, these proposals would not allow the simplification or the ease of use objectives to be achieved to the extent that there is a unified brand for the network that enhances improved perception of the service giving confidence in the network, nor help with the trust and accountability component of value.

9.3.28 Further, the creation of a single livery in Greater Manchester without the true

unification and simplification of the system may create unintended consequences whereby passengers are confused about who is running the service, and who is responsible and accountable for the inevitable problems that will arise with any service from time to time. The overall value would be at a low intermediate level when compared with the benefits attributed to "unification of the system under a single brand" under the franchise option, but slightly more than that attributed to the partnership options assumed in the Assessment.

9.3.29 In relation to having a collective marketing budget under a partnership, during continued discussions with the operators since the Assessment, operators have suggested that 1.5% of operator bus only GMTL turnover be pooled, promoting all operator (bus only) products. The purpose of this marketing budget is to improve the perception of bus travel and to promote bus as a mode of travel. Operators have suggested that there would be a joint customer and GMTL marketing group set up within the partnership as a working group, to ensure that the partnership and GMTL were aligned in respect of marketing campaigns. The marketing budget for GMTL products at present is c. £385k and 0.86% of turnover. As noted in the Strategic Implications section above the increase to 1.5% of operator bus only GMTL turnover (from the previous commitment to increase the marketing budget to 1%) would therefore result in an additional increase of c. £224k and a total budget of c. £672k.

9.3.30 Some of this marketing budget would be used to promote multi-operator tickets. The additional marketing activity may lead to an increase in fare paying patronage, which would provide a benefit. If people are unaware of System One, the additional marketing may lead to customers not having to otherwise buy two separate tickets, and therefore creates a benefit.

Benefit Implications

9.3.31 In relation to branding, also noted in the Strategic Implications section of this report, the overall value would be significantly below the franchise option. The unification of the system under a single brand is a significant advantage of franchising. Some separate operator own branding would need to be retained for competition reasons under a partnership and as operator-own tickets are to be retained. Given that there would still be at least two brands present on the buses i.e. the operator own branding and the partnership branding, and in some cases three where the route branding is introduced, this could lead to further confusion amongst customers.

9.3.32 What is being offered under Partnership Plus is adding a level of complexity to the user experience of the bus system and would not create any change in the fragmented approach to decision making that creates complexity in the areas of fares, ticketing and customer service. It is unclear where the route or corridor branding would be applied, as it would be up to each operator to determine which service they would want to promote in this way. The extent to which the route or corridor branding would be provided and the benefits it would yield appear limited and it is noted that route or corridor branding is something that could be introduced

under all bus market options including the existing deregulated market structure.

9.3.33 The increase in marketing spend noted above would provide additional benefit in relation to the Operator Proposed Partnership option considered in the Assessment. However, while it is not known precisely how many customers this would impact the value might be expected to be at least equal to the spend, as has been assumed elsewhere within the Economic Case for similar interventions in the areas of contract management and customer service.

Improvement in on-bus experience

9.3.34 Under both the Operator Proposed Partnership and the Ambitious Partnership option in the Assessment, benefits were modelled for improvements to driver standards. These benefits were based on costs that assumed one day of additional training per driver, per annum. This investment would be in addition to existing training undertaken within the industry.

9.3.35 Under the Partnership Plus offer and through our continued discussions with operators since the Assessment, OneBus have confirmed that the driver training would form part of the annual CPC driver training requirements (currently 35 hours over a five year period and therefore a minimum of seven hours per annum on average). Therefore, this is a reduction compared to what was previously considered in the Assessment for partnerships, i.e. the latest proposal results in on average one day training per year as opposed to two days per year which was assumed in the Assessment. Although the majority of the driver training would be wrapped up within the annual CPC driver training, there would still remain some costs to GMCA for driver training. These are discussed further in the Financial Implications and Management Implications sections below.

9.3.36 During ongoing discussion with the operators since the Assessment, as noted in the Strategic Implications section above, there is a commitment to provide in-service cleaning. It has been agreed that TfGM would pay for and provide the facilities at bus interchanges for the removal of rubbish and would provide the cleaning staff. Operators would pay TfGM for the hours of the cleaning staff. The extent to which this would address a customer priority, and the resource required to change the perception of cleanliness on the network is not known. As noted in section 9.2.66 above, a trial of one month at the start of the partnership is proposed. Until the trial has been completed, the resources required, the potential scale of benefits and the deployment of resource in terms of a schedule of cleaning times, locations and working practices are not known. This intervention does provide benefits in addition to any of the options included in the Assessment but, because of the unknowns listed above, such as the resource levels to be deployed, it is difficult to be certain the impact this initiative may have.

Benefit Implications

9.3.37 Benefits were attributed to driver standards in the Assessment under both

partnership options. The benefit in the Assessment is based on the additional training resource allocated to improving the customer service offered by drivers. As the Partnership Plus proposal appears to eliminate that additional resource, it is clear that the benefits attributable to this intervention would no longer be applicable. Service quality improvements contributed £68m to the PVB in generalised cost savings in both partnership options in the Assessment. Driver training represents 90-95% of this, so driver training in total is worth approximately £61m-£65m of user benefit, plus a small additional non-user benefit from decongestion and extra revenue. This benefit would be foregone, but the majority of the cost would also be avoided. This is discussed further in section 9.5.16 of the Financial Implications section below.

9.3.38 No additional benefit has been modelled in relation to in-service cleaning, for the reasons noted above. There are no changes to the benefits associated with Wi-Fi in the assessment and no additional benefits considered for the internal fittings that would become standard across all buses, mentioned in the Strategic Implications section above, given that these are currently undefined.

Safety of travel is improved

9.3.39 There have been no further commitments under Partnership Plus directly in relation to safety. However, the additional customer service and revenue protection staff may contribute to the perception of safety on the bus.

Network

Integration and efficiency

9.3.40 The Assessment recognised the work performed by the network working group, which has continued to progress following completion of the Assessment to refine the process for performing network reviews under a partnership. No benefit was modelled under the Operator Proposed Partnership option for network. Ultimately under the Ambitious Partnership and under franchising, there is scope to go further than operators have currently indicated in relation to network changes.

9.3.41 The Partnership Plus offer includes a new commitment that has not previously been discussed with TfGM, which is to perform a review of bus stops to ensure these are as close as possible to Metrolink and heavy rail stations to improve interchange and connectivity, as discussed in the Strategic Implications section above.

Benefit Implications

9.3.42 In relation to the review of bus stops, this is a commitment to perform a review (which would be predominantly led by the network working group) and the process for reviewing them has not yet been determined. The impact and changes that this would result in are not known at this stage, but these interventions do not require reform to implement and can be done under any option of reform, or under the

existing deregulated market structure. Therefore, no additional benefit is assumed.

Fleet Investment

9.3.43 In relation to the commitment to provide 450 new buses over the first three years of the partnership, there is no change in the offer being put forward, therefore the assumption of applying no benefit to this remains.

9.3.44 As noted in the Strategic Implications section above, within the Partnership Plus proposal, the bus operators have agreed to provide 30 extra buses.

Benefit Implications

9.3.45 Assuming the operators provide an additional 30 buses at the beginning of the partnership, this represents a 1.5% increase on the base year fleet size of 2002 buses assumed in the model base year in the Assessment. Also, assuming (a) that the additional 30 buses operate an average number of miles per annum which is in line with current fleet average; (b) that no other buses are removed from operation or their mileage reduced in lieu of these additional buses; and (c) that the elasticity of bus patronage to increasing vehicle kilometres/miles is between 0.6 and 0.7, then this increase in buses implies a welcome uplift in patronage of around 1% (0.9% to 1.05%) using a simple elasticity calculation.

9.3.46 The concern with this intervention is one of benefits realisation and the difficulty of identifying the additional resource introduced over time given the market dynamics forecast. Over the course of the partnership this would be likely to remain an unverifiable commitment.

9.3.47 As noted in the Strategic Implications section above, the redeployment of buses under the franchise option is not restricted in the same way that they would be under a partnership (given the limitations of a commercial network run by individual operators and rules around competition), which allows the process to be more efficient and customer focussed. This is explained in more detail in the Network Supporting Paper.

Congestion and Service Punctuality

9.3.48 Partnership Plus refers to the need to tackle congestion by pooling resources with TfGM to identify congestion hotspots and jointly agree interventions to increase bus speeds and reduce variability. The proposal to improve congestion is not a new proposal and was considered in the Assessment under the Operator Proposed Partnership option. Operators and TfGM have worked together during their continued discussions on the partnership option, to pool resources and develop an approach to review congestion issues and identify potential mitigations and improvements. This could now be used as an approach and performed as part of business as usual without the need for a VPA.

9.3.49 As noted in the Strategic Implications section above, the implementation of

interventions identified, such as bus priority measures, is conditional on funds being available from GMCA, or elsewhere, to make the interventions. Although the proposed liquidated damages (if enforceable) could create some additional funds which could be used to fund congestion measures, the scale and likelihood of this funding becoming available is not known. If funds did arise from liquidated damages, some of the benefits associated with the additional funding would be offset by disbenefits associated with operators' non-compliance with their commitments, hence giving rise to the liquidated damages.

9.3.50 There are plans contained within the TfGM Delivery Plan to tackle congestion and it is expected that TfGM and GMCA more generally will work closely with the bus industry over the coming years on this important issue, regardless of the outcome of bus reform. Although it is right to recognise that these phase 2 measures may give rise to potential benefits, no benefit was modelled under either partnership or franchise options in the Assessment. Partnership Plus does not change the position of the Assessment in relation to benefits associated to these measures. These measures are not yet defined or funded, and although Partnership Plus recognises the agreed approach operators and TfGM have developed to identifying what measures may be put in place, it does not propose guaranteed delivery of such measures as this is conditional on funding being available. Phase 2 measures and the associated 'opportunity cost' are discussed further in the Strategic Case Response Themes at Section 4.12.

Profit Share Schemes

9.3.51 Partnership Plus includes a commitment in relation to *better value for passengers*, which includes setting up profit share schemes. As discussed in the Strategic Implications section above, profit share schemes would be set up to allocate a share of benefits, derived from increased profits as a result of specific interventions into the bus network (e.g. infrastructure), back into improving services further. The commercial and financial implication sections below discuss this in further detail. Whilst this may lead to additional benefits, there are a number of uncertainties around how this profit would be identified, measured, realised and used. The amounts arising from the profit share scheme would be dependent on the level of funding available to make the specific interventions in the first instance. The scale of any resulting funding for improvements from the profit share scheme is unknown and could be non-existent if sufficient gains are not made. Further, how potential funds put into the partnership would be spent is not specifically defined, other than they would be put back into making further improvements to bus. Any estimate of benefits is not possible at this stage.

Conclusion

9.3.52 From the evidence above, the Partnership Plus proposal would increase the benefits in some areas compared to the Operator Proposed Partnership and the Ambitious Partnership. In particular, there are additional benefits from the additional revenue

protection and customer service staff, the acceptance of an operator ticket on a subsidised service (for a £1.00 surcharge) and from the 30 additional buses which may be used for new services. There is none the less a significant offset in the form of the elimination of the resource required to deliver additional customer service benefits through driver training. The net benefits are expected to be small relative to the difference between the current franchising and the assessed partnership options.

9.3.53 For the three proposals listed above that would result in an increase in benefits, the costs associated with these would be covered by the operators. In terms of costs incurred by GMCA, there would be a reduction in driver training costs, offset by a slight increase in costs for providing rubbish bins for in-service cleaning and the system upgrade costs required for the partnership point of contact.

9.3.54 There are a number of other ideas and policies proposed but they are not specific or measurable to the point where a quantified benefit can be attributed to them. Even when making a reasonable allowance for their likely benefit, it is considered that they would not provide the Partnership Plus proposal with a higher NPV or significantly better BCR than the Ambitious Partnership previously considered.

9.3.55 The following interventions which were included in the Ambitious Partnership are not proposed under Partnership Plus:

- interoperability on certain corridors with multiple operators running services (£5m of user benefit in the Ambitious Partnership)
- enhanced driver training relative to the reference case (which attracted £61-65m of user benefits in the Ambitious Partnership)
- network changes to the extent that there would be an intermediate level of resource reallocation, which was not to the same extent of franchising, reflecting the constraints of the market structure (£12m of user benefit in the Ambitious Partnership).

9.3.56 Overall, the Partnership Plus proposal is not anticipated to deliver any greater benefits than the Ambitious Partnership modelled in the Assessment. These Partnership Plus proposals, therefore do not change the overall conclusion of the Economic Case of the Assessment that supports the franchise option as the market reform best able to achieve long term value for the use of public money to improve bus services in Greater Manchester, nor do they impact materially the relative costs and benefits of a partnership and franchising.

9. 4 - Commercial Implications

Introduction

9.4.1 Part 3 of the Commercial Case within the Assessment sets out the Commercial Case for the partnership options and within this it sets out an introduction to the partnership model, a description of the mechanisms and powers relating to the delivery of bus partnerships and a description of the proposed mechanisms to support the partnership proposals considered in the Assessment.

9.4.2 Given that the commercial mechanism for the delivery of the Partnership Plus option has not changed, the analysis in the Commercial Case of the Assessment for the Operator Proposed Partnership remains applicable for Partnership Plus, i.e. it would be delivered through a VPA initially for a term of five years. The Assessment outlined that an EPS would be more beneficial than a VPA in terms of the potential to deliver greater benefits. The operators preferred option, however, remains a VPA.

9.4.3 This section will consider the common assumptions of the partnership options considered in the Assessment and compare them to the Partnership Plus option and will also consider the key features of the Partnership Plus proposal with a focus on the commercial implication.

Common Assumptions

9.4.4 The three common assumptions noted in the Assessment remain consistent with the Partnership Plus proposal. The common assumptions are as follows:

i. The first assumption is that the partnership mechanism would cover the whole of the Greater Manchester area, in order to ensure as much consistency across the bus network as possible under the different partnership models and that any partnership benefits apply across the whole of Greater Manchester.

ii. The second assumption is that any partnership would be entered into by all commercial operators based within Greater Manchester and who operate local services within the area. Cross-boundary services will be subject to the partnership arrangements within Greater Manchester to the extent appropriate.

iii. The third assumption is that the GMCA would procure tendered services to broadly equivalent service standards as those proposed under any partnership model. Additionally, one of GMCA's roles in the partnership would be to endeavour to ensure the appropriate integration of commercial and tendered services across Greater Manchester.

Key features of the Partnership Plus offer

9.4.5 The current drafting of the VPA addresses all aspects of the Operator Proposed

Partnership (excluding Partnership Plus). The following sections below summarise the main commercial aspects of the "Plus" commitments:

- Profit share schemes would be set up to allocate a share of benefits derived from increased profits as a result of specific interventions into the bus network (e.g. infrastructure), back into improving services further.
- Young people who no longer benefit from Our Pass can sign up to half-fare discounts for up to 6 months as a transitional period.
- 30 extra buses to be provided by operators to allow for new routes.
- If an operator fails to deliver a commitment or potentially fail to meet an agreed set of KPIs then there would be some financial consequences via a liquidated damages mechanism.
- A review of the bus stops would be completed to ensure they are close to Metrolink and rail stations.

9.4.6 In relation to the profit share schemes, initial discussions began with operators in 2018 and have continued through the partnership steering group meetings. Specific questions were raised by TfGM in relation to a profit sharing scheme in November 2019, with further clarification questions being raised in response to the Partnership Plus proposal at the partnership steering group meetings in January and February 2020. OneBus have responded to these in a summary note, however mainly setting out the high level principles of the proposal, rather than the intricate details.

9.4.7 It is worth noting that the specific interventions are not yet known, and would be subject to funding being available in order to implement them. Therefore, an understanding of the level of profits that might arise and may become available to share amongst the partnership is not known. The governance structure has also not been agreed or worked through. OneBus, on behalf of the operators, have suggested that this would be managed by an open book, paper exercise and audited by the Partnership Delivery Board. The ability of operators to provide open book information may be limited by competitive constraints. It is also not clear how the partnership fund would be governed and how disputes would be resolved.

9.4.8 There are a number of uncertainties in relation to this proposal. For example, how profits can be identified as attributable to, and as a direct result of, the specific intervention (in particular identifying the profits associated with the intervention where a specific operator is particularly successful benefitting from an intervention). It is not clear what mechanisms would be in place to generally prevent "free-riders" nor how the network as a whole may benefit if some operators never experience increased profits as a result of a specific intervention. Similarly, it is unclear how much it would change outcomes in the network as a whole if the beneficiaries are largely those that realise the profits/gains. As noted above, clarification questions on these matters have been raised with the operators via the partnership steering group

discussions.

9.4.9 In relation to the 30 additional buses that operators have committed to provide, there would be limitations on how these 30 buses could be used under a partnership. The introduction of the 30 buses will be based broadly on each operators' market share and therefore OneBus have confirmed that the decision to introduce the 30 buses would either lie with the operator who may see the need to increase a frequency or commence a new link, or with the partnership network working group who may identify the requirement for the link and ask operators to consider covering it. For these reasons, the partnership would likely to be constrained by the operating areas of the individual operators who introduced those vehicles and restrained in how these could be used. Under franchising, there would be central control over the whole network and any deployment of resource could be assessed with the view of maximising benefit to the whole of Greater Manchester.

9.4.10 It is also difficult under a partnership to ensure transparency and longevity of the benefits associated with the 30 additional buses proposed. As noted in the sections above, it will be difficult to ensure there is always a net surplus of 30 buses within the network and given that the initial term of the VPA is proposed to be for a five year period, there remains uncertainty about what happens beyond this.

9.4.11 As mentioned above, OneBus have proposed that KPIs would be used primarily to measure performance. It is proposed that for the majority of the KPIs, non-compliance would lead to a remedial action plan, noting that the intention is to get operators to comply with the VPA rather than incurring a financial penalty for failure to comply with the commitments. There would be five or six key KPIs (to be agreed by the operators) for which it is proposed that liquidated damages would be payable in the event of non-compliance.

9.4.12 Under UK law penalty clauses may be unenforceable. Simply calling a payment liquidated damages (which are intended to reflect a party's loss from a breach) does not guarantee that the Courts would consider it to be so and for payment to be enforceable if it in reality is only a penalty. Where a liquidated damages clause is determined to be a penalty clause, the clause may not be enforceable beyond the non-defaulting party's actual loss. Careful drafting in the VPA and assessment of the sums included is therefore required if the parties want to include a liquidated damages clause for it to be enforceable.

9.4.13 TfGM have engaged with operators on this matter on multiple occasions. TfGM issued a list of questions for operators to consider in order to inform the VPA drafting, these were shared with the operators at the Steering Group meetings held in December 2019. This was further discussed with operators throughout January and February 2020. However, it still remains unclear whether and how this mechanism would work and whether there is any risk of such a mechanism having a material adverse effect on competition in the way that it shapes operator

behaviours, for example it could potentially lead to operators seeking enforcement against another competitor via the performance regime mechanism which could negatively impact them financially.

9.4.14 In relation to the value of relocating bus stops to be as close as possible to Metrolink and heavy rail stations this has been discussed in further detail at sections 9.2.14 and 9.2.15 above.

Conclusion

9.4.15 The above section has concluded that the commercial position in relation to Partnership Plus would:

- Involve a VPA mechanism, initially for a period of five years.
- The implementation of the VPA would involve relatively short timescales given the work undertaken with operators over the past two years. The timescales in relation to the delivery of commitments, however, is unclear and given the lack of clarity and detail around some of the commitments, the extent to which benefits may be realised is also unclear.
- Operators are only willing to sign up to a limited level of remedies and liability.
- A number of the "plus" elements of Partnership Plus are more like 'commitments to commit' with the underlying detail having not been worked through or would be unknown until the point of signing the VPA.

9. 5 - Financial Implications

Introduction

9.5.1 This section considers the financial implications to GMCA of the Partnership Plus proposal submitted by OneBus. Overall, the commitments within Partnership Plus are not dissimilar to the Operator Proposed Partnership, and as discussed above, result in benefits greater than the Operator Proposed Partnership, but do not go beyond the Ambitious Partnership option considered in the Assessment.

9.5.2 The Assessment noted that partnerships would require additional resources from TfGM/GMCA to manage and to the extent partnership interventions increased demand (particularly concessionary demand) relative to status quo, then this would result in a requirement for increased concessionary reimbursement. The additional funding requirement for Partnerships in the Assessment is up to £112 million. However, it should be noted this is not comparable to the £122 million funding requirement for the Proposed Franchising Scheme. The franchising funding requirement is over a five year transition period, whilst the Partnership requirement is 'whole life,' 30 years, and therefore amounts to a smaller annual requirement in the order of £2-£3 million per annum in current prices. In principle, the sources of funds identified for the Proposed Franchising Scheme could be applied to partnerships, particularly ongoing revenue funding such as earn back or Mayoral precept.

9.5.3 A number of consultees have raised concerns over the costs included under the partnership options considered in the Assessment. For example, OneBus state that they do not understand where the costs have come from and confirm "*the operators have always assumed that there would be no additional costs associated with managing the partnership however these have been assumed in the assessment.*"

9.5.4 The comments received by consultees in relation to the partnership costs assumed in the Assessment have been considered in further detail in section 4.10.11 of the Strategic Case Response Themes and the Financial Case Response Themes section of this report.

9.5.5 OneBus state that under their Partnership Plus proposal, the benefits will be financed by a combination of operator revenue and public sector funding and will not result in an increase in council tax for Greater Manchester residents. However, TfGM remain of the view that implementing a partnership would lead to additional costs and that the costs set out in the Assessment for managing and operating a partnership are reasonable.

9.5.6 This section includes a discussion on the key characteristics of a partnership in relation to the financial responsibilities. It also considers the advantages and disadvantages of the Partnership Plus proposal, and considers any financial implications of the Partnership Plus commitments, noting that for many there is no

direct impact on the cost implications to GMCA.

Characteristics of a Partnership

9.5.7 As set out in the Assessment, GMCA would have contrasting financial responsibilities under a franchising scheme and a partnership.

9.5.8 Under a partnership, GMCA would have similar financial responsibilities as under the status quo. The bulk of services would continue to be commercially operated, with GMCA allocating funding to tender non-commercial services and reimbursing operators on a 'no better, no worse' basis for concessionary schemes.

9.5.9 GMCA would not control key decisions under a partnership and similarly would not assume direct financial risks in relation to farebox revenues. OneBus state in their supplementary information to the Partnership Plus offer that, under a partnership, operators continue to take the revenue risk and decline the option of accepting a guaranteed publicly funded profit through franchise contracts. They believe that no excessive public funding is required to provide the best possible service. However, it is worth noting that under franchising, there is no guaranteed publicly funded profit for an operator.

Partnership Plus proposals

9.5.10 The below sets out the advantages and disadvantages of the Partnership Plus proposal, and are informed by the financial characteristics of Partnerships (versus franchising) set out above.

Advantages

9.5.11 The advantages and disadvantages in relation to Partnership Plus have not altered since the Assessment as the mechanism for delivery is no different to the Operator Proposed Partnership considered in the Assessment. As noted, under a franchising scheme GMCA assumes control and also assumes direct financial risks. Under Partnership Plus, operators would retain revenue risks and as such this option has the advantage of lower direct financial risks to GMCA.

9.5.12 The transition costs and associated funding requirement for Partnership options as modelled in the Assessment is lower than the Proposed Franchising Scheme. This would still likely be the case under Partnership Plus. This is because a number of costs attributable to GMCA under franchising (such as depot provision) would still be avoided under Partnership Plus.

9.5.13 The Partnership Plus proposal does include some characteristics such as a profit share scheme and the provision of 14 additional staff, which were not specified in the Assessment partnership proposals and could potentially be advantageous in terms of creating additional funds which could be used to further improve bus services and improving the overall customer experience of bus use. These are looked at in more detail below and in the Economic Implications section above. Ultimately,

these could have the effect of increasing patronage, and to the extent they do this, as noted above, this would result in a requirement for increasing concessionary reimbursement.

9.5.14 Under the Proposed Franchising Scheme, budgets would be set by reference to all sources of income (including farebox revenues and public funding) and network operating costs. GMCA could not pool its funding sources to the same extent under a Partnership Plus option. In particular if the partnership was successful in boosting demand (and concessionary trips), GMCA would need to reimburse and fund operators for these trips on a 'no better, no worse' basis.

Financial implications of Partnership Plus

Driver training

9.5.15 The interventions considered under the Operator Proposed Partnership in the Assessment are still valid for Partnership Plus in terms of the soft factors, and specifically the improved driver training. However, through continued discussions with the operators, this would now result in a reduction in costs to GMCA and associated benefits, compared to what was assumed in the Assessment. This is considered in further detail in the Strategic and Economic implications sections above.

9.5.16 This would ultimately reduce the costs to GMCA compared to what was assumed in the Assessment which was an additional day of driver training per driver, per year, which instead would now be absorbed into the annual CPC and operator driver training programmes. Some costs would remain, however, as TfGM would be involved in developing the content for the training, the procurement activity to identify an appropriate training provider, and funding the external trainer (who would then train the operator trainer to deliver the course).

Profit Share Scheme

9.5.17 In relation to the commitment to set up a profit share scheme, as noted in the sections above, the governance structure and mechanism for these schemes has not been fully developed and there are uncertainties around how much benefit there would be from such a scheme. For example, in order to make the specific highway interventions, this would initially depend on the level of funding available. GMCA would not directly benefit financially from this proposal. As noted above, it is suggested that 50% of the gains realised from specific interventions would be retained by the operator that realised them, and 50% would go into a partnership fund. It would take time for the performance and impacts of the highway interventions to be measured and any resulting profit share available is uncertain at this stage. The uncertainty is increased given that the initial term of the partnership is for five years and the assessment applied a 30 year appraisal period for the partnership options. It is acknowledged that there could be advantages to GMCA as a result of a profit share scheme, however for the reasons outlined, the magnitude

of this, and the extent to which GMCA would have to sponsor interventions, is unclear.

Our Pass

9.5.18 As noted above in the Strategic implications section, operators have confirmed that the extension of Our Pass to offer half price fares for a further six months, would not require any surcharge payable for the passenger. It has not yet been agreed whether TfGM or the operators would cover the card issuing costs.

Conclusion

9.5.19 As the operators would retain revenue risks under Partnership Plus, there would be lower direct financial risks to the GMCA compared to franchising and it will cost the GMCA less. The Partnership Plus proposal has a handful of "plus" commitments which differ to the Operator Proposed Partnership in the Assessment. However, the majority of benefits noted within the Economic Implications section above, are benefits or costs to the operator and there are limited changes to GMCA's position. Most notably, the improvements to congestion measures and the profit share schemes would be dependent upon the level of funding available from GMCA, and elsewhere, in order to implement the relevant measures and interventions. In relation to the risks and transition costs associated with the Partnership Plus proposal, there are minimal differences to those considered in the Assessment under the partnership options, section 9.6.8 below considers the transitional costs under Partnership Plus.

9.5.20 Partnership Plus may result in some tangible improvement to GMCA's financial position. For example, the commitment around driver training would reduce costs to the GMCA however in turn the benefits associated with this within the soft factors in the Assessment, would also be reduced. The profit share scheme could be advantageous to the improvement of bus services although the level to which it is, is unknown, and there would be no direct financial benefits received by GMCA (for reasons set out in the sections above).

9.5.21 Some of these commitments would impact on the resource implications to both TfGM and the operators which in turn would impact the costs, and there would be costs involved in managing the partnership itself. This is considered further in the management case implications section below.

9.5.22 Overall, there are no significant changes to the financial case conclusion in the Assessment. Partnership Plus, as an extension to the Operator Proposed Partnership option in the Assessment, is likely to remain affordable.

9. 6 - Management Implications

Introduction

9.6.1 The consideration of a partnership in the Management Case of the Assessment can be broken down into 3 elements:

- The future operating model people and other costs
- Transition Costs – Implementation costs
- Transition Costs – Systems Costs

9.6.2 Given the above analysis and the conclusions drawn, this section focuses on the impacts that Partnership Plus has on the future operating model people and other cost assumptions made for the partnership option within the Assessment.

9.6.3 In response to the consultation, there were a number of challenges raised by the operators around the costs included in the Assessment for the management of the partnership under both partnership options. This has been considered in sections 4.10.15 to 4.10.17 of the Strategic Case Response Themes section of this report. Under Partnership Plus, the operators have agreed to provide 14 additional customer service and revenue protection staff, the costs of which will be covered by the operators.

9.6.4 To support the operator proposed partnership 6 resources were identified, as follows:

- 1 Head of Partnership
- 2 Officers/Analysts
- 3 Network Planners

9.6.5 These resources were identified to support the partnership to ensure that it is enduring and that the benefits are sustained over the 30 years of the partnership. Further information can be found in section 52 of the Assessment on the level of

resource and cost assumptions made for partnerships.

Future Operating model people and other costs

People Costs

Area	Partnership – OneBus Partnership Plus Offer
Partnership Leadership	There would be no change in Partnership Leadership Costs
Officers/ Analysts	There would be no change in the officer/analyst costs
Network Planning	There would be no change in the Network Planning Costs
Customer - Single Point of Contact	Current estimates assume 8-10 FTE. It is assumed, subject to further discussion that the resource would transfer to TfGM. The overall funding of the additional FTE has not been agreed in terms of how much both operators and TfGM would contribute. Taking on the role of a partnership point of contact does increase TfGM's exposure to potential reputational risk as it takes on responsibility for addressing customer issues while not having the direct control to resolve them.
Customer - Sale and Marketing	The operators have proposed to increase the GMTL bus marketing budget from their previous offer of 1% to 1.5%, an increase of c. £224k resulting in a total budget of c. £672k per annum. This would allow a marketing specialist to be employed with a sales and marketing budget to promote the bus network. This should drive some additional benefits.

Other Operating Costs

Area	Partnership – OneBus Partnership Plus Offer
Customer – Driver training	The partnership proposal developed for the Assessment proposed an additional (above existing 1 day per annum CPC training) 1 day per annum, per driver, costing £500k per annum. The majority of the costs were driver salary costs to attend the additional days training. The latest partnership offer proposes to absorb this into the existing CPC training and the induction programme. Whilst this saves the bulk of the costs to GMCA, it eliminates most of the benefits identified in the Economic Case associated with driver training.
Customer Point of Contact	There would be some additional CXP licence costs. There may be accommodation requirements within TfGM with the introduction of the additional 8-10 FTE. This could increase GMCA costs.
Customer in service cleaning	There would be a small additional charge to TfGM to provide the bins and any additional refuse collection. It is estimated that the increase in costs to TfGM would be circa £21k per annum, with the operators incurring the cost of the cleaning resource. The proposed in-service cleaning would require approximately 9.5 FTE (based upon 19 bus stations and 1 cleaner per pair of bus stations). This would cost the operator c. £171k per annum.

9.6.6 The commitment to set up the profit share schemes would require additional resource to manage and measure (both the baseline position and associated "gain"). However, the timescales of this commitment are not known as it is dependent on interventions in the first instance, for which the timescales are also unknown at this stage. It is also not clear how this mechanism would work in practise in order to identify, measure and monitor the "gains". This commitment and the related uncertainties are discussed further in each of the sections above. It is therefore difficult to estimate the level of resource required at this stage.

Transition Cost Implementation Costs

9.6.7 It is not envisaged that there would be any changes in the transition implementation costs other than the transition systems costs mentioned below.

Transition Systems Costs

9.6.8 The customer proposition would require some systems investment for the partnership point of contact. It is assumed that this investment would be in the CXP system and that these costs would be incurred by TfGM. It is expected that the scale of these costs would be fairly modest however until further scoping and feasibility testing had been carried out it is difficult to precisely assess the scale of these costs.

9. 7 - Conclusion

9.7.1 The net impact of the proposal is that the Partnership Plus would likely reduce the costs to GMCA as considered under the Operator Proposed Partnership in the Assessment. The saving would come through savings in the customer service related driver training which would be slightly offset by the additional costs for investment in the CXP system for the partnership point of contact. The overall reduction in costs would also reduce the benefits in the Economic Case and could therefore impact upon the BCR and NPV. However, as noted in the Economic Implications section above, this would not result in a higher NPV or significantly better BCR than the Ambitious Partnership previously considered in the Assessment.

Legal and Other Considerations

9.7.2 This section discusses the potential impacts of the Partnership Plus from a legal perspective. This includes consideration of what legal requirements would need to be satisfied and also includes further consideration of this option against the process already undertaken by GMCA as set out in the Act.

Requirements that Partnership Plus would need to satisfy

9.7.3 OneBus' Partnership Plus would involve entering into a VPA. This VPA would apply to the entirety of Greater Manchester. If a decision was taken to consider this option further, then due regard to the legal requirements of the proposal would need to be given.

9.7.4 As a VPA is a voluntary agreement, the Partnership Plus could be introduced without needing to comply with the same level of procedural requirements as the Proposed Franchising Scheme. However, the Part 2 competition test under Schedule 10 of the Act would apply. This would mean that consideration would need to be given to whether the agreement contributes to the attainment of specified bus objectives without imposing restrictions on, or eliminating, competition. By their nature a number of the proposals within the Partnership Plus proposal would impose further restrictions on competition between operators and, if the Partnership Plus option was to be developed further, GMCA would need to ensure that the final proposed agreement met the competition test. This could lead to certain elements of the partnership having their benefits reduced as commitments were reduced to meet the competition test. For the purpose of this section, we have assumed that whilst certain elements of Partnership Plus could lead to competition issues, they should all be capable of being resolved in a manner which is consistent with the Part 2 competition test under Schedule 10 of the Act, and we assume that the operators have put forward the proposals on that basis.

9.7.5 The proposal for a provision for liquidated damages would also need not to create

an unenforceable penalty, as discussed above.

Scheme implications

9.7.6 In summary, the key implication of the Partnership Plus on the Proposed Franchising Scheme is that only one of them could be introduced at the same time. This is because the current proposals are that both of these options are proposed to apply to the entirety of Greater Manchester. The introduction of the Proposed Franchising Scheme would necessarily exclude the VPA proposed and its introduction would be on the assumption that the Proposed Franchising Scheme was not immediately being introduced. This is why, when preparing its Assessment of a Proposed Franchising Scheme on behalf of GMCA, TfGM spent a significant amount of time with operators to consider alternative options to the Proposed Franchising Scheme, including partnership.

9.7.7 It remains open to the GMCA and the Mayor to decide, following the consideration of the outcome of this consultation, whether or not to introduce the Proposed Franchising Scheme. Alternatively, a decision could be taken to enable a VPA to be explored further.

Conclusion

9.7.8 In preparing its Assessment of a Proposed Franchising Scheme, consideration was given by GMCA on how the Proposed Franchising Scheme would compare to other courses of action. That led to the development of two partnership options. TfGM determined that those discussions had reached a stage in which they could be appropriately compared to the Proposed Franchising Scheme.

9.7.9 The Act and Guidance do not provide any specific guidance to how GMCA may consider alternative options which are received during the course of a consultation. However conscientious consideration must be given to any such response. This chapter of this report details the work undertaken by TfGM in reviewing the Partnership Plus proposal, which includes consideration of that option against each of the five cases to the Assessment.

9.7.10 TfGM is confident that sufficient consideration has been given to Partnership Plus to come to the view that overall it is expected that the proposal would deliver no greater benefits than the Ambitious Partnership modelled in the Assessment. This proposal, therefore, does not impact our overall conclusion in the Assessment of the relative benefits and costs of a partnership and franchising.

Section 10 - Stagecoach South Manchester Partnership Proposition

10. 1 - Introduction

10.1.1 TfGM has received a proposal from Stagecoach (submitted alongside its response to the consultation) in which it proposes a partnership in the South of Greater Manchester that "*would complement any decision to franchise the North*" (page 8 of proposal).

10.1.2 Stagecoach developed the proposal following engagement with TfGM that focussed on GMCA's objectives as set out in the Vision for Bus and how it might be possible for Stagecoach to help further these. TfGM engaged with Stagecoach to understand what could potentially be achieved, to answer queries that Stagecoach had during the development of their proposals and to provide feedback as required to help Stagecoach clearly articulate its proposals and develop them to better fit in with the GMCA's objectives and potential alternative franchising proposals.

Stagecoach's proposal

10.1.3 Stagecoach has put forward 35 initiatives over the key areas of network, fares, fleet investment and customer and a governance structure to coordinate the market. Stagecoach anticipates that the partnership would be set up by June 2020 using a Voluntary Partnership Agreement ("VPA") similar to OneBus' Operator Proposed Partnership and Partnership Plus proposals, and making use of Advanced Quality Partnership Schemes ("AQPS") on key routes/corridors to enforce and maintain certain standards. Stagecoach proposes that the partnership should last for 10 years, with a number of its proposals being delivered over the first three years to ensure that there are some key initial outputs from the partnership.

Geography

10.1.4 Stagecoach's proposal is that it, "if the GMCA were to decide to pursue franchising in the North of the region, would deliver a complementary offering in the South". It is Stagecoach's intention that other commercial operators in the South of GM (defined as Sub-Area C in the Proposed Franchising Scheme) may also enter into the South Manchester partnership. Stagecoach confirm that they have received initial support from Arriva, who also have operations in the South of GM.

10.1.5 Stagecoach summarises the benefits of its proposal in these terms:

Benefits for Greater Manchester and its authorities:

- It will provide politicians with improved transparency and greater control over the bus network, through a new performance regime and involvement in network development.
- It will provide a targeted approach to addressing any specific challenges in

the bus network which are not uniform across the region.

- The mixed model approach will unlock significant investment to deliver cleaner air and reduced road congestion in the region, through a greener bus fleet and more attractive services which will help generate modal shift from the car.
- It will assist politicians in making good on their promise to the electorate to deliver a step-change in transport connectivity to underpin the region's economy and make it the best place to grow up, get on and grow old.
- Improvements to the bus network and the wider public transport offer will be delivered more quickly and at lower cost than a franchise model.
- The proposals will deliver a key political objective of delivering better value for the taxpayer, by the participating Partnership Operators providing the majority of investment to deliver the benefits.
- It will reduce the significant risk to the taxpayer from a full franchising of the region's entire bus network, which is known to be a concern of local taxpayers.

Benefits for customers, communities and employees:

- Investment: £142m Stagecoach investment over the period of the Partnership.
- Cleaner air: Investment in new greener buses and associated infrastructure, this will build on the £16.5m investment already made on the purchase of 32 electric-buses (and infrastructure) being introduced by Stagecoach on two key high-frequency services connecting Manchester city centre, Manchester Airport, five hospitals and two universities from March 2020.
- Simpler, better value fares: London-style price-capped tickets.
- Seamless, easy-to-use services: One unified brand and customer contact point for all bus services in Greater Manchester.
- More influence over the network: Enhanced consultation and a new performance regime to drive consistent high standards.
- Efficient integrated journeys: A better integrated bus, tram and rail network and congestion-busting measures to deliver more reliable journeys.
- Improved accessibility: "Talking bus" audio-visual systems fitted to all vehicles to improve accessibility.
- Improved information and transparency: Clear journey planning and bus tracking information for customers, plus open data on operational and financial performance and customer complaints.
- Better skilled and rewarded employees: Investment in employee training and new apprenticeships, with a commitment to pay staff the Real Living Wage.
- More inclusive and sustainable communities: Recycling and other

environmental commitments, as well as community benefit initiatives, such as breakfast clubs for children.

10.1.6 In considering Stagecoach's proposal it is important to note that, as GMCA's objectives apply to the whole of GM, it is necessary to consider the implications of Stagecoach's proposal for the GM as a whole, that is, the combined potential benefit of having a franchised scheme in the North of GM alongside partnership in the South.

10.1.7 Combining a partnership in the South of GM with a different partnership in the North of GM with different parties involved and a different structure in each would be more complicated than a GM wide partnership from the customer perspective, and for TfGM to manage.

10.1.8 OneBus' Partnership Plus proposal (as considered in detail in Section 9 this report) reflects the output of discussions involving operators in the North as well as the South and therefore *is* the combination of a partnership in the South and the North. Given that this scenario has been analysed above and it was concluded that this would offer less benefit that the Ambitious Partnership option which was modelled in the Assessment, the remainder of this section focusses on the additional scenario proposed by Stagecoach, that is, a potential partnership in the South alongside a franchising scheme in the North.

Structure

10.1.9 The following sections describe and consider the implications of the proposals from the perspective of each of the five cases to understand how likely the proposals are to deliver on GMCA's objectives (Section 10.2 Strategic Implications), whether there is likely to be any economic benefit (Section 10.3 Economic Implications), and whether there are any other Commercial Implications (Section 10.4), Financial Implications (Section 10.5), Management Implications (Section 10.6) or Legal and Other Considerations (Section 10.7) to consider. Section 10.8 concludes on whether the conclusions reached in the Assessment remain valid when taking into account Stagecoach's recent proposal.

10.1.10 The remaining sections are as follows:

- Section 10.2 Strategic Implications;
- Section 10.3 Economic Implications;
- Section 10.4 Commercial Implications;
- Section 10.5 Financial Implications;
- Section 10.6 Management Implications;
- Section 10.7 Legal and Other Considerations; and
- Section 10.8 Conclusion.

10. 2 - Strategic Implications

Introduction

10.2.1 This section analyses the extent to which the proposed scenario is likely to achieve GMCA's objectives. It follows a similar method to that shown in Section 9 of the Strategic Case of the Assessment. As explained above, as GMCA's objectives apply to the whole of GM, each of the sections consider the implications taking the GM as a whole (that is, the combined potential benefit of having a franchised scheme in the North alongside a partnership in the South).

Network

1. Reach and stability of the bus network
Objective
• Comprehensive network • Simple network • Frequent services • Direct services • Stable network • Responsive network Accessibility improves by comparison to the scale of the network within 3 years; continued improvement to 2040. Improvement in simplicity of the network within 3 years of intervention.

10.2.2 Relevant proposals taken from Stagecoach's proposal offer include:

- D.1 – Consultation & Stability of Route Changes: Stagecoach propose increasing the minimum notice period for route changes by an additional 28 days for the purpose of consultation; sharing the schedule for route changes with TfGM; and develop a good practice guide on how consultations should be conducted.
- D.3 – Provide Route Performance Data on Unprofitable Routes quarterly.
- D.4 – Commercialise the Equivalent of Today's Current Tendered Services: Stagecoach will operate without subsidy a proportion of any current tendered route which would in effect extend a Stagecoach service.

Key Issues

10.2.3 *Likely extent of network improvements*: Under a franchise scheme in the North of GM, TfGM would have the ability to control the network planning process for routes in the North of GM, whereas in the South of GM, operators would retain the responsibility for network design and planning, working with TfGM in partnership. This may enable TfGM to have more influence over the bus network than it currently has, particularly as Stagecoach is proposing to establish a 'Network Planning Board'.

10.2.4 It is worth noting that the network in the South is mostly already planned by a single operator so there may be fewer possible changes that would need to be made anyway. In the South of GM, it is possible that the network would remain more

similar to the current network, as TfGM could not direct changes to be made.

10.2.5 For the North of GM, the network design work presented in the Economic Case of the Assessment showed what could be done under franchising to make the network more comprehensive, simple, frequent, direct, stable and responsive. This could still be carried out for the North of GM but the amount of change that could be achieved in the North of GM may be lower than for that area than under the Proposed Franchising Scheme because TfGM would not be able to redistribute resources across the whole of GM.

10.2.6 Thus, the ambitions to make the network more comprehensive, simple, frequent, direct, stable and responsive will not be fully met.

10.2.7 This proposal would also create a boundary between the North and South of GM which would need to be managed (see 0 Commercial Implications section below) and may make it more challenging to achieve GMCA's objectives in relation to simplicity and directness of routes. It is also unlikely to be easy to agree further changes to services (especially North / South services where there would be revenue implications).

10.2.8 Due to the requirements of the Act and the need to consider whether such services would have an *"adverse effect*" on a franchised service, it is unclear whether or not such services would be able to obtain a service permit in the North of Manchester. For franchised services in the North running into the South of Manchester, they would need to comply with the usual registration requirements and would need to be secured by GMCA under non-franchising powers. This may therefore create issues for Stagecoach's proposal, as it may limit ability for services to operate across the entirety of GM, which would not help towards GMCA's objective of a comprehensive, simple network across GM with direct services.

10.2.9 *Consultation on route changes and performance data*: Stagecoach proposes to extend the period of notice given for route changes by 28 days and to provide performance data for routes that are "*not covering marginal costs and are at risk of revision*" (p51 of Stagecoach's proposal). This information could then be discussed in the Network Planning Board working group proposed by Stagecoach, providing TfGM with a much more detailed understanding as to the challenges being faced and an opportunity to act where possible to minimise or reduce the impact. It is worth noting, however, that this approach may not change the commercial decision-making process itself about whether to change a route, particularly where reductions are being contemplated.

10.2.10 *Commercialisation of existing services*: In the South of GM, Stagecoach has proposed to commercialise a portion of the currently subsidised services and has calculated that this would represent a saving of approximately £1.8m in terms of today's current tendered services. This could release some funding from the tendered services budget and potentially represent a saving or could be used to offset any funding

required to support other aspects of Stagecoach's proposals. Alternatively, potential savings could then be invested into the network to help towards improving the reach and stability of the network, which would help to achieve the GMCA objectives outlined above.

10.2.11 It is worth noting that there are some reasons why not all of this saving may be delivered for each of the ten years during the partnership. There is no mechanism proposed to measure the level of savings achieved by GMCA – for there to be a saving achieved it would need to be shown that services remained unprofitable and that TfGM would still be willing to subsidise it in the absence of the proposals. There also remains a risk that Stagecoach may make a commercial decision to scale back some of the services if they remain unprofitable, and, in that case, TfGM may need to take a decision whether to subsidise these routes again.

10.2.12 Furthermore, Stagecoach has requested that GMCA contributes an amount equal to the savings generated into a '*South Manchester Partnership Investment Fund*' (proposal D.5) with the majority being re-invested into the South of GM. This would effectively lead to a potential constraint on GMCA's ability to determine where the funding could be used across GM given that 66.6% of the fund is proposed to be used in the South of GM only. This is considered further in Paragraph 10.2.82 below.

Conclusions

10.2.13 Conclusions are as follows:

- There would be a reduction in the level of network change that could be achieved compared to when franchising the whole of GM and therefore less progress towards the integration objectives.
- Network planning would be more difficult for the South of GM compared to the proposition to franchise the whole of GM, and there may be boundary planning issues and a restriction on which services could operate into the North of GM.
- The commercialisation of a portion of tendered services is of value but any

ongoing value to GM has a degree of uncertainty.

2. Integration and efficiency
Objective
• Integrated within itself, planned as a single network within one year of intervention. • Efficient deployment of bus resources, with frequencies appropriate to demand levels. • Integrated with other transport, particularly public transport. Improvement in measures of efficiency within three years of an intervention Benchmarking of GM network by 2040.

Relevant proposals taken from Stagecoach's proposal offer include:

- D.1 – Consultation & Stability of Route Changes described above.
- D.2 – Performance Accountability: quarterly meetings of those involved in the partnership and bus users to review published performance metrics and to discuss the findings of the trend analysis, identifying remedial actions for any identified area of poor performance; underperformance against metrics would incur a penalty.
- D.3 – Provide Route Performance Data on Unprofitable Routes quarterly.
- C.7 – TfGM to sell Stagecoach single operator bus tickets through its digital channels and Stagecoach to promote multi-operator tickets including the tram and, once in place, trains.

Key issues

10.2.14 *Network integrated within itself and planned as a single network*: In the North of GM, the network planning process would look to balance objectives including meeting social and economic need as well as developing a more efficient network. Resources could be redistributed to better match supply and demand and therefore benefit passengers. It is likely that the benefits for this area would be lower than the benefits for the same geographical area when franchising the whole of GM, given that it would be more difficult to make a broader set of changes.

10.2.15 In the South of GM, a network review process with TfGM along with the provision of additional financial/performance information has potential to enable operators in the South of GM and TfGM to work together to improve the integration and efficiency of the network (with itself and other modes).

10.2.16 As explained in the section above, there would be issues to work through at the boundary between the North and South of GM. The reality of having two regulatory frameworks for running the bus network in GM would inevitably mean that there would not necessarily be the "*seamless integration*" that Stagecoach intends, and the GMCA would therefore not be able to fully achieve its objectives on integration, in particular that the network is "*Integrated within itself, planned as a single network*

within one year of intervention".

10.2.17 However, taking GM as a whole the network would not be planned as a single network, so the objective of changing the integration of the network and its planning as a single network within a year would not be met. Any improvements that could be agreed would take time to work through and discuss among all of the different operators and TfGM.

10.2.18 *Efficient deployment of bus resources*: as set out above, the extent of network changes to achieve efficiencies and improve the network would be limited. While Stagecoach would take part in a set of consultative processes and publish information, TfGM would still not be able to determine changes to the network in the South and may be restricted in introducing changes close to the boundary if such network changes would require changes to any Stagecoach services south of the boundary, given that Stagecoach would have no legal obligation to accept these changes under the proposed partnership in the South of Manchester. Stagecoach may also be restricted in what network changes it would be able to make to services which operated into the North of GM as they would need to satisfy the requirement of not having an adverse effect on a franchised service to successfully obtain a service permit.

10.2.19 The proposed system for performance accountability might lead to improvements in the deployment of bus services in South Manchester and might enable operators who may be members of the partnership to be more responsive to emerging needs. But it would not fundamentally change the decision-making process.

10.2.20 *Network integrated with other transport, particularly public transport*: Stagecoach allude to the fact that they consider the implementation of the partnership in the South of Manchester will enable better integration of the GM public transport network in the future, including integration of the bus network with other modes of transport such as rail and Metrolink. However, within their detailed proposals, this is only specifically addressed in the C.7 proposal for extending ticket retail channels, where they state that they would eventually introduce multi-modal ticket types. Given the lack of detail on how this would be delivered under a partnership in the South of Manchester, it is not possible to determine whether this would offer any improvement in introducing an integrated public transport network above the Do Minimum option.

Conclusions

10.2.21 Conclusions are as follows:

- Network integrated within itself and planned as a single network: Reduced network change compared to franchising the whole of GM, and therefore less progress towards integration and other objectives, particularly efficiency. This would reduce the effectiveness of the franchising

intervention in the North.

- Efficient deployment of bus resources: Planning would not necessarily lead to a change in how new services were evaluated by Stagecoach and potentially other operators.
- Publication and sharing of data in respect of the South of GM would not make the decision-making process a 'mutual' one, as the key decisions would still be made by Stagecoach and potentially other operators that are part of the partnership in the South.
- Network integrated with other transport: the lack of specific proposals relating to integrating the bus network in South Manchester with other transport, including other public transport, means it is not possible to determine there would be any benefit from the proposals in achieving this objective.

3. Quality of service provided – reliability of the service
Objective
A high standard of reliability (whether the services run), punctuality (whether scheduled services are on time) and regularity (whether frequent services come at the stated intervals) is maintained across the network. Reliability, punctuality, regularity of services improves within three years of an intervention; improvement continues year on year. The bus service provides journeys that take as short a time as possible given the distance and the nature of the journey. Speed of bus journeys stabilises or improves in each year; no deterioration within 3 years of intervention.

10.2.22 Relevant proposals taken from Stagecoach's proposal offer include:

- D.2 – Performance Accountability: described above.
- A.4 – Initiatives to Tackle Congestion: set up a Congestion and Traffic Management Working Group and fund an additional signal engineer and an additional inspector within TfGM UTC.

Key Issues

10.2.23 *Extent of likely improvement in the quality of service provided*: In the North of GM, consistently high standards of reliability and punctuality would be incentivised through each franchise's performance regime, which would financially incentivise the achievement of targets for reliability and punctuality. The contractual enforcement mechanism would be more effective than a partnership in raising reliability standards. However, without further resource dedicated to reliability, it is unlikely that the Proposed Franchising Scheme alone would make a dramatic difference to reliability. It is also worth noting that, as explained in the Legal and other considerations section below, any delay to the introduction of a franchise scheme in the North (due to the need to assess a new scheme) would mean a delay

to when any such improvements could occur in the North of GM.

10.2.24 In the South of GM, it is likely that the VPA agreement would include KPI targets as Stagecoach has proposed under initiative D.2. In Section 1.4.3 of their proposal, Stagecoach notes that they would "*welcome a Partnership Performance Regime, that would ensure a consistent level of quality across the South Manchester Partnership*" and note on page 51 that "*underperformance against these measures would incur a penalty*". It would be up to Stagecoach and other operators in the South to determine how to meet such targets, their level of commitment to them, and whether to commit to any financial sanctions. If they did, that would raise questions about whether they would be enforceable and effective.

10.2.25 It is also worth noting that there could be issues at the boundary between the North and South of GM (explained above) and these may impact on service reliability, for example failure to obtain a service permit in a timely manner could have an effect on reliability of services.

10.2.26 *Congestion*: Stagecoach has proposed to set up a congestion and traffic management working group. It is possible that this could help to prioritise schemes in at least a similar way to that proposed under the multi-operator partnership (albeit mainly focussing on the South). Given that making any interventions that were proposed would rely on funds being available and Stagecoach have identified that these would originate in part via the partnership fund proposed, the potential benefit of this proposal is considered in Paragraph 10.2.82 below.

10.2.27 Stagecoach has separately proposed to fund two more individuals to be included in the Urban Traffic Control Room (an additional signal engineer and inspector). As this is a specific proposal, it is considered in the Economic Implications section below.

Conclusions

10.2.28 Conclusions are as follows:

- The performance accountability proposal which includes operators working towards a set of KPIs in the partnership agreement could lead to increased reliability of services. It is unclear, however, how these KPIs would be enforced and how far this commitment, therefore, would go in practice towards meeting the objective of improved reliability.
- The congestion working group proposed by Stagecoach could go some way to improving reliability of services, however any implementation of improvements would be down to Stagecoach and the other operators in the South of Manchester to complete and would depend on funds being available. There is potential for improvement relative to the Do Minimum option given the potential for additional funding released due to the commercialisation of a portion of the tendered services in the South of GM

by Stagecoach.

- Monitoring and publication of data may allow better decision making on infrastructure in a similar way to under the Operator Proposed Partnership option and the Partnership Plus proposal.

4. Harmful emissions from buses are reduced and CO_2 emissions from buses are reduced.
Objective
Harmful emissions such as NO_2 and particulate matter together with CO_2 from buses are reduced. All buses are Euro VI standard or better sooner than the current predicted date of 2030 (including alternative fuel) across GM, with an aim of achieving it by 2024 (the date GM anticipates meeting the legal limits for NO_2). All buses should conform to any required standards of a CAZ to the extent that this is implemented.

10.2.29 Relevant proposals taken from Stagecoach's proposal offer include:

- A.1 – Reduce Fleet Age from 8.03 to 7 years, replacing older buses with new, more environmentally friendly vehicles, acquiring 174 buses in the first 3 years in addition to 32 electric vehicles planned, maintaining a maximum fleet age of 15 years.
- A.3 – Euro 6 Compliant, Ultra-Low & Zero-Emission Vehicles: Euro 6 compliance by September 2021 will be met by new vehicles and retrofitting 328 buses subject to DEFRA funding and agreed terms for retro-fit.

Key issues

10.2.30 *Value of vehicle age improvements*: In the North of GM, there would be a maximum age for buses to operate and a maximum average age for the fleet used by operators. This would mean that the rate of replacement would need to be kept up, ensuring newer technologies (especially Euro VI) were introduced, and that the average age of the fleet would not increase over time.

10.2.31 In the South of GM, Stagecoach proposes that they could reduce their average vehicle age from 8.03 years to 7.0 years. The level of benefit of a marginal change in the fleet age for Stagecoach only is likely to be limited (but still meaningful) and is considered in the Economic Implication Section below.

10.2.32 *Clean air proposals*: In the North of GM, TfGM would apply as the operator for this funding on behalf of the GMCA for the whole of the North of GM. TfGM would establish a roadmap for the move to alternative fuel vehicles that would have zero, or ultra-low emissions.

10.2.33 In terms of Stagecoach's proposal in respect of Euro VI compliance by September 2021, as the commitment is caveated as being subject to Defra funding for retrofitting existing fleet to be Euro VI compliant (page 34 of the proposals document

in the dependencies section) it would not necessarily deliver more than that which could be achieved under the Do Minimum option.

10.2.34 Stagecoach proposed to ensure that 45% of its fleet would be "*better"* than Euro VI compliant in September 2021. When considering how much benefit this brings relative to the Do Minimum option, it is important to note that Stagecoach's current fleet profile contains over 100 hybrid vehicles that once retrofitted would fall into the category of "*better than Euro 6"*. Stagecoach's proposal to achieve 45% of their fleet being 'better than Euro VI' is therefore achievable only by virtue of the Euro 6 compliance proposal. It is possible that any new fleet purchased between now and September 2021 would fall into the "*better than Euro VI"* category, but as Stagecoach have only committed to purchasing "*a balance of new vehicles (which are Euro 6, ultra-low or zero emission*" (p38), taken together, these proposals only amount to a firm commitment on Euro VI (which is subject to agreed funding from Defra as explained above).

10.2.35 Over the longer-term, TfGM would not have the same degree of control over the specification of buses in the South of GM (compared to franchising the whole of GM) which may hinder its ability to deliver further change beyond that agreed with Stagecoach in the initial years of partnership.

Conclusions

10.2.36 Conclusions are as follows:

- Value of a reduction in the average age of the fleet is likely to be marginal and some of this would need to be developed by Stagecoach anyway to stop its fleet age rising further.
- Euro VI commitment is dependent on funding coming forward and agreed terms for retrofitting so is subject to the same terms as likely under the Do Minimum option.
- There is uncertainty as to how much CO2 emissions would be reduced versus the Do Minimum option, given the proposals outlined do not bear a significant difference to what could be achieved in terms of low emission

fleet as outlined above.

Fares and Ticketing

5. Integrated and simple fares
Objective
The fares system is simple to understand and convenient to use: • Period tickets should be valid on any bus service within one year of an intervention. • There should be equivalent period tickets covering bus and Metrolink within one year of intervention and, in time, local rail services in Greater Manchester. • Single fares should be standardised so that there are similar fares for similar journeys within one year of intervention.

10.2.37 Relevant proposals taken from Stagecoach's proposal offer include:

- C.1 – Simplified Fares & Ticketing: a reduction in fare bands from 5 to 4 and a reduction in the number of period tickets to 3 (daily, weekly, monthly).
- C.2 – Carnet Ticketing: 5 unlimited day tickets valid for 3 months.
- C.4 Fare Capping: ability to take unlimited journeys to an agreed daily or weekly limit on Stagecoach buses and commitment to participate in any future GM multi-operator fare capping system.
- C.5 – Reduced Maximum Fare for use on buses between 7pm and midnight and midnight and 4am.
- C.3 – Change Ticket Acceptance Policy: TfGM to allow buyer of a commercial operator ticket to use it on a largely similar tendered service provided at different times by a different operator.
- C.7 – Extend Retail Ticket Channels: TfGM to sell Stagecoach single operator bus tickets through its digital channels and Stagecoach to promote multi-operator tickets including the tram and, once in place, trains.

Key Issues

10.2.38 *Value of simplification*: in the North of GM, GMCA would take full and sole responsibility for setting and delivering policy on fares and ticketing. GMCA would simplify the current fares and ticketing offer: period products (such as day and weekly tickets) would be valid throughout the whole of the franchising scheme area

(which under Stagecoach's proposal would be the North of Greater Manchester). Single fares would be simplified and there would be a reduced and simplified number of fare bands. TfGM would also be able to determine the scope and pricing of multi-modal tickets covering bus and Metrolink. GMCA would also have the ability to ensure that discounts and concessions were integrated into the overall fares offer to passengers.

10.2.39 In the South of GM, Stagecoach has proposed to reduce the number of fare bands to four, to create a single suite of period tickets for its services by January 2021 (which would have the effect of removing some geographical variants to ticket prices), to extend the introduction of carnet ticketing and to introduce a flat fare in the evenings. These measures would increase simplification of fares in the South of GM (on Stagecoach services) to an extent.

10.2.40 It is necessary, however, to consider the fares and ticking proposition at a GM wide level in order to understand whether the overall picture would be significantly simplified relative to the Do Minimum option. At the GM-wide level, there would be the following main categories of tickets:

- a range of individual operator tickets in the South of GM (the number of different ranges would depend on the number of operators in the South in the future);
- a range of franchise tickets covering the North of GM; and
- a range of tickets covering the whole of GM, which Stagecoach propose is governed by a 'Multi-Operator Board', which would broadly replicate the current GMTL Board.

10.2.41 At the GM wide level, therefore, there would be three main types of tickets i.e. one more main category than under the Do Minimum option. Whilst Stagecoach proposes to promote the multi-operator ticket better, there is no mechanism proposed to reduce the existing price premium between the individual operator tickets and the GM wide ticket, nor any mechanism proposed by which individual operator tickets could be linked to franchise tickets. Taking GM as a whole, franchising in the North of GM would make the fares and ticketing proposition less complex in that area, whereas the partnership in the South would not necessarily improve overall complexity in that area given there will still be multiple operators running services. Having two separate ticketing arrangements, one in the North and one in the South of Manchester, would create further complexity for customers, particularly those who travel between the North and South of Manchester. This could mean that, should franchising in the North and Stagecoach's proposal of a partnership in the South be implemented, there could potentially be more overall complexity across the GM network as a whole than in the Do Minimum option, meaning that GMCA would be unable to meet objectives on simplicity and integration.

10.2.42 It is also worth noting that there would potentially be additional complexity for

customers at the boundary between the North and South of GM. Agreements would need to be reached on permitting (including service permit conditions) and ticket acceptability – considered further in the Commercial Implications Section 10.4 below.

10.2.43 *Fare capping*: as part of their proposal to implement fare capping across their South Manchester bus services, Stagecoach state this will allow customers to take unlimited journeys across these services to an agreed daily and weekly limit, stating customers will be able to use contactless payment methods and that they will be appropriately charged up to the maximum price. Whilst this would reduce the complexity of physically paying for tickets (by using contactless payments) and while Stagecoach will automatically cap fares up to a maximum daily or weekly amount, the proposal does not in itself reduce the complexity of the ticket offering for customers using contactless payment methods. Instead it simply removes the need for customers to choose which type of ticket to purchase when travelling, however it is recognised this could lead to contactless-paying customers paying less than if they had made an initial ticket choice that would have proved more expensive. Without more detail, it is difficult to see how fare capping would work without contactless payment methods being used.

10.2.44 *Ticketing acceptance policy*: this would require TfGM to change its current arrangements for tendering services and, as noted on page 48 of Stagecoach's proposal, this would result in higher contract prices (i.e. additional costs) in some instances for TfGM. The level of benefit that this may bring is considered in Section 10.3 Economic Implications below.

10.2.45 *Extend Retail Ticket Channels*: Stagecoach has proposed that TfGM sells Stagecoach individual operator tickets on TfGM digital channels. (It is assumed that TfGM would likely therefore need to offer this to other operators that may enter into a partnership in the South). It also proposes to promote multi-modal arrangements better. TfGM would expect that Stagecoach would welcome its tickets being marketed by TfGM under the Do Minimum option (given that this may be in Stagecoach's commercial interests) and, in the absence of any price change to reduce the premium between multi-operator and individual operator tickets, there would be limited fares benefits to customers.

Conclusions

10.2.46 Conclusions are as follows:

- Some simplification is possible, but the overall position would not be substantially simplified - it could be more complex.
- The extent to which greater emphasis on all-operator ticketing would benefit customers it not clear given that there is no price reduction

proposed.

6. Fares should offer value for money
Objective
• Fares offer value for money to customers while supporting a balanced funding position for the bus market. • A framework approach is taken to consideration of any further discounted tickets within one year of intervention.

10.2.47 Relevant proposals taken from Stagecoach's proposal offer include:

- C.1 – Simplified Fares & Ticketing: a reduction in fare bands from 5 to 4 and a reduction in the number of period tickets to 3 (daily, weekly, monthly).
- C.2 – Carnet Ticketing: 5 unlimited day tickets valid for 3 months.
- C.4 – Fare Capping: ability to take unlimited journeys to an agreed daily or weekly limit on Stagecoach buses and commitment to participate in any future GM multi-operator fare capping system.
- C.5 – Reduced Maximum Fare for use on buses between 7pm and midnight and midnight and 4am.
- C.6 – Concessionary & Socio-Economic Needs: Stagecoach will continue to participate in existing schemes and cooperate on any broader GM scheme initiatives.

10.2.48 *Fare pricing*: In the North of GM, the pricing decisions for single fares and daily, weekly and monthly tickets would be made by GMCA. As reflected in the Assessment, the expectation is that network period products would initially be priced at the lowest price for an operator-own period product from a major incumbent. However, it is worth noting that there is a risk that the revised franchised area is commercially weaker on its own and requires additional ongoing funding (see Section 10.5 Financial Implications) which could affect the ability of GMCA to ensure tickets are value for money in this area.

10.2.49 In the South of GM, Stagecoach and potentially other operators would set the prices of their individual operator tickets (as they currently do under the Do Minimum option).

10.2.50 There would be a third ticket type covering the whole of GM, which is currently (and would likely still need to be) priced at a premium above individual operator tickets. This leads to there being three main types of tickets in GM offering different value for money.

10.2.51 *Discounts for socio-economic needs / future concession schemes*: In the North of GM, GMCA would introduce a framework approach to looking at fare discounts to take account of different factors including increasing patronage overall (rather than on one operator's buses) and helping the socially disadvantaged. Stagecoach has

agreed to work with any discounts that it currently offers and "*evaluate each scheme to determine whether it could support it commercially or on a Local Concessionary Scheme basis*" (p49) – i.e. no better and no worse off. Depending on the nature of a concession, they would not necessarily be obliged to work on this basis. This would effectively ensure that the GMCA would be no better or worse off, so existing issues with agreeing concessionary reimbursement would still apply, potentially increasing cost of GM wide introduction of such schemes relative to under a GM wide franchising scheme.

Conclusions

10.2.52 Conclusions are as follows:

- Pricing in South Manchester would not necessarily offer any greater value for money for customers than is currently available in the market.
- Compared with the Proposed Franchising Scheme, GMCA would have less scope to determine and carry through fares policy.

7. Account-based smart ticketing introduced as soon as possible
Objective
Quick introduction of account-based smart ticketing, enabling a 'fair price promise' for different modes. • Whole bus network capped products for day and week tickets available as soon as possible, offering the lowest possible fare. • A multi-modal capped product introduced as soon as possible.

10.2.53 Relevant proposals taken from Stagecoach's proposal offer include:

- C.4 – Fare Capping: ability to take unlimited journeys to an agreed daily or weekly limit on Stagecoach buses and commitment to participate in any future GM multi-operator fare capping system.

Key issues

10.2.54 In the North of GM, TfGM would embrace electronic means of payment (cards, mobile phones etc.) for the bus network as has been done on Metrolink, but as there would be a delay to the introduction of a franchising scheme in the North of GM due to the legal process that would need to be followed (see Section 10.7 Legal and Other Considerations below) it may take longer for this to be rolled out compared to when franchising the whole of GM under the Proposed Franchising Scheme.

10.2.55 In the South of GM, Stagecoach proposes to introduce fare capping by the summer of 2021 with the intent to support TfGM in rolling this out across GM (see Paragraph 10.2.43 above – operators have made national commitments on this as well). Stagecoach also intends to support a capped product between Stagecoach and

Metrolink.

10.2.56 There are a number of potential issues in terms of achieving the GMCA's objectives:

- Stagecoach's proposal applies to its own services so it is not certain that other operators in South Manchester (particularly any future entrants to the market) would participate;
- it may take longer to roll-out smart capping across the whole of GM under two different operating models compared to franchising the whole of GM given there would be two competing markets of Franchising in the North and Partnership in the South, and also given the necessary interfaces required between systems and back-offices in the North and South of GM; and
- any GM wide capping product may not be at the price of period tickets in the franchised area due to competition issues, which could retain some complexity for customers, as the pricing would likely have to exceed operator own tickets (or at least not act as a price constraint on their tickets). This would result in some customers paying a premium for being able to travel GM wide.

Conclusions

10.2.57 Conclusions are as follows:

- Under the Stagecoach proposals, introducing account-based smart ticketing would be more complex than under the Proposed Franchising Scheme both to administer and from a user perspective.
- Taking the South of GM alone, there could potentially be speedier fare capping than would be envisaged under the current partnership proposals (at least on Stagecoach services), but there may be a delay to the implementation of this in the North of GM for the reason explained above.
- Any GM wide capping product may not be at the price of period tickets in the franchised area due to competition issues, which could retain some complexity for customers and may result in some customers paying a

premium for being able to travel GM wide.

Customer

8. Ease of understanding of the bus service is improved
Objective
The ease of understanding of the bus service is improved for users and there is a high quality of information available (at stops and stations; on buses; and on the web). Branding is clear and enhances improved perception of the service. • Comprehensive information is put forward covering the whole of the public transport network, whether provided by the GMCA or third party. • Accurate information is provided - information that is up to date, consistent, correct and where relevant, in real time. • Information presented in an easy to understand way on a number of channels. • All buses fitted with audio and visual communication systems to convey information to customers during journeys about stops and routes. • Branding and marketing - a unified brand is there for the bus network to ensure that the public transport network is simple to understand and easily recognisable, giving customers confidence in using the network. • Customer contact - a single point of contact for customers to make enquires. Each of these should be achieved within one year of any intervention.

10.2.58 Relevant proposals taken from Stagecoach's proposal offer include:

- B.1 – Brand Strategy: all Stagecoach buses will be repainted using TfGM branding guidelines but will retain a small Stagecoach identifier to enable customers to identify buses on which a Stagecoach ticket may be used; prominence for multi-operator tickets in marketing messages on buses;

some joint-branded items on Stagecoach's independent staff uniform design; aim to create unified app and website with TfGM with interim co-branding to Stagecoach's digital channels; support for open data digital service providing real time information.

- B.2 – Seamless Digital Experience: Stagecoach will make elements of its existing digital technology available to provide a shared GM Bus app and website.
- B.3 – Customer Information Sharing: Stagecoach will provide open data to improve information provided to bus users.
- B.4 – A Single First Point of Customer Contact: TfGM digital app and website should provide a single point of contact for first contact.
- B.5 – Customer Commitments Pledge: Stagecoach will set out annual commitments to inform decisions on customer-related initiatives and targets which its performance can be measured against.
- A.2 – Fit/Retro-Fit Audio-Visual information systems to all Vehicles: these systems share real time next stop information and the bus's destination.

Key Issues

10.2.59 *Branding*: Stagecoach has proposed to adopt appropriate TfGM led branding and, so long as this is implemented by other operators in the partnership area, this would go towards meeting GMCA's objective of a single unified brand.

10.2.60 There inevitably may be constraints as to how far this brand can go given that the buses (and other marketing material) would still need to be clearly distinguished compared to the brand in the North of GM to signify differing ticketing arrangements and also to make it clear to customers who is accountable for a given service. This inevitably means that the network may not feel fully integrated and, despite Stagecoach's willingness to participate, there could still be some confusion given the various limitations on achieving one unified brand noted above.

10.2.61 There may be some confusion for customers at the North/South boundary where buses run by operators under the franchise scheme in the North of GM and buses run by operators from the partnership area in the South of GM run close to one another where such services have a service permit to operate in the North.

10.2.62 *Single point of contact & single information provision*: in terms of information sources, in the North of GM, there would be a single comprehensive and real time source. This would be easy to understand and on a number of channels (including the web and on-board buses), and every effort would be made to ensure that it is up to date, consistent, and correct.

10.2.63 In the South of GM, Stagecoach has proposed that it would work with TfGM to develop a managed service and proposes that the TfGM digital app and website should provide customers with the single first point of contact. Subject to a value for money test, this could help to set up a single comprehensive source of information

although it is worth noting that, unlike under franchising the whole of GM, there would still exist partial sources of information run by individual operators that may add to confusion – as noted by Stagecoach in the discussions with TfGM when preparing their proposal, this is likely to be required in order to meet competition requirements in respect of not colluding with other operators and GMCA.

10.2.64 *Customer Commitments Pledge*: Stagecoach have proposed to publish an annual commitments pledge to inform decisions on customer-related initiatives and targets which its performance can be measures against. These commitments will aid in the understanding of the bus service for customers which would help towards GMCA's objective of information presented in an easy to understand way on a number of channels. However, no further detail has been given on what these commitments would potentially involve, and it is therefore not possible to say with certainty that this proposal would help to improve the ease of understanding of the bus service for customers given they cannot be assessed without further detail.

10.2.65 *Real-time information and audio-visual equipment*: in respect of real time information, TfGM would make sure that, in the North of GM, the information provisions in the Act were taken forward in a way most useful to external providers of information, promoting the best use of this to make Greater Manchester more navigable. It is assumed that operators in the South of GM would also do this (given that it would be a legal requirement), although the format of the type of data available may vary.

10.2.66 For its operations in the South of GM, Stagecoach has proposed to adhere to the DfT's Open Data regulation and expect to go beyond this. They also propose to fit audio-visual equipment to all fleet by December 2023. As it is likely that the provision of data and fitting of audio-visual equipment will be required by law, there may be a short-term improvement compared to under the Do Minimum.

Conclusions

10.2.67 Conclusions are as follows:

- There would be an improvement in information provision and the signposting of a single place to go, but there would still exist partial sources of information.
- Introducing a common brand while at the same time having different parties accountable for the services run and differing fares and ticketing

arrangements may lead to confusion for customers.

9. Safety of travel is improved
Objective
Safety is improved and incidents of crime or anti-social behaviour on buses are reduced. There is a perception of improved safety on the bus network, encouraging bus use within three years of intervention, and continued improvement after that. • There is active management to improve safety in partnership with the police, and to reassure passengers and potential passengers that the bus is a safe form of transport to use. • All buses installed with CCTV within one year of intervention. • Off-bus safety – there are well-lit and maintained, easily navigable interchanges with appropriate staffing.

10.2.68 Relevant proposals taken from Stagecoach's proposal offer include:

- E.8 – TravelSafe Scheme: Stagecoach will maintain its current level of support, 4 employees on a part time basis, to patrol bus and tram services.

Key issues

10.2.69 Stagecoach is committed to maintaining its current level of support throughout the partnership and has confirmed that Stagecoach would continue to work with TfGM and Greater Manchester Police to maximise the benefit of the TravelSafe Scheme over the next ten years. As this is a scheme already in place that Stagecoach already supports, this proposal in itself does not likely bring more benefit than that under the Do Minimum option.

Conclusions

10.2.70 Conclusions are as follows:

- The proposal to continue supporting the TravelSafe Scheme over the next ten years would not on its own bring additional benefit relative to the Do

Minimum.

10. Improvement in on-bus experience
Objective
Consistent high standards are achieved for the cleanliness of buses and for driver behaviour, and the quality of vehicles improves. • Cleanliness - commitment to a high standard of cleanliness across all services. All buses to receive external clean daily; light interior clean pre-service; interior deep clean once a month within one year of intervention. • Bus drivers - continuous improvement in driver behaviour to improve customer experience. Appropriate professional standards and training of drivers. All drivers to have undertaken appropriate customer service training within the last year within three years of intervention. All buses fitted with Eco drive systems within three years of intervention. • Quality of assets - improved vehicle quality and connectivity for passengers.

10.2.71 Relevant proposals taken from Stagecoach's proposal offer include:

- B.5 – Customer Commitments Pledge.
- B.6 – Mid-Journey Cleaning: mid journey cleaning for all main corridor services with TfGM's cooperation.
- B.8 – Additional Customer Experience Staff: this will enable every bus station to have an inspectorate presence during peak periods.
- B.9 – High-Quality Training: to be maintained.
- B.10 – Deliver Training to Small & Medium Sized Operators: to be offered at an appropriate commercial rate.
- B.7 – Free WiFi on Buses: Stagecoach will retrofit 127 older buses.
- E.1 – Real Living Wage: Stagecoach is committed to providing a fair wage to their employees and promoting responsible employment.
- E.2 – Workplace Engagement and Voice: continue to maintain and promote a culture of openness and accountability across the business.
- E.3 – Health & Wellbeing – Stagecoach will continue to promote initiatives to ensure the workforce feel supported and part of a wider community, such as health and wellbeing champions, a counselling service, employee interaction platforms and local recognition schemes.
- E.4 – Recycling: Stagecoach will continue their partnership with Waste Services suppliers so they can recycle 100% of the waste from Stagecoach vehicles.
- E.5 – Support for the unemployed: continue to support and promote jobseekers in Greater Manchester by continuing to offer a scheme that allows customers who present their Jobcentre Plus card to receive half-priced single fare tickets. Additionally, Stagecoach will continue to work with TfGM on their offer of providing free journeys to unemployed people or the recently employed.
- E.6 – Community Engagement: Stagecoach will continue to partner with

charities who work within Greater Manchester.

- E.7 – Breakfast Clubs: Stagecoach will participate in the Greggs Breakfast Club programme in Manchester, funding a portion of partner school breakfasts. They will also visit primary schools that we have funded with breakfast to talk about using buses and general bus safety.

Key Issues

10.2.72 *Customer experience*: Stagecoach has proposed to deliver a customer commitments pledge from day one of the partnership, introduce additional customer experience staff and introduce mid-journey cleaning. There are proposals within the multi-operator partnership proposal on these areas. Stagecoach's proposals on community and employees (E.1 – E.7) could help to further improve staff morale and on-bus experience for customers. However, most of these commitments are commitments to continue doing things that Stagecoach is already doing and so are a feature of the Do Minimum option. Under the Proposed Franchising Scheme, there are proposals that would improve customer experience above the Do Minimum option, such as a unified branding across GM, improved passenger waiting facilities, and a modernised bus fleet to reduce harmful emissions and improve air quality.

10.2.73 *Driver standards*: For the South of GM, Stagecoach's commitments to maintain its standards and continue improvement would not necessarily bring additional benefit relative to the Do Minimum option. The partnership may not guarantee that there are improved training standards for all operators given that new operators could also enter the market and not offer these standards. Under the Proposed Franchising Scheme, there would be standardised driver training across all franchise operators to a high level of quality as specified in the franchise contracts, ensuring that all drivers across the network would have had the appropriate training and would all work to the same high standard.

10.2.74 *Quality of assets*: In the North of GM TfGM could specify the quality of assets required and monitor these on an ongoing basis. Stagecoach proposes to introduce WiFi on its fleet within one year of the partnership. The likely benefit associated with this is considered in the Economic Implications Section 10.3 below.

Conclusions

10.2.75 Conclusions are as follows:

- Cleaning commitments could improve the customer experience.
- Further commitments are unlikely to be of great benefit to passengers and

it is not clear if there is a material shift from the status quo.

- Some potential benefit from a faster roll-out of Wi-Fi.

Value for Money

11. Value for money for public investment
Objective
The best value for money for public investment into the bus market, specifically the options being considered as part of the Assessment to reform the bus market. The best value for money for any other specific intervention in the bus market. Both of these will be measured by (i) the social value of any public investment, taking into account all of the costs of the intervention, measured by a Net Present Value calculation (the benefits minus all of the costs), and (ii) the benefits of the investment with regard to the constrained budget of public sector investment (money available to the Mayor and GMCA), measured by a BCR of the benefits divided by the costs to that constrained budget.

10.2.76 Relevant proposals taken from Stagecoach's proposal offer include:

- Stagecoach's profits, in excess of a target level of profit, are to be shared 33.3% the GMCA, 33.3% South Manchester Partnership Investment Fund, and 33.3% for Stagecoach.
- Create a South Manchester Partnership Investment Fund: any savings to GMCA from initiatives proposed by participating operators to be used (a) by GMCA to invest in initiatives across GM to benefit bus user experience and encourage a modal shift to bus (33.3%); and (b) for initiatives that benefit bus user experience and encourage a modal shift to bus in South Manchester (66.6%).

Key issues

10.2.77 *Profit sharing mechanism*: As Stagecoach's central case profit forecasts show that there would be no profit share to distribute in the first five years of partnership, it is likely that GMCA would not receive any profit share in the first five years of the partnership.

10.2.78 Stagecoach have presented some potential scenarios to TfGM in which revenue could rise if investments were made that had the effect of improving Stagecoach's profitability. However, there is no clear plan as to how these scenarios would be achieved or which parties would sponsor the investment that would enable these scenarios to be realised. Potential downside risks to Stagecoach's profitability may also offset any increases in profitability as a result of measures, thereby further reducing the chance of the GMCA receiving a profit share.

10.2.79 Due to uncertainties around longer term forecasting, Stagecoach have proposed that after year five of the partnership, the target level of profit would be re-negotiated. This may yield higher contributions to the profit share following the target profit level

being renegotiated, however this would be entirely dependent on the successes of all of Stagecoach's proposals noted and analysed in this report, and any possible change in the target profit level is therefore not able to be accurately forecasted based on the current information.

10.2.80 It is worth noting that, under the current proposal, effectively only 66% of the revenue from the profit share mechanism would certainly be used for investment in the network, as 33% goes back to Stagecoach. Of the 66% to be invested, half of this would be in effect for investment in the South of Manchester, which will predominantly benefit Stagecoach as it is the largest operator in this area, and some of the remaining investment in the rest of the network will also indirectly benefit Stagecoach by providing a more efficient bus network as a whole with the aim of increasing patronage across GM.

10.2.81 By contrast under the Proposed Franchising Scheme for the whole of GM, any potential increase in profitability would flow directly back to GMCA via either increased revenue (as GMCA takes revenue risk) or reduced franchise payments in the longer term.

10.2.82 *Partnership fund*: Stagecoach has proposed that some savings from the partnership could be reinvested though an operator-based fund for innovative schemes. The key saving identified is a potential £1.8m p.a saving to GMCA due to Stagecoach commercialising a portion of the tendered services budget in the South of GM. Notwithstanding the issues identified above, which mean that any savings may not be sustained, Section 10.3 Economic Implications below considers of how any funds available could be used / the likely level of economic benefit.

10.2.83 *Value for money for public investment*: in the North of GM, it is expected that beyond the margin that operators would take for operating the service and taking the operation and cost risk that this implies, any surplus generated by fares or other revenues would be able to be reinvested in the bus network. This reinvestment would be aimed at improving the bus service, whether through reductions in fares, improvements to the network or other changes.

10.2.84 It is likely that there would be reduced benefit for any public investment in the North of GM compared to franchising the whole of GM under the Proposed Franchising Scheme, given that some of the benefits (e.g. network savings) are reliant on being able to re-distribute resources across the whole of GM (i.e. with no constraints on geography). Moreover, as the franchised area would be smaller in size, it may be more challenging to attract the same level of interest from bidders as would be possible when franchising the whole of GM (given that admin/compliance costs would still need to be incurred but operators would not be able to bid for as many contracts as they could do when franchising a larger area). This creates a higher risk that TfGM may receive bids that are lower value for money, as is considered in Section 10.4 Commercial Implications below. Additionally, the implementation of

franchising would be delayed due to the need to undertake a new assessment (see Section 10.7 Legal and Other Considerations below), which would delay any benefit that can be delivered from franchising in the North of GM, as is considered further in Section 10.3 Economic Implications below.

10.2.85 In the South of GM, GMCA would spend money in supporting and monitoring the partnership (see Section 10.6 Management Implications below). Any improvement in value for money would arrive from investment by Stagecoach and other firms in partnership measures. The level of benefit that the initiatives may bring is considered in Section 10.3 Economic Implications below.

10.2.86 *Phase 2 interventions*: As explained in the Assessment at Section 8.8, the opportunities for implementing Phase 2 measures may be more limited under a partnership because it would not be able to undertake some of the interventions under a partnership – these limitations would mostly apply to the South of GM under the scenario proposed by Stagecoach. Whilst the profit share / partnership fund proposed by Stagecoach may provide funds that could be used to carry out Phase 2 interventions, the level of these funds is not certain given the profit share is dependent on Stagecoach's performance in the South of Manchester, and the extent to which any Phase 2 interventions could be implemented will be limited in the South of Manchester due to there being a voluntary partnership with operators as opposed to GMCA having control such as they would in the franchised North.

10.2.87 Stagecoach has proposed that GMCA use a series of AQPSs to maintain standards (e.g. vehicle quality) on key corridors (considered further in Section 10.7 Legal and Other Considerations below).

Conclusions

10.2.88 Conclusions are as follows:

- The partnership fund is of uncertain value given the contingent nature of any contribution, relying on identified savings being realised and depending on the level of profit made by Stagecoach which would feed into the profit share arrangement.
- Value for money for public investment would be significantly lower compared to franchising the whole of GM because of the reduced scope for action to make a change to network and fares and other factors.
- Opportunities for implementing Phase 2 measures may be more limited in

the partnership area.

12. Any market intervention is sustainable in the long-term
Objective
Any intervention in the market should be feasible in its commercial and management arrangements. Any intervention in the market is long lasting, given the need to create a sustainable improvement in the Greater Manchester Bus market. It should be still in place in 2040 at the least.

Key issues from Stagecoach's proposal offer include:

10.2.89 *Longevity of franchising in the North*: as explained in the Assessment, franchising under the Proposed Franchising Scheme would represent a long-term intervention and the same applies for franchising being introduced in the North of GM. However, any instability in the South of GM could impact the whole of GM given the necessary interface between the North and South of GM under the proposal..

10.2.90 *Longevity of a partnership*: For the South of GM, it would be expected that any partnership would be agreed for around ten years as per Stagecoach's proposals. At that stage it could be re-negotiated, a new partnership agreed, or operators could choose to return to the previous, wholly unregulated market. There would be no assurance that the benefits would continue over the long-term particularly as Stagecoach notes that: "*There is however, a clear level of uncertainty today, of what post 10-years will entail*" (p34).

10.2.91 Whatever the governance arrangements that might be assumed, any partnership that could be agreed carries the risk that improvement would not be sustained over the long-term. Operators in a deregulated market will have different and potentially divergent objectives and the potential to sustain a partnership over the very long-term in this environment is low. It is therefore unlikely to still be in place in 2040 without significant change. While it may be the case that successive partnerships would continue to deliver benefits to passengers, partnership arrangements can break down and the experience of some other partnerships is that initial commitments are not always sustained, for a variety of reasons. It is also possible that not all operators in the South of GM would agree to enter into a partnership or may agree less ambitious standards.

Conclusions

10.2.92 Conclusions are as follows:

- As with the partnership options tested in the Assessment, the longevity of

the partnership in the South of GM is not certain.

13. Any market intervention is affordable
Objective
Any intervention in the bus market is affordable for GMCA over the long-term. Affordability in each year following intervention.

Key issues

10.2.93 *Cost implications for franchising*: the Proposed Franchising Scheme proposed a smoothing out of the EBIT margin earned by operators across GM. Although the total quantum of risk taken on by GMCA may be lower if franchising was limited to North Manchester than under the Proposed Franchising Scheme (given that it would only take revenue risk for the North of GM), as the North achieves lower EBIT margins than in the South it is possible that the North could require additional subsidies to achieve the outputs that could be possible if franchising was introduced across the whole of GM. Additionally, TfGM would incur costs of administering the partnership. This is considered further in the Section 10.5 Financial Implications and Section 10.6 Management Implications below.

10.2.94 *Ongoing financial pressures*: operators in the South of GM would need to respond to financial pressures that may arise (e.g. by increasing fares or cutting the network) in a similar way to how TfGM might under franchising in the North of GM. However, the range of tools available to operators to deal with such pressures are more limited – the GMCA may be able to take a longer-term view and subsidise the running of buses more easily to avoid increasing fares or cutting the network if the GMCA made such a decision. It is also worth noting that, given the current proposal is for a voluntary partnership agreement, the enforceability of the contract will therefore depend on its terms and what remedy is sought for any breach, the details of which are not included in Stagecoach's proposal. Therefore, if the terms of the VPA are not stringent enough with sufficient remedial actions included, operators may be able to exit the agreement at any time, so one way for Stagecoach or other operators to make running the services affordable could be to exit the partnership agreement or choose not to honour some of its commitments given difficulties in their enforcement by TfGM. This may mean that the interventions are not enduring. Alternatively, operators could focus on meeting the commitments made and reduce commercial mileage to reduce costs, which could have a detrimental effect on the scope of services run in the South of GM.

Conclusions

10.2.95 Conclusions are as follows:

- This may make a franchising scheme that applies only to the North of GM

relatively costlier and less financially sustainable.

- In the South of Manchester, any interventions will need to be agreed between the parties of the partnership agreement which could delay their implementation, and reduce the benefits to Greater Manchester as a whole given the separate process to implementing interventions in the North of Manchester.

Strategic Implications - Conclusion

10.2.96 It is recognised that there are potentially competition issues with the proposals, which would need to be resolved in order to implement the proposal legally, and so Stagecoach and TfGM would propose to undertake discussions on these with the CMA if it was considered appropriate to do so. For the purposes of this report, however, it is assumed that these issues will be resolved should the proposals be accepted.

10.2.97 Stagecoach intends that its proposal will aim to create a 'seamless' market in Greater Manchester where GMCA takes less risk and has lower costs than with the current franchising proposal as there will be a smaller market to franchise. However, the level of benefit that the proposal may bring is likely to be moderate due to the difficulties inherent in having two regulatory frameworks and the constraints that this imposes on what can be achieved, making it unlikely that GMCA would achieve the Vision for Bus as part of its 2040 Strategy if the option suggested by Stagecoach was pursued. There remains a risk that the partnership breaks down (given that it is voluntary in nature) and a risk that the partnership is not renewed / no longer relevant after ten years.

10.2.98 Stagecoach's financial proposals are of note as these include a profit-sharing mechanism, but this would be of limited value given that Stagecoach's central forecasts show that there would be no profit share over the first half of the partnership and after this point the target level of profit would need to be re-negotiated with Stagecoach.

10.2.99 Stagecoach's proposal to commercialise some tendered services would enable GMCA to achieve savings, but for the reasons set out above, there is a risk that the realisation of this saving is not enduring over the term of the partnership. Stagecoach's request that this amount is then invested by GMCA into a partnership fund has the effect of constraining GMCA's ability to choose where to spend this money and any contribution to the partnership fund via the profit share mechanism is likely to be limited given that the profit share mechanism is likely to deliver no value for the reasons explained.

10.2.100 Stagecoach's proposals on fleet investment provide a clear commitment to ensure that their South Manchester fleet is Euro 6 compliant by September 2021. However, as this is subject to agreed funding from Defra (as is the case currently) it is not certain that this would lead to any significant benefit relative to the Do

Minimum option. This is considered further in Section 10.3 Economic Implications below.

10. 3 - Economic Implications

Introduction

10.3.1 This section considers the economic implications of Stagecoach's proposals. The aim of this section is to comment on the level of benefit that is likely to be achievable across GM and therefore determine whether the proposals could change the conclusion of the economic case in the Assessment. The Financial Implications section below contains a discussion of the cost implications to GMCA, that are also of relevance. References in bold are references to Stagecoach's 35 initiatives.

Simplified and integrated fares

Simplicity

10.3.2 To recap, Stagecoach proposes to reduce the number of fare bands to four **(C.1)**, create a single suite of period tickets for its services by January 2021 **(C.1)**, extend the introduction of carnet ticketing **(C.2)** and continue to offer flat fares for adults travelling on buses between 19:00 – 24:00 and 24:00 – 04:00 **(C.5)**.

10.3.3 The Strategic Implications section above explains why when taking the GM as a whole, despite Stagecoach's proposals in respect of the South, the fares and ticketing offer across GM would potentially be more complex than under the Do Minimum.

Value for Money

10.3.4 In contrast to the Operator Proposed Partnership, Stagecoach has not proposed to reduce the existing premium between the multi-operator and individual operator tickets.

10.3.5 Stagecoach's proposal to create a single suite of period tickets **(C.1)** would mean that some discounts are removed (unlike under the franchising proposals) so this may lead to some disbenefits.

10.3.6 In terms of concessions and targeting socio-economic needs Stagecoach has proposed to continue to participate in existing schemes it is currently part of and align on the implementation timelines of any future schemes set out by GMCA **(C.6)**.

Fare capping

10.3.7 Stagecoach proposes to introduce fare capping on its services by the summer of 2021, introduce a capped product between Stagecoach and Metrolink by the end of 2021 and work with TfGM on an ongoing basis to deliver fare capping that works for both the franchised and partnership areas **(C.4).** This means that capping could be introduced more swiftly on Stagecoach's own services, but as explained in the Strategic Implications section above, there are a number of potential issues in terms

of achieving GMCA's objective of GM wide capping.

Supported services

10.3.8 Stagecoach requests that customers who purchase a commercial operator ticket can use their ticket on largely similar tendered services in the South of GM **(C.3)**. This may have some benefit but, as Stagecoach has noted, the level of this benefit may be mitigated by Stagecoach's separate proposal to commercialise some of the tendered services (as these would no longer be supported services but a component of Stagecoach's network).

10.3.9 There may be some benefit in rolling out fare capping for the South of GM more swiftly than may be possible under the Proposed Franchising Scheme. Taking GM as a whole, however, it is likely that the benefit provided under this option would be substantially lower than under the Proposed Franchising Scheme and would lead to individuals potentially paying a premium over the price of an individual operator ticket to travel across GM. It is also worth noting that the effect of Stagecoach's proposal to commercialise some of the services in the South of GM could in fact reduce the take up of the GM wide ticket.

Fares – Interoperability

10.3.10 Under the proposal there would be a smaller size franchised area that interoperability benefits would be modelled over, significantly reducing the interoperability benefits that could be achieved.

10.3.11 Whilst Stagecoach has proposed to better promote a GMTL multi-operator style ticket covering the whole of GM **(C.7)** there is a limit to how much Stagecoach could market a ticket that is more expensive than its own without a mechanism that would enable the premium between the tickets to be significantly reduced. The impact of this marketing activity on the uptake of a GM wide ticket would therefore be very limited and would not necessarily offer much additional benefit relative to the Do Minimum option. There may be improved acceptance of tickets on certain routes, as modelled under the Ambitious Partnership option in the Assessment.

Customer experience

10.3.12 Stagecoach has proposed that it could adopt appropriate TfGM-led branding and the proposal sets out how this would work in terms of bus livery, ticket marketing, uniform/badges and digital channels **(B.1)**.

10.3.13 As noted in the Economic Case Supporting Paper published alongside the Assessment, unifying the bus system under a single brand will create benefits in the areas of simplicity in the areas of fares, network and the interface between customers and the industry. It will also provide greater confidence and assurance amongst passengers regarding the accountability of decision making, and may also result in wider non-user place making benefits (such as in the case of the London

transport brand which is known globally). It is the unification and not the single livery that is of importance.

10.3.14 Under the Proposed Franchising Scheme, a single brand goes alongside a simplified fares and ticketing proposition (removal of individual operator tickets), a single interface between the providers and users of the bus services, and increased accountability for service performance.

10.3.15 The proposal by Stagecoach inevitably faces constraints as to how far it can go given that the buses and other marketing material would still need to be clearly distinguished between operators given the different ticket arrangements proposed and different parties taking accountability for running the services.

10.3.16 Stagecoach's proposal to make the buses look similar without changing the underlying ticketing proposition (and potentially making it more complicated as explained in Paragraphs 10.2.40 - 10.2.42 in the Strategic Implications section above), however, could lead to disbenefits relative to the Do Minimum option. Stagecoach also proposes that a TfGM digital app and website could provide customers with a single point of contact **(B.4)** and propose to work with TfGM to potentially provide a managed service (to provide some of the back-office infrastructure) **(B.2)**. Whilst this is a meaningful proposal, unlike under franchising the whole of GM, operators would still likely need to promote their own tickets on their own platforms so there would still exist separate, partial sources of information.

10.3.17 The branding benefit modelled under the Proposed Franchising Scheme would not be achieved.

Improvement in on-bus experience

10.3.18 Stagecoach has proposed to deliver a customer commitments pledge from day one of the partnership **(B.5)** and introduce mid-service cleaning **(B.6)**. There are proposals within the multi-operator partnership proposal on these areas. It is likely that there could be some marginal benefit.

10.3.19 Stagecoach's proposals on community and employees **(E.1 – E.7)** could help improve staff morale and on-bus experience for customers. However, as highlighted by Stagecoach in its proposals, most of these are commitments to continue doing things or improving things that Stagecoach is already doing. It is reasonable to assume that under all options operators would initiate a range of similar initiatives to varying degrees as part of their desire to stimulate goodwill and contribute to the community that they serve.

10.3.20 Stagecoach has proposed to begin to provide additional customer experience staff, enabling every bus station in the area to have an inspectorate present during peak periods **(B.8)**. Stagecoach's forecast for additional expenditure during the

partnership period does not include a provision for additional customer experience staff, meaning that their proposal would be achieved by either re-deploying existing staff or replacing current staff.

Safety of travel

10.3.21 Stagecoach has committed to continue to support the TravelSafe Scheme over the next 10 years **(E.8)**. It is assumed that Stagecoach would also do so under the Do Minimum option and therefore it is not clear whether this commitment offers any additional benefit.

Information

10.3.22 Stagecoach has proposed to begin to provide real time information from month three of the partnership **(B.3).** This could enable customers to better plan journeys, but the Act include provisions that will in due course require such information provision which will mean that the majority of this benefit will arise without intervention.

Training

10.3.23 Stagecoach has proposed to continue to maintain high quality training offered to drivers / continue to enhance course materials **(B.9),** continue to deliver engineering technical and driver apprenticeships throughout the duration of the partnership **(B.11)** and has proposed to offer to provide driver training to small and medium sized operators at a commercial rate **(B.10)**. Stagecoach's commitments to maintain its standards / continue improvement would not necessarily bring additional benefit relative to the Do Minimum option, nor necessarily exceed that which could be achieved under other reform options. Stagecoach's proposal to sell training might be helpful to other operators, particularly SMEs.

Wi-Fi

10.3.24 Stagecoach has proposed to introduce Wi-Fi on all buses in its South Manchester fleet by the end of year one of the partnership (quicker than under the Proposed Franchising Scheme) **(B.7)**. It is possible that there could be some additional benefit incremental to the Operator Proposed Partnership, and this is considered amongst other potential benefits in the conclusion section of the Economic Implications below. The impact however is very small.

Network

Integration and efficiency

10.3.25 GMCA would have the ability to control the network planning process for routes in the North of GM, whereas in the South of GM, operators would retain the responsibility for network design and planning working as they choose with GMCA

in partnership.

10.3.26 The network design work presented in the Economic Case of the Assessment showed what could be done under the Proposed Franchising Scheme to make the network more comprehensive, simple, frequent, direct, stable and responsive. This could be carried out for the North of GM, but the amount of change that could be achieved in the North of GM may be lower than for the same area when franchising the whole of GM because the GMCA would not have the benefit of being able to redistribute resources across the whole of GM.

10.3.27 In the South of GM, it is likely that the network would remain similar to the current network, and as operators would continue to compete in some areas, the network would not be significantly simplified or made more integrated. Thus, it may be challenging to agree changes that would enable the network to be more comprehensive, simple, frequent, direct, stable and responsive.

10.3.28 Stagecoach has proposed a network working group and whilst there has not been a proof of concept conducted on how the working groups proposed by Stagecoach would work in the South of GM, TfGM assumes that at a minimum, it would be capable of operating in the way explored for the multi-operator partnership. This would not enable GMCA to make direct changes to the network as it could under the Proposed Franchising Scheme meaning that the extent of benefits is limited.

10.3.29 Stagecoach does intend to make some improvements to its route change consultation process **(D.1)** and provide route performance data for unprofitable routes **(D.3)** which would provide TfGM with more visibility over the reasons for changes being made to services than it currently has, but as there would be multiple actors making decisions, it would be more difficult for GMCA to fully integrate the network than when franchising the whole of GM under the Proposed Franchising Scheme.

Commercialisation of tendered services

10.3.30 Stagecoach has proposed to commercialise a portion of the current tendered services and has estimated that this would provide GMCA with an annual saving of £1.8m p.a. once the current contracts expire **(D.4)**. This would release some funding for GMCA. Paragraph 10.2.10 in the Strategic Implications section above identified significant issues in terms of realising this saving and the durability of the saving over the appraisal period. Nevertheless, Paragraphs 10.3.40 - 10.3.44 below consider potential uses for any saving generated.

Network – Fleet Investment

Fleet investment

10.3.31 Stagecoach has proposed to reduce the average of its fleet age from 8.03 years to 7.0 years by December 2023 and maintain a maximum age of 15 years **(A.1)** and to

fit Audio-Visual on all its buses by December 2023 **(A.2)**. Stagecoach also proposes to deliver a Euro VI compliant fleet by September 2021 subject to funding and agreed terms for retro-fit **(A.3)**.

10.3.32 Stagecoach's proposal in respect of Euro VI compliance by September 2021 would not necessarily deliver more than that which could be achieved under the Do Minimum option, as the commitment is caveated as being subject to Defra funding for retrofitting existing fleet to be Euro VI compliant (page 34 of the proposals document in the dependencies section).

10.3.33 Stagecoach also proposes that 45% of its fleet would be 'better' than Euro VI compliant by September 2021. However, when considering how much benefit this brings relative to the Do Minimum option, it is important to note that Stagecoach's current fleet profile contains over 100 hybrid vehicles that once retrofitted would fall into the category of 'better than Euro 6'. Stagecoach's proposal to achieve 45% of their fleet being 'better than Euro VI' is therefore achievable only by virtue of the Euro 6 compliance proposal. It is possible that any new fleet purchased between now and September 2021 would fall into the 'better than Euro VI' category, but as Stagecoach have only committed to purchasing "*a balance of new vehicles (which are Euro 6, ultra-low or zero emission*" (p38), taken together, these proposals only amount to a firm commitment on Euro VI (which is subject to agreed funding from Defra as explained above).

10.3.34 Over the longer-term, TfGM would not have the same degree of control over the specification of buses in the South of GM (compared to when franchising the whole of GM) which may hinder its ability to deliver further change beyond that agreed with Stagecoach in the initial years of partnership.

10.3.35 Having two different regulatory regimes in GM may make it challenging to implement future clean air measures given the differing policy levers that would be available.

10.3.36 If there were a reduction in average fleet by virtue of these proposals it is difficult to see the marginal difference this would make at fleet level being of benefit to passengers.

Network – Congestion and Service Punctuality

Network working group and performance accountability

10.3.37 Stagecoach has proposed to create a working group from the start of the partnership including franchise operators, operators in the South of GM, the highways authority and TfGM (on behalf of GMCA). Stagecoach proposes to implement quarterly performance meetings and is willing to be held accountable for its performance to monitor performance metrics **(D.2)**. This group would work together to reduce

journey time variability, increase reliability and reduce congestion.

10.3.38 Whilst the details of the working groups have not been discussed, it is likely that there could be a process set up in a similar way to that envisaged under the multi-operator partnership, with some potential additional accountability due to Stagecoach's willingness to be held accountable for its performance. Stagecoach's separate proposal to fund an additional signal engineer and an inspector within UTC **(A.4)** may help to improve the communication between TfGM and operators.

10.3.39 It is important to note that no benefit in relation to potential highway infrastructure investment has been modelled in the assessment for any of the options of reform given investment cases are considered on a case by case basis as under the Do Minimum. However, there is a significant amount of Quality Bus Corridor infrastructure investment planned under the GMCA 2040 Transport Strategy and associated Delivery Plan, and there is no reason why this proposal would not be progressed in either the Do Minimum option or under the Proposed Franchising Scheme. Nevertheless, as Stagecoach's suggestion that GMCA invests some savings generated (as a result of Stagecoach commercialising some tendered services) effectively amounts to incremental funding for infrastructure improvements, the potential benefit associated with doing so is considered below (see Paragraph 10.3.40 in the financial proposals section below).

Financial proposals

Profit share mechanism

10.3.40 As explained earlier, Stagecoach's central profit forecast would not lead to a profit share in the first five years of the partnership. Whilst Stagecoach has presented some potential scenarios to TfGM in which revenue could rise if investments were made that had the effect of improving Stagecoach's profitability, there is no clear plan as to how these scenarios would be achieved / which parties sponsor the investment that would enable these scenarios to be realised. After year five of the partnership, the target level of profit would be re-negotiated. Potential downside risks to Stagecoach's profitability may also offset any increases in profitability as a result of measures, thereby further reducing the chance of GMCA receiving a profit share.

Partnership fund

10.3.41 As explained earlier, the partnership fund would include any saving that GMCA generated as a result of Stagecoach commercialising some tendered services and a contribution from the profit share mechanism.

10.3.42 Paragraph 10.3.30 above explains why the value of any saving from the commercialisation of tendered services is uncertain and as noted above, it would not be reasonable to assume any contribution from the profit share contribution to the

fund.

10.3.43 Notwithstanding this, the partnership fund could be put towards the following initiatives as suggested by Stagecoach:

- Zero-emissions vehicles on a specific route;
- New routes;
- Kick start initiatives;
- Social & economic;
- Infrastructure changes;
- Night services;
- Congestion solving measures; and
- Expediting roadworks to avoid congestion.

10.3.44 As the only saving identified by Stagecoach is a potential saving due to Stagecoach commercialising some tendered services (which has issues noted in Paragraph 10.3.30) and Stagecoach requests that the majority of these funds are invested back into the South of GM, there may be some limitation in GMCA achieving value for money. Nevertheless, there would likely be some benefit, and this is considered (together with other benefits noted) in the conclusion.

Potential delay to making an intervention in the North of GM

10.3.45 As set out in Section 10.7 Legal and Other Considerations below, it would be necessary to undertake a new assessment of a franchising scheme in the North of GM if the GMCA wanted to consider a franchising scheme applying to the North of GM only. This would delay the level of benefit associated with franchising (in the North), and would lessen the present value of any interventions due to this delay and the discounting for the delay period.

Phase 2 interventions

10.3.46 As set out in the Assessment at Section 8.8, the opportunities for implementing Phase 2 measures may be more limited under a partnership because it would not be able to undertake some of the interventions under a partnership. Having two different regulatory regimes covering GM means that there would be different policy levers available for different areas of the city, which could potentially lead to unforeseen negative consequences.

Costs

10.3.47 Section 10.5 Financial Implications below explains how the proposals would affect affordability. Although not repeated here, as the conclusions on affordability have economic implications (in terms of costs of the scenario), the conclusions of the Financial Case are taken into account when concluding on the Economic Implications

– see below.

Economic Implications – Summary

10.3.48 The assessment of the Proposed Franchising Scheme concluded that franchising offers better overall value to GMCA than the Operator Proposed Partnership as it offered the highest NPV and a broadly comparable BCR to the partnership options. It also provides a much more durable reform and a better platform for further investments in the industry.

10.3.49 In order to determine whether or not the conclusions of the Assessment remain valid it is therefore necessary to consider what level NPV/BCR the proposal could deliver, its durability and its effects on Phase 2 vision. Below is a summary of the benefits achievable (from the above analysis) and the impact that these are likely to have on these issues, taking into account the impacts on costs as outlined in the Financial Implications section below.

Benefits achievable

10.3.50 Below is a summary of the likely benefits achievable under Stagecoach's proposal:

Network

10.3.51 Network benefits account for 14% of the user benefits modelled under the Proposed Franchising Scheme. As explained in the analysis above, any network benefits would be substantially lower compared to the proposed franchising scheme as the area over which GMCA could make the changes to the network would be smaller in size and operators would decide what to do in the South (there may even be disbenefits at the boundary of the North and the South for customers). There may be some benefit from Stagecoach commercialising £1.8m of tendered services but this saving is uncertain for the reasons set out earlier.

Fares and ticketing

10.3.52 Fares benefits make up 16% of the user benefits modelled under the Proposed Franchising Scheme. This is due to the reduction that current System One ticket holders would experience as all fares were unified at the operator own price level. As Stagecoach does not propose a reduction in the existing premium between the multi-operator ticket and individual operator tickets, TfGM cannot assume this benefit would be delivered.

10.3.53 Interoperability benefits make up 15% of the benefits modelled under the Proposed Franchising Scheme. This would only be partly achievable for the North of GM and whilst there may be improved ticket acceptance on some tendered services within the South, this may only offer limited benefit (particularly as Stagecoach is

commercialising some of the tendered services in the South).

Quality

10.3.54 Quality benefits make up 55% of the user benefits modelled under the Proposed Franchising Scheme, and benefits of unification of the system under a single brand make up around half of this. For the reasons explained earlier, this element of the benefits modelled under franchising would not be achieved under the split-GM solution and there may even be disbenefits if a unified livery was introduced without unification of the service offer and core "brand", as this would create a confusing and complex ticketing and customer service arrangement. As noted, some of the quality benefits may be delivered sooner and to a higher standard for the South of GM alone (e.g. the introduction of Wi-Fi, fare capping on Stagecoach buses in the South, ticket acceptance on tendered services, mid-journey cleaning, some additional staff proposed). However, the quality benefits would likely not be higher in total compared to under franchising when taking into account the reduction in benefit from branding.

10.3.55 Overall, benefits would be substantially lower than under the Proposed Franchising Scheme and potentially even lower compared to the Ambitious Partnership option modelled (given that the Ambitious Partnership option included the assumption that the premium between multi-operator and individual operator tickets could be reduced, but this proposal is not contained within Stagecoach's proposal).

10.3.56 In addition, the ability to further invest in bus under the Phase 2 vision is limited in the same way as under the other partnership arrangements for the South of Manchester.

10.3.57 There are also the following strategic issues with the proposals, discussed in Section 10.2 Strategic Implications above, that inevitably may further impact on the deliverability of benefits referred to above:

- as the VPA is a voluntary agreement there is a limited degree of enforceability;
- there is a risk that the partnership is not renewed after the initial ten-year term;
- having two regulatory frameworks for buses would mean differing policy levers between the North and South and may lead to unforeseen consequences and make it more challenging to introduce Phase 2 measures; and
- there would be a delay (as noted in the Legal and other considerations section below) in implementing any franchising scheme in the North of GM given that this would need to be assessed again – thus delaying the impact

of the benefits that could be delivered in the North.

Costs

10.3.58 Section 10.5 Financial Implications and Section 10.6 Management Implications below conclude that although the franchised revenues and operating costs would relate to a smaller geography and it is likely that the scale of the financial risks would reduce in proportion to revenues and operating costs (compared to the Proposed Franchising Scheme), the overall funding requirement would likely not reduce in proportion to the scaled down revenues and costs in a franchised area, as (a) there would be costs to manage the partnership, and (b) whilst some franchising costs would potentially reduce in line with revenues and operating costs (depots and on bus equipment), other costs are likely to be fixed or reduce to a lesser extent (management systems, resources). As explained in Section 10.5 Financial Implications below, it is also worth noting that as Stagecoach is commercially the most successful and profitable operator in GM, there is thus a risk that the revised franchised area is commercially weaker and requires additional ongoing funding as a result.

Conclusion

10.3.59 The combination of significantly lower benefits compared to when franchising the whole GM under the Proposed Franchising Scheme and costs that are likely to be proportionally higher for each of the constituent parts that make up the whole means that the NPV and BCR of Stagecoach's proposal are both likely to be substantially lower than the Proposed Franchising Scheme. There is even a possibility that the NPV and BCR could be lower than that reported for the Ambitious Partnership option given that there are key areas where Stagecoach's proposal does not deliver – e.g. there is no proposed reduction in the premium between the GM wide ticket and individual operator tickets (explained above). It is also worth noting that the effect of Stagecoach's proposal to commercialise some of the services in the South of GM could in fact reduce the take up of the GM wide ticket albeit to the benefit of some passengers.

10. 4 - Commercial Implications

Partnership in the South of GM

10.4.1 Part 3 of the Commercial Case within the Assessment sets out the Commercial Case for the partnership option and, within it, sets out an introduction to the partnership model, a description of the mechanisms and powers relating to the delivery of bus partnerships and a description of the proposed mechanisms to support the partnership proposals considered in the Assessment.

10.4.2 Stagecoach proposes that the partnership in the South of GM is governed by a VPA in a similar manner and so many of the assumptions made in the assessment as to how this would operate are similar, but there are the following key differences:

- there would likely need to be an overarching VPA with common commitments and individual VPAs setting out individual commitments with each of the individual operators in the South of GM (at least those willing to participate);
- Stagecoach has proposed that there would be Advanced Quality Partnership Schemes ("AQPS") covering key corridors/routes to establish and then uphold standards agreed. TfGM would need to consult on any proposed AQPS and these would need to pass the relevant competition tests (see Section 10.7 Legal and Other Considerations below); and
- technicalities would need to be worked through in terms of agreeing how the profit share and partnership fund would work in practice. This may also require further discussion to establish protocols for the allocation of costs (if Stagecoach has operations in the North as well as the South) and agreement administering the fund.

Franchising in the North of GM

10.4.3 As explained in Section 10.7 Legal and Other Considerations below, TfGM would need to undertake a new assessment of a franchising scheme and consult on a new scheme covering the North of GM given that the currently Proposed Franchising Scheme covers the whole of GM. The franchising scheme itself may differ in nature to the one assessed, and this would need to be determined.

10.4.4 There are the following key commercial implications on the franchised areas in particular:

- as explained in Section 10.7 Legal and Other Considerations below there would likely be a delay of around 18 months to introduce a franchising scheme in the North of GM compared to the current timetable, and this means that there may be a delay to delivering benefits.
- as set out in Section 10.6 Management Implications below, the incremental operating costs of running combined partnership and

franchising networks could be less than operating the network under the Proposed Franchising Scheme, but it is likely that the overall scenario would be less efficient to manage as TfGM would be effectively monitoring the bus network in GM under two different regulatory frameworks; and

- as Stagecoach is commercially the most successful and profitable operator in GM there is a risk that the revised franchised area is commercially weaker and requires additional ongoing funding as a result (discussed below in Section 10.5 Financial Implications).

Cross boundary issues

10.4.5 The issues set out in Section 33 of the Assessment in relation to cross-boundary services for the Proposed Franchising Scheme would be similar at the boundaries of a franchising scheme for a North of GM and a partnership in the South of GM, however, there would also now be an ongoing boundary across the centre of GM which would introduce new impacts not considered in the Assessment.

10.4.6 Given the clear customer need for services that cross the North and South boundary, there would need to be arrangements in place to enable buses to run across the boundary as seamlessly as possible.

10.4.7 There would need to be arrangements in place to enable services from the South of GM to enter the franchised area. The likely considerations as to how this would operate are similar to those in Section 33 of the Assessment. This means that operators would need to obtain a service permit to operate in the North of GM and this would create an additional administrative burden on operators in the South of GM. To obtain a permit, operators would need to pass the relevant legal tests set out in the Act, the focus of which will likely be on whether the services would have an "*adverse effect"* on a franchised service. If so, it is unlikely that the service would be able to obtain a permit and therefore could not operate in the North of GM.

10.4.8 There would also need to be arrangements for franchise services to run into the partnership area in the South. These, however, will be less onerous, as services operating into the South from the North would not require a service permit to run. They would instead need to comply with the usual registration requirements and would need to be secured by GMCA under non-franchising powers (as GMCA would only be able to exercise its franchising powers under the Act to run services in the North of GM), and they would be secured in the same procurement as the local service contract for the part of the service in North Manchester, thereby not significantly adding to the administrative cost for the GMCA.

Competition

10.4.9 There may be some impacts on the level of competition resulting from the proposal with associated commercial implications.

10.4.10 As the franchised area would cover only the North of GM, it may be more challenging

to attract the same level of interest from bidders as would be possible when franchising the whole of GM. This creates a higher risk that TfGM receives bids that are lower value for money compared to when franchising the whole of GM. Potential bidders may (rightly or wrongly) believe that Stagecoach and any other operators that enter partnership in the South have an advantage in bidding, reducing the perceived attractiveness of the franchises.

10.4.11 Stagecoach is the largest single operator in the South of GM and, following the introduction of franchising in the North, there would not in all likelihood be a similarly sized competitor in GM with access to the relevant assets (mainly depots) to run services from in this area.

10.4.12 Stagecoach has also proposed to use AQPSs to maintain standards (e.g. vehicle quality) on key corridors. Whilst it is plausible that the AQPSs could pass the relevant competition tests, there would still likely be a negative impact on competition – the same standards could potentially be introduced under franchising without the associated negative impact on competition.

Commercial Implications - Conclusion

10.4.13 Whilst Stagecoach's proposals result in a combination of two options already considered, the proposal would mean allowing two different regulatory frameworks for the bus network in GM and as explained above this leads to some complications. The ring-fenced area for franchising in the North of GM may also be less attractive to market entrants and creates risks in terms of achieving value for money.

10. 5 - Financial Implications

10.5.1 As set out in the Assessment, the GMCA would have contrasting financial responsibilities under a franchising scheme and a partnership.

10.5.2 Under a franchising scheme, GMCA would have control and accountability around key decisions over fares, routes, service quality and funding. In line with this control and accountability, it would also assume direct financial risk in relation to farebox revenues and operating costs.

10.5.3 Under a partnership, GMCA would have similar financial responsibilities as under the Do Minimum option or status quo. The bulk of services would continue to be commercially operated, with GMCA allocating funding to tender non-commercial services and reimbursing operators on a 'no better, no worse' basis for concessionary schemes. GMCA would not control key decisions under a partnership and similarly would not assume direct financial risks in relation to farebox revenues.

10.5.4 The Assessment notes partnerships would require additional resources from GMCA to manage and to the extent partnership interventions increased demand (particularly concessionary demand) relative to status quo then this would result in a requirement for increased concessionary reimbursement.

Stagecoach's South Manchester Partnership Proposal

10.5.5 Based on the characteristics of the Proposed Franchising Scheme compared to the partnership options considered in the Assessment, it is considered likely that Stagecoach's proposal to have a mixed franchising and partnership GM network would have the following financial advantages and disadvantages.

Advantages

10.5.6 As noted, under a franchising scheme GMCA assumes control and also assumes direct financial risks. As the franchised revenues and operating costs would relate to a smaller geography it is likely that the scale of these financial risks would reduce, in proportion to revenues / operating costs, compared to the Proposed Franchising Scheme.

10.5.7 Whilst some franchising costs would potentially reduce in line with revenues and operating costs (depots and on bus equipment), other costs are likely to be fixed or reduce to a lesser extent (management systems, resources). Therefore, the transition costs and associated funding requirement is likely to reduce in absolute terms, but the requirements would likely not reduce in proportion to the scaled down revenues and costs in a franchised area. This is considered further in Section 10.6 Management Implications below.

10.5.8 The Stagecoach proposal includes a profit share mechanism, but for the reasons

explained earlier, the profit share available may be limited.

10.5.9 Stagecoach's request that GMCA reinvests any savings from the tendered services budget that are realised due to Stagecoach commercialising a portion of the tendered services has the effect of constraining GMCA's ability to choose where to spend this money, but may have some limited benefit as explained in Section 10.3 Economic Implications above.

10.5.10 The investment figure of £142m quoted by Stagecoach is not a cost borne by GMCA so is not directly relevant to the costs of the scheme from the perspective of GMCA.

Disadvantages

10.5.11 GMCA is likely to have to undertake a new assessment for the revised proposals for franchising in North Manchester (which would be considered alongside a partnership in South Manchester) and a further independent audit and consultation on the revised proposals, resulting in additional scheme development costs for GMCA.

10.5.12 Under the Proposed Franchising Scheme budgets would be set by reference to all sources of income (including farebox revenues and public funding) and network operating costs. Stagecoach is commercially the most successful and profitable operator in GM and there is a risk the revised franchised area is commercially weaker and requires additional ongoing funding as a result.

10.5.13 Whilst noted as advantageous that the transitional funding requirement could reduce in absolute terms, GMCA is still likely to need to invest significant transitional funding for a partial franchise scheme without having full GM wide control.

10.5.14 As noted, GMCA could not pool its funding sources to the same extent under a mixed approach, in particular if the partnership area was successful in boosting demand (and concessionary trips), GMCA would need to reimburse and fund operators for these trips on a 'no better, no worse' basis.

Financial Implications - Conclusion

10.5.15 Stagecoach's proposal for a partnership in the South of Manchester, coupled with a franchising scheme in North Manchester, will result in less financial risk and cost to GMCA than the Proposed Franchising Scheme for the whole of Greater Manchester. The overall funding requirement would not be likely to reduce in proportion to the reduction in the franchised area. There would be costs to manage the partnership and, whilst some franchising costs would potentially reduce in line with revenues / operating costs (depots and on bus equipment), other costs are likely to be fixed or reduce to a lesser extent (management systems, resources). There is also a risk that the smaller franchise area remaining would not be as financially viable as the North is commercially weaker than the South currently. Stagecoach's financial proposals are of note, but the profit share mechanism may not provide a profit share (reasons set out in Paragraph 10.2.77 of the Strategic Implications section above) and

Stagecoach's offer to commercialise some tendered services providing GMCA with some savings is of uncertain value.

10. 6 - Management Implications

10.6.1 This section discusses the potential impact of Stagecoach's proposal from a management case perspective as a consequence of operating a partnership in the South (around 40% of the market in GM) and a franchising scheme in the North.

10.6.2 The aim of the Proposed Franchising Scheme is to create a seamless network. In practice, however, Stagecoach's proposal has two adjoining and overlapping regulatory frameworks. There are a number of issues to be addressed such as service permits into the franchised areas and dealing with future entrants to market or exits from the partnership. All of this will be difficult to manage and will incur costs. This results in TfGM having to oversee three different types of services (franchised services, partnership services and subsidised services).

10.6.3 The remainder of this section discusses the impact of Stagecoach's proposal, with around 40% of the market being operated as a partnership instead of being included under the Proposed Franchising Scheme, and the impact upon the partnership operating model.

10.6.4 The Management Case in the Assessment can be broken down into three elements:

- The future operating model people and other costs;
- Transition Costs – Implementation costs; and
- Transition Costs – Systems Costs.

Future Operating model - people and other costs

10.6.5 The Assessment considered the incremental resource requirements for GMCA to oversee franchising and partnership and identified resource requirements covering the following areas: leadership, management, network planning, customer contact, revenue protection, sales and marketing, stakeholder management and finance. Other operating costs would be incurred for planning the network, customer and sales and marketing.

10.6.6 Noting that Stagecoach's proposals for the South of GM are in some aspects more ambitious than the Operator Proposed Partnership (and may therefore require more monitoring from GMCA), it is likely that the TfGM resource costs for overseeing a partnership area in the South of GM would be lower than under the partnership models assessed in the Assessment given that the partnership area proposed is smaller in size.

10.6.7 In a similar way, the cost of running a smaller franchised area would be lower compared to when franchising the whole of GM under the Proposed Franchising Scheme as there would be a smaller network to franchise. This would result in some savings compared to if introducing the Proposed Franchising Scheme.

10.6.8 Taking GM as a whole, it is therefore likely that the overall TfGM resource cost would

fall in absolute terms, providing a saving to GMCA compared to if operating the Proposed Franchising Scheme.

10.6.9 However, it is important to note when taking each of the areas individually, there would not likely be a 1:1 reduction in the costs – some costs are fixed in nature (e.g. systems costs). This means that the cost of running a smaller partnership area would be proportionately higher than running a GM wide partnership, and the resource cost of running a smaller franchise area would be proportionately higher than running a GM-wide franchise.

Transition Cost Implementation Costs

10.6.10 The implementation costs would reduce in areas where the costs are related to the number of franchises to be procured and the duration of the implementation activity. However, this would be offset partly by the cost of implementation of the partnership in the South of GM. The areas where reductions will be achieved in the combined costs of implementation are:

- Transition PMO;
- Procurement Activities (note that some costs will be fixed);
- Stakeholder Management; and
- Operational Continuity (circa 40%).

10.6.11 The following costs are not envisaged to change because a proportion of these cost are fixed in nature:

- Business Change Costs;
- Legal;
- Specification;
- Modelling; and
- Project Management ETM/AVL/Driver Radio/CCTV/Wifi.

Transition Systems Costs

10.6.12 The implementation of on bus equipment (which forms part of the Commercial Case) are likely to reduce i.e. 60% of the volume of on bus equipment would be required. However, much of the costs of the ITS implementation would be fully incurred – there are systems costs which are largely independent of the scale e.g. payment calculation engine or Network Planning. It is assumed there would be some savings in the partnership cost as the systems required for franchising would also serve partnerships e.g. Network Planning.

Management Implications - Conclusion

10.6.13 In summary, whilst the incremental operating costs of Stagecoach's proposal of operating a partnership alongside a franchising scheme in the North of GM could be less than operating the Proposed Franchising Scheme, it is likely that the overall

scenario would be less efficient to manage as TfGM would be effectively monitoring the bus network in GM under two different regulatory frameworks. The reduction in savings are not likely to be in line with the scale of the benefits decline of the combined operations.

10. 7 - Legal and Other Considerations

10.7.1 Should franchising be confined to North Manchester, the changes to the Proposed Franchising Scheme involved would require changes to the area, and the services, to which the scheme would ultimately apply. This may involve changing when some services become subject to regulation and also excepting some services (other than scholars services) from regulation ultimately under the scheme which cross between the area subject to franchising and the remainder of Greater Manchester. These changes to the area and services to which the scheme would ultimately apply would be so fundamental in themselves as to require a new assessment of that revised franchising scheme, its audit and further consultation, particularly given that the proposal would be coupled with a different approach to the provision of services in South Manchester. That would represent overall a course of action in respect of bus services in Greater Manchester not considered in the current assessment nor consulted upon. The procedure set out in sections 123B to 123G of the Act would have to be started again. The need to start a new statutory procedure would inevitably result in delay.

10. 8 - Conclusion

10.8.1 TfGM has received a proposal from Stagecoach to set up a partnership in the South of Greater Manchester that "*would complement any decision to franchise the North*". In its proposal, Stagecoach puts forward 35 initiatives over the key areas of network, fares, fleet investment and customer, and a governance structure to coordinate the market.

10.8.2 The proposals can be summarised as follows:

- Operations & fleet investment – Investment in fleet to deliver a reduction in the average age of Stagecoach's fleet in the South of GM to 7 years, investment in fleet to deliver Euro VI compliance by September 2021 (subject to funding from Defra), as well as a target to ensure that 45% of Stagecoach's fleet in the South of GM is "*better"* than Euro VI compliant by the same date.
- Network planning & performance – Improved consultation on changes made to services including the provision of additional data on unprofitable routes and the establishment of Key Performance Indicators including a performance regime. Stagecoach notably also proposes to commercialise a portion of the currently subsidised services in the South of GM and has calculated that this would represent a saving of approximately £1.8m to GMCA per annum.
- Customer – Various initiatives to improve customer experience (eleven in total) including a proposed unified brand and a proposed single point of customer contact.
- Fares, Ticketing & Retail – Initiatives aimed at simplifying the fares and ticketing proposition including reducing the number of fare bands to four on its services, the creation a single suite of period tickets for its services in the South of GM by January 2021, extending the introduction of carnet ticketing, introducing a flat fare in the evenings and rolling out fare capping on its services in the South of GM by the summer of 2021.
- Financial proposals – A proposed profit-sharing mechanism that would split any profit generated by Stagecoach above an agreed *"target level of profit"* between GMCA, a 'South Manchester Partnership Fund' and Stagecoach. The money received by the GMCA could be spent across the whole of GM on initiatives that benefit the bus user experience and encourage modal shift to bus. Stagecoach proposes that the money in the partnership fund would also be spent on initiatives that benefit the bus user experience and encourage modal shift to bus, with two thirds specifically for reinvestment in the South of GM.
- Community & Employee – Stagecoach intends to continue to enhance the

role that it plays in the community throughout the duration of the partnership.

10.8.3 Stagecoach anticipates that the partnership would be set up using a VPA, making use of AQPSs on key routes and corridors to enforce certain standards. Stagecoach's intention is that other commercial operators in the South of GM may also enter into the South Manchester partnership and confirm that they have received initial support from Arriva. Stagecoach proposes an initial partnership term of ten years.

10.8.4 The sections set out above analyse the implications of the proposals from the perspective of each of the five cases to understand how likely the proposals are to deliver on GMCA's objectives (Section 10.2 Strategic Implications), whether there is likely to be any economic benefit from Stagecoach's proposals (Section 10.3 Economic Implications), and whether there are any other commercial (Section 10.4 Commercial Implications), financial (Section 10.5 Financial Implications), management (Section 10.6 Management Implications) or legal (Section 10.7 Legal and Other Considerations) issues to consider for GMCA.

10.8.5 Section 10.2 Strategic Implications above analyses whether the proposals would enable GMCA to achieve the Vision for Bus as part of its 2040 Strategy. The Strategic Implications section finds that overall, whilst Stagecoach intends that its proposal will create a 'seamless' market in Greater Manchester, under the scenario proposed, it will not be possible for GMCA to achieve all of its objectives on simplicity, integration and in a number of other key areas, including network, for Greater Manchester as a whole.

10.8.6 There remains a risk around the longevity of any partnership in South Manchester (one of GMCA's objectives) as the partnership is voluntary in nature. This is an important consideration given that GMCA is seeking to achieve its 2040 Strategy.

10.8.7 In respect of a franchise scheme in the North, there is also the fact that, as explained in Section 10.7 Legal and Other Considerations above, the need to assess a new franchise scheme covering the North (alongside assessing a partnership in the South) of Manchester and follow all relevant statutory procedures will inevitably result in delay to the introduction of any franchise scheme, and delivery of the associated benefits, in the North. Therefore, while potentially accelerating the introduction of some initiatives in the South, there would be a delay to when any franchise scheme in the North of GM could be delivered.

10.8.8 The implications of the proposals from a commercial perspective are considered in Section 10.4 Commercial Implications above. The Commercial Implications section explains that whilst Stagecoach's proposals result in a combination of two options already considered in the Assessment, the proposal would mean allowing two different regulatory frameworks for the bus network in GM and this leads to some complications (particularly for services at the boundary between the North and South of GM) and potential inefficiencies in managing the network. This means that,

as Section 10.6 Management Implications explains, whilst the incremental operating costs of operating a partnership alongside a franchising scheme could be less than operating the Proposed Franchising Scheme, it is likely that the overall scenario would be less efficient to manage as TfGM would be effectively monitoring the bus network in GM under two different regulatory frameworks.

10.8.9 The impact on affordability for TfGM is considered in Section 10.5 Financial Implications. The Financial Implications section analyses how the overall funding requirement would likely change and finds that it would not reduce in proportion to the scaled down revenues and costs in a franchised area as there would be costs to manage the partnership. It is also worth noting that as Stagecoach is commercially the most successful and profitable operator in GM there is a risk that the revised franchised area is commercially weaker and requires additional ongoing funding as a result.

10.8.10 Section 10.3 Economic Implications concludes that there would likely be significantly lower benefits associated with Stagecoach's proposal when compared to the Proposed Franchising Scheme (partly due to some of the strategic issues noted in Section 10.2 Strategic Implications). Combined with costs that are likely to be proportionally higher for the partnership and franchise areas (compared to when introducing either of these proposals across the whole of GM on their own), Section 10.3 Economic Implication concludes that the NPV and BCR of both networks under Stagecoach's proposal are likely to be substantially lower than the Proposed Franchising Scheme. The NPV may even be lower than the Ambitious Partnership option, as Stagecoach's proposal would not result in the existing premium between the individual and multi-operator tickets being reduced, as was assumed possible.

10.8.11 Overall, given that GMCA will not be able to achieve its objectives as set out in the Assessment under Stagecoach's proposal to have a partnership in the South and a franchising scheme in the North of Manchester, the conclusion that the proposal would deliver an NPV that is likely to be substantially lower than the Proposed Franchising Scheme and the other matters referred to above, the conclusion in the Assessment that the Proposed Franchising Scheme is the best option for reform of the bus market remains valid in comparison to Stagecoach's proposal.

Section 11 - First Proposal

11. 1 - Introduction

Background

11.1.1 As part of their response to the consultation, First wrote a letter addressed to Eamonn Boylan, Chief Executive of GMCA, dated 7 January 2020. The letter set out the concept of a proposal to adopt a pilot based approach for both franchising and partnership in Greater Manchester. More specifically, the letter contained their proposal that a local partnership (LP) should be run as a trial in one area, in parallel to any new franchising or similar scheme being piloted in another. First consider that the LP approach would be "*particularly amenable*" to the local circumstances in Oldham where First have their operational base and depot in Greater Manchester.

11.1.2 Given that there was limited detail provided, TfGM engaged with First and offered them the opportunity to expand on their proposal in order for TfGM to appropriately consider it as part of the consultation response process. First (Ian Humphreys, Managing Director of First and John Birtwistle, Head of Policy First UK Bus) delivered a presentation containing their "Local Partnership Proposal" to TfGM in February 2020 during which TfGM asked a number of clarification questions in order to understand First's proposition.

11.1.3 Go North West have also raised the principle of running a trial. In their response to the consultation, they have proposed that franchising should be trialled in sub-area A (or a smaller area), for at least a year, following which there would be a period of reflection and consultation to assess the performance of the Proposed Franchising Scheme to date. This would be done before any decision is made to implement franchising in sub areas B and C and it could therefore result in a decision to not introduce the Proposed Franchising Scheme.

11.1.4 It is worth noting that, in both instances, the proposal to run a trial of franchising is not comparable with any of the options considered in the Assessment. Further information on this, including why such a trial is unnecessary and how it is thought unlikely that any such trial would be a realistic alternative to achieve GMCA's objectives, is set out in section 13.2.14 of this report. This section only addresses First's proposed LP.

Nature of the proposal

11.1.5 First acknowledge and strongly agree that some form of change in the way that bus services are provided is desirable. However, they consider that the Proposed Franchising Scheme offers an extreme solution, moving from a deregulated free market to a "*rigid gross cost franchising system*." Therefore, they believe that an LP approach is the best option to take offering reduced risk, lower costs and rapid

realisation of benefits, and should warrant a trial.

11.1.6 First propose that an LP would be set up in Oldham with "*immediate start and rapid progress*" underpinned by a "*simple legal framework agreement*" ideally in the form of a voluntary partnership agreement (VPA). First see this as being a partnership that would develop over time but could be established within a matter of weeks or months.

11.1.7 In terms of the length of the pilot, First consider that five years would be a reasonable period. There would be annual measurement of performance within the five years. The intention would be to review the performance at the end of the third year of the proposed five year term. If performance is deemed to have made good progress against the aims and objectives of the LP, there would be a renewal of the LP for a further five years. If the LP is not achieving the agreed objectives, then this review would result in the LP being dissolved at the end of its initial five year term.

11.1.8 First have confirmed that their proposal does not form part of the Partnership Plus proposal put forward by OneBus (and considered in detail in Section 9 of this report). However, given that First are a part of OneBus, they have confirmed that they would continue to support the Partnership Plus such that if that proposal was accepted by the Mayor to be implemented across the whole of Greater Manchester, they would stand by their commitments under that proposal. Similarly, should the LP proposal be implemented alongside Partnership Plus, First recognise the potential to work alongside OneBus and would continue to play a role in that partnership.

11.1.9 Given that First proposed that the LP would sit alongside a piloted franchising scheme it is important to note that, as set out in sections 13.2.14 to 13.2.22 of this report, introducing franchising on a pilot basis has not been considered by GMCA and such an approach would likely require GMCA to follow the process set out in the Act to develop, consider and thereafter introduce such an option.

11.1.10 In terms of First's proposal there is very little detail provided and that is why a proportionate approach has been taken to consider the proposal under the four areas of the GMCA's objectives (Network, Fares and Ticketing, Customer and Value for Money). This proposal would therefore require a significant amount of further engagement with First to elicit the details of what is being offered. It is therefore only possible to review at a high level, what marginal benefits this may deliver over and above what the Partnership Plus might deliver, if combined with it or implemented alongside any new franchising or similar scheme being piloted in another area of Greater Manchester.

11.1.11 First envisage that the LP would be established by First, TfGM and Oldham Council. Others would be invited to join either at the outset or by means of a Deed of Accession once underway.

11.1.12 A VPA that is limited to Oldham would likely give rise to a number of issues in respect

to how this interacts with any other arrangements put in place across Greater Manchester. There are a small number of services which operate wholly within Oldham District but the vast majority run into one or more of the other districts. For example, the core pattern of service consists of radial routes between Oldham and Manchester City Centre, most of which are run by First but one of which (at the time of writing this report) is run by Stagecoach which creates a further complication. This problem is replicated in other directions out of Oldham district with a key example being service 409 which runs from Rochdale District into Oldham District and then into Tameside district.

11.1.13 It is difficult to see how Oldham District alone could be treated in a partnership environment. There are currently a number of services running from Oldham to Manchester, Rochdale and Tameside and the loadings on these services are likely to be much higher than the local Oldham only services. It is not clear how ticketing arrangements would be dealt with for any "cross-border" services (being services which would operate from the LP in Oldham and into any scheme applicable to the rest of Greater Manchester) or those services ran by operators other than First. There are likely to be customers who would want to transfer between a local service in Oldham onto services going out of Oldham, or vice versa, including customers who may want to transfer onto Metrolink. It is not clear how this would be dealt with not only from a ticketing arrangement perspective but also in relation to which partnership commitments are applicable for each service.

11.1.14 First have suggested that their proposed pilot could run alongside a franchising pilot or alongside the Partnership Plus proposal put forward by OneBus but have given no further detail as to how this would practically operate. OneBus has not indicated that Partnership Plus could operate alongside other partnerships in Greater Manchester and in an area less than the whole of Greater Manchester. Combining different partnerships, or even different market reforms with different parties involved and different structures would be more complicated from a customer perspective, than the Partnership Plus proposal or the Proposed Franchising Scheme.

11.1.15 In considering First's proposal, it is important to recognise the implications on Greater Manchester as a whole. GMCA's objectives apply to the whole of Greater Manchester and therefore should this proposal be implemented alone, it is highly unlikely, if at all, that these objectives would be achieved by 2040. First have not made it clear how any other operator in the Oldham geography would participate in this proposal, nor have they made it clear how this would fit around the proposal of Partnership Plus or a trialled franchising scheme, if that were to be in operation across the rest of Greater Manchester. Should an LP in Oldham operate alongside Partnership Plus, this would result in Greater Manchester managing more than one partnership which will increase the cost of managing partnerships. The objectives of achieving coherence across Greater Manchester would not be met with more than

one partnership operating in Greater Manchester.

11.1.16 The proposal put forward by Stagecoach, and analysed in Section 10 above, considers the implications of operating two different regulatory frameworks and concludes that the level of benefits would be substantially lower than under the Proposed Franchising Scheme. The Partnership Plus proposal has been analysed in Section 9 and this represents a Greater Manchester wide multi-operator partnership. The conclusion drawn was that it would offer less benefit than the Ambitious Partnership option that has been modelled in the Assessment. The potential scale of benefits from the LP and Partnership Plus would likely be less than those that would arise from a reform to the market that is uniformly applicable across the whole of Greater Manchester although the costs would likely remain similar should there be two different partnerships that TfGM would need to manage.

11.1.17 The remainder of this section focusses on the proposals put forward by First that differ to the Partnership Plus proposals and those put forward by Stagecoach.

11. 2 - First's Local Partnership Proposal

11.2.1 First have indicated that the LP pilot in Oldham would be delivered via a VPA. This is similar to Stagecoach's offer to deliver a partnership in the South of Manchester. However, First are offering a pilot partnership in a geographically defined area, on a much smaller scale. The extent to which other operators would agree to this and sign up to it, should it be successful and applied to other districts, is not known as there has not been any engagement with other operators to date with regards to this proposal.

Network

11.2.2 Relevant proposals include:

- The Mayor would have greater involvement in the decision making of network changes – First's preferred approach would be to commence a joint network review upon launch of the partnership, with option to continue current network for an initial period of 3 years, with continuous open book monitoring of patronage and viability. Any changes proposed by the operator to reduce routes and/or frequencies would be approved through TfGM/GMCA and there would be consideration given to continue to run routes that are not commercial, making use of the partnership funds. The operator remains free to enhance and experiment with growth initiatives where it is believed that an opportunity exists. Unmet demand identified by TfGM or market research could be "quick start" funded through agreed partnership arrangements.
- Tendered services - greater integration with commercial services and opportunity to provide links at lower or no cost using de-minimis provision where required.
- A ring-fenced time limited "emergency" tender fund to provide cover in circumstances of disagreement about existing service viability pending identification of a permanent solution.
- Integration between commercial and tendered services and other modes to deliver a best value approach to demand responsive and local link services delivering a complete network.
- Fleet investment of a minimum 22 new vehicles per annum for 3 years.
- Examination of fleet electrification opportunities.

11.2.3 Likely extent of network improvements: In relation to the first bullet point noted above, the aspect of performing joint network reviews does not differ to that considered under the Operator Proposed Partnership in the Assessment. First have confirmed that they would consult with TfGM/GMCA on any detrimental service changes or withdrawals. If they were not accepted by the TfGM/GMCA, First would not make the change and would continue to support the service for a period of time.

However, it is not clear how long they would continue to support the service and whether this is dependent on using a profit sharing mechanism resulting from a partnership fund similar to that proposed under Partnership Plus.

11.2.4 The open book monitoring of patronage and viability would consist of First sharing information with TfGM/GMCA on individual route performance where a route is planned to have a significant reduction in operation or cancellation. This would include details of what would be required in financial and/or operational/infrastructure terms to resolve the situation on both a short-term basis (to maintain operation during the review period) and on a longer-term basis.

11.2.5 First have clarified that a ring-fenced time limited "*joint funded emergency tender pot"* would be available for use in such circumstances. Use of the joint fund would be determined on a case by case basis. It is not clear exactly the extent to which the fund is time limited. First clarified that they would expect this emergency tender pot to be jointly funded by First and GMCA and it would be seen as an insurance policy, to be used to support services which would otherwise be unable to continue. It is reasonable to assume that the benefit arising from this would at least be equal to the value of money invested. It would also provide additional benefit from a customer perspective such that it would allow services to continue in operation that may otherwise be cut. There may be limitations in GMCA achieving value for money given that these funds are to be ring-fenced specifically to support tendered services.

11.2.6 The first four bullet points listed above may all contribute to reduce the number of services that are needed to be withdrawn from the network and may keep routes running for longer, however this is also subject to a joint emergency tender fund being available. The amount of funding available is unknown and it is not clear how much GMCA might have to contribute. Given that this would be delivered as a pilot in Oldham and even if it was operating alongside Partnership Plus, these proposals have not been made under Partnership Plus and therefore it would not contribute to ensuring an integrated and efficient network across the whole of Greater Manchester. The extent to which this would be achieved in Oldham is likely to be slightly greater than that expected under Partnership Plus if there was less unexpected removal of services and the ability for GMCA to approve those services which resulted in significant change/withdrawal, however this would not go as far as what could be achieved under the Proposed Franchising Scheme. It is not clear how the proposed approval process would work and what would happen in the instance that there is disagreement between GMCA and First.

11.2.7 Under the Partnership Plus proposal, OneBus have committed to providing 450 new buses over the first three years of the partnership. It is not clear who has committed to what on an individual operator basis. It is assumed that, given First have confirmed they stand by the commitments made under the OneBus proposal, the 22 new buses per year for three years would be in addition to First's contribution to the 450 new buses provided across the whole of Greater Manchester. These additional buses

would help contribute to achieving a reduction in the average fleet age, with First claiming that the fleet age average would fall from 8.4 years in April 2020 to 6.8 years in April 2023. This would not necessarily achieve more than that which could be achieved under the Do Minimum option. As noted in the analysis performed in the Assessment, it was estimated that an additional 50 buses per year (on top of the 150 proposed by operators), would be required to bring the average age to below seven years over a five year period. Capital investment is required to meet customer needs and replace life expired vehicles. It is not expected that this proposed investment would be a significant step change in investment compared to what would be expected outside the introduction of an LP.

11.2.8 The proposal to examine fleet electrification opportunities would also not go beyond what could be achieved under the Do Minimum option and would presumably be subject to funding being available.

Fares and Ticketing

11.2.9 Relevant proposals include:

- Pricing - operator to continue process of fares simplification - from 2nd Jan 2020, there are only 4 standard single fares. Previously stated commitments to the two-year price freeze on multi operator products would still apply subject to GMTL approval.
- Ticketing Technology - in addition to the Partnership Plus, commitments to be enhanced by early adoption of tap and cap.
- Where more than one operator is involved in overlapping provision, a commitment to examine best value through TfGM support for a qualifying agreement.

11.2.10 In relation to the simplification of fares, this does not go beyond what has been proposed under the Partnership Plus offer.

11.2.11 Fare capping: First have clarified that there would be flat fares with EMV model 2 capping within six months and would involve tap on rather than tap on and off (hence the flat fare). There would be daily capped rates, as well as weekly and monthly. This would go some way to achieving objective seven of "*account-based smart ticketing introduced as soon as possible*." However, under a partnership, operators would still retain their own products and therefore this would not achieve "*whole bus network capped products*." Although this may provide some level of benefit to those passengers regularly using First services, it would not offer the same level of benefit as could be achieved under the Proposed Franchising Scheme whereby a capped product could be introduced that would be valid across the whole of Greater Manchester.

11.2.12 The proposal to explore and use a qualifying agreement where appropriate does not

differ to what has been offered under the Operator Proposed Partnership considered in the Assessment.

Customer

11.2.13 Relevant proposals include:

- Livery/branding - a localised livery would be applied following local agreement. A similar concept to Vantage would be applied which is sympathetic to the GM corporate transport design.

11.2.14 First have suggested that all buses could be painted in the same colour, "*all buses orange – or yellow – or whatever TfGM decides; can retain route/corridor branding (or not)".* Having all buses in the same colour may provide some level of benefit to the customer. However, unless this was applied consistently across the whole of Greater Manchester, as proposed under the Proposed Franchising Scheme, it could in fact lead to greater confusion from a customer perspective. The value accredited to brand has been discussed further in sections 5.4.5 to 5.4.8 of the Economic Implications section above. It is not yet known if all operators across Greater Manchester would sign up to this. As mentioned above, First have not considered how this would operate alongside OneBus' Partnership Plus proposal and although some of the proposals are aligned, the proposal has not been tested with the other operators. There are a number of commitments which are not aligned with Partnership Plus and therefore other operators would not be familiar with, such as painting all buses the same colour and the additional fleet investment. Under a partnership approach, operators would presumably still want to ensure that their own operator branding remains clear and visible to avoid confusing the customer as they would continue to offer their own individual products.

Value for Money

11.2.15 Relevant proposals include:

- Profit growth generated by partnership interventions would be reinvested into services.

11.2.16 This does not differ to what has been offered under Partnership Plus. This proposal has been considered in further detail in Section 9 above as part of the Partnership Plus considerations.

11. 3 - Conclusion

11.3.1 This section of this report details the work undertaken by TfGM in reviewing First's proposal to introduce a pilot LP in Oldham. There remains a risk around the longevity of any intervention given that the partnership is voluntary in nature and is currently being proposed to be ran on a trial period, initially for a five year term with a review of performance after three years. There is little detail provided on each of the proposals.

11.3.2 In broad terms, there are a handful of commitments contained within this proposal which do not feature in Partnership Plus, such as the additional fleet investment of 22 vehicles per annum, the time limited emergency tender fund and the localised livery. However, given there are also a number of Partnership Plus commitments which are not present in the First proposal, and the ability for Partnership Plus to be applied across the whole of Greater Manchester, providing greater opportunity of the objectives being met, it is concluded that First's proposal would not provide any greater benefits than Partnership Plus. There is also uncertainty in respect to extending the pilot across Greater Manchester, should it be successful in Oldham, given that it has not been tested with any other operators.

11.3.3 TfGM is confident that sufficient consideration has been given to First's pilot LP proposal to come to the view that overall it is likely that the proposal would deliver (when implemented in parallel to any new franchising or similar scheme being piloted in another area of Greater Manchester), no greater benefits than the Partnership Plus proposal operating across the whole of Greater Manchester and significantly less benefits than the Ambitious Partnership modelled in the Assessment. It would therefore not alter the conclusion and overall recommendation in the Assessment that the Proposed Franchising Scheme should be adopted.

Section 12 - EQIA Response Themes

12. 1 - Introduction

12.1.1 Under the Equality Act 2010, GMCA and the Mayor have what is known as a public sector equality duty which requires them to, in the exercise of their functions, to have due regard for the need to:

- Eliminate unlawful discrimination, harassment and victimisation.
- Advance equality of opportunity between persons who share a relevant protected characteristic, and persons who do not share it.
- Foster good relations between those who have a relevant protected characteristic and those who do not.

12.1.2 "Relevant protected characteristics" are age; disability; gender reassignment; marriage and civil partnership; pregnancy and maternity; race; religion or belief; sex; and sexual orientation.

12.1.3 This means that GMCA and the Mayor must ensure they fulfils their duties under that equality legislation.

12.1.4 TfGM uses a standard questionnaire to undertake an Equality Impact Assessment (EQIA) of any policy, intervention or change for which it is responsible. That questionnaire is used for internal purposes only. However, to allow consultees to comment on these equality obligations, an initial screening EQIA was published in addition to the consultation materials required by section 123E(2) of the Act. The focus of the initial screening is to identify any potential adverse impacts so that those potential adverse impacts can be addressed and minimised moving forward.

12.1.5 The EQIA for the Proposed Franchising Scheme concluded that it would have a high positive impact on children and young people, older people and people with physical and sensory impairments and a medium positive impact on women, transgender people, lesbians, bisexuals and gay men, people with mental health problems and people from a variety of ethnic backgrounds. Crucially, since this was the primary purpose of the EQIA, it did not identify any groups that would suffer a significant adverse impact.

12.1.6 Question 44 of the consultation asked consultees for any comments on the potential impacts identified through the EQIA (which was referred to as a draft in the consultation).

12.1.7 Ipsos MORI's report shows that the vast majority of those who replied to this question were members of the public and that only 14 statutory consultees commented on the EQIA.

12.1.8 There was a broad consistency between Ipsos MORI's findings and the themes

identified by TfGM. These themes included:

- Language and format of the EQIA
- Benefits not included in the EQIA
- Involving protected characteristics in the development and provision of bus services
- Vehicle specifications
- Driver awareness and training
- Concern over those without access to or ability to use technology being disadvantaged
- Importance of personal safety and security
- Comments on considering the needs of passengers during the proposed transition period

12.1.9 There was also a wide range of support from consultees on the findings of the EQIA. This can be seen in Ipsos MORI's report, which found that 130 of the 244 members of the public who answered this question made a favourable comment. Ipsos also reported positive comments from Abellio, who were a statutory consultee and who agreed with the findings of the EQIA. Ipsos also identified favourable comments by other non-statutory consultees, such as The University of Manchester, The Church of England, Manchester Metropolitan University and Manchester Friends of the Earth.

12.1.10 Before considering the key themes listed above it is also important to reflect on some of the other comments made by consultees. Go North West did not have any comments on the EQIA, other than to say that its focus was *"on bus users rather than employees"*. That is correct. As explained above, the purpose of the EQIA is to illustrate GMCA's consideration of the Proposed Franchising Scheme against those with protected characteristics. Consideration of the potential impacts of the Proposed Franchising Scheme on employees was considered elsewhere, particularly at question 21.

12.1.11 First did not have any comments on the EQIA but said it "*does not believe that there are any material differences between the Franchising proposals and a partnership led approach in respect of their impact on persons with protected characteristics*". This may be correct in so far as the partnership options would be unlikely to cause any adverse effects on persons with protected characteristics, but it should be noted that a similar EQIA was not carried out on the partnership options,

12. 2 - Theme 1 – Language and format of the EQIA

12.2.1 Some consultees found that the language and format of the EQIA was a barrier to understanding it. This is probably because, as explained above, the EQIA pro forma

is intended for internal use by TfGM only. In retrospect, it might have helped to include a preface to the EQIA to explain this.

12.2.2 It is accordingly proposed that, should any decision be taken to make the Proposed Franchising Scheme, a separate and revised EQIA together with an explanatory preface should be published.

12. 3 - Theme 2 – Benefits not included in the EQIA

12.3.1 Some consultees suggested some benefits of the Proposed Franchising Scheme that had not been included in the EQIA. For example, one respondent pointed out the benefits of a stable network for autistic people – a point that had not been explicitly included in the EQIA.

12.3.2 A small number of consultees found the EQIA insufficiently detailed but did not identify any significant adverse impacts of the Proposed Franchising Scheme. One respondent, who agreed with the Assessment, thought the benefits of the Proposed Franchising Scheme to people with protected characteristics could have been described in more detail.

12.3.3 Rochdale Borough Council thought the EQIA failed to address impacts relating to the affordability of fares, although they did not elaborate on what these impacts might be. Rochdale Borough Council also thought the EQIA neglected to consider the impact of the Proposed Franchising Scheme on people with mental illnesses, although this is in fact addressed under question 8 of the EQIA.

12.3.4 HCT Group thought that the EQIA considered the impact of franchising on people with protected characteristics "*a little narrowly*" and that, for example, it ignored the fact that women use buses more than men and would be disproportionately affected by the changes to the bus market. While this is true, the EQIA did not identify any negative impacts of the Proposed Franchising Scheme on women and neither did HCT Group. Also, the concern of an EQIA is to identify the impacts of a change on any protected characteristic group – meaning the size of the group is unimportant for this purpose.

12.3.5 HCT Group also commented that "*GMCA does not appear to consider the impact on essential life skills that bus reform could have e.g. increased independence, confidence, particularly on younger and older people and those with a disability*" and also felt that "*Compared with the depth of the rest of the assessment, the Equality Impact Assessment is lacking*".

12.3.6 It is worth noting that the main point of the EQIA was to identify any adverse impacts of the Proposed Franchising Scheme on protected groups rather than to explore the

benefits in depth.

12. 4 - Theme 3 – Involving protected characteristic groups in the development and provision of bus services

12.4.1 Some consultees emphasised the importance of understanding the needs of people with protected characteristics and of involving them in the development and provision of bus services.

12.4.2 Kate Green MP urged ongoing monitoring of the impact of franchising on protected characteristic groups, including passenger feedback and engagement with stakeholders and representative groups. Greater Manchester Disabled People's Panel also advocated a carer's pass and felt it should be involved in the process of commissioning services.

12.4.3 It should be noted that the Mayor already has advisory panels representing disabled people, young people, the LGBT community and gender. Two new advisory panels for race and faith are also being considered for establishment, separately from any consideration of consultation responses and irrespective of any decision on whether or not to make the Proposed Franchising Scheme. Additionally, should the Proposed Franchising Scheme be made further engagement with protected characteristic groups could take place. There are well established mechanisms for engaging groups with protected characteristics.

12. 5 - Theme 4 – Vehicle specification

12.5.1 Some consultees made comments broadly related to the specification and operation of vehicles. Some emphasised the importance of physical accessibility and space for wheelchairs, prams and buggies. Other points raised were the benefits of audio-visual announcements and automatic ramps, the safety benefits of centralised access to live CCTV, and the importance of destination blinds being as visible as possible. Several people thought the introduction of rear doors would make easier for wheelchair users since passenger flow would be better and people would not block the entrance. Several people also thought WiFi and/or 5G would promote accessibility. One respondent thought money should be spent on making bus stops accessible before spending it on the Proposed Franchising Scheme.

12.5.2 Travel Watch NW said that they broadly agreed with the findings of the EQIA but did say that the opportunity should be taken to address the problem that passengers often have to compete to use the limited space on buses for wheelchairs, prams and

pushchairs.

12.5.3 The Guide Dogs for the Blind Association noted the estimated 77,100 people living with sight loss in Greater Manchester, who have a disproportionally high rate of unemployment and whose numbers are expected to increase by 23% by 2030. They considered that without audio visual technology (Theme 4), buses are not accessible to people with sight loss and that the Proposed Franchising Scheme would offer an opportunity for such technology to be mandated across Greater Manchester.

12.5.4 Vehicle specification would be considered in the specification of contracts and plans for quality monitoring. A balance will need to be struck between benefits and costs (including any disbenefits). There would also be practical considerations, most obviously in the case of 2-door buses.

12.5.5 None of the comments call into question the conclusion of the EQIA that the Proposed Franchising Scheme would not have any significant adverse impact on those with accessibility requirements.

12. 6 - Theme 5 – Driver awareness and training

12.6.1 Several consultees highlighted the importance of drivers being aware of, and trained to deal with, the needs of different passengers, particularly those who are vulnerable or have special needs. As with vehicle specifications, this point would be considered in the specification of contracts and in plans for quality monitoring. Cost implications and practical considerations are less likely to be as significant as for vehicles.

12.6.2 Travel Watch NW commented that driver awareness and training was important but did not explain how this would impact on those with protected characteristics.

12.6.3 Again, none of the comments called into question the conclusion of the EQIA that the Proposed Franchising Scheme would not have any significant adverse impact on those with accessibility requirements. There is therefore no need to change the EQIA to reflect comments by consultees on driver awareness and training.

12. 7 - Theme 6 – Concern over those without access to or ability to use technology being disadvantaged

12.7.1 Some consultees raised this issue in relation to smartphones, for instance that phone-based ticketing was unsuitable for some disabled people. In addition, some consultees felt that bus travel should not require people to have a bank account or smartcard.

12.7.2 These points would be considered as plans for fares, ticketing and information are developed and any proposed changes would be subject to separate EQIAs. For example, should a proposal be made to introduce a new ticketing product for use across all franchised services, a separate EQIA will need to be undertaken by TfGM

to consider whether the introduction of that product would meet its equality duties.

12. 8 - Theme 7 – Importance of personal safety and security

12.8.1 Some people noted the importance of personal safety and security – from crime, hate crime and antisocial behaviour – and particularly at night, for women, vulnerable people and members of the LGBT community.

12.8.2 The University of Manchester Student's Union also raised the issue of hate crime and said that TfGM should be a third-party hate crime reporting centre. The Union also suggested a help system for people who might feel threatened and that GMCA should consult and collaborate with different community groups to make buses safer (and more accessible). The Proud Trust was concerned about the hidden costs arising from hate crime and fear of hate crime, such as having to pay for taxis rather than use public transport. Hate crime was also an issue raised by Greater Manchester Disabled People's Panel.

12.8.3 These important issues are not specifically related to the Proposed Franchising Scheme and the EQIA does not find that the Proposed Franchising Scheme would increase the risk of such personal safety and security issues. TfGM already actively addresses the issue of personal safety and security on public transport. Safety and security would be fully considered in the development of plans for the Proposed Franchising Scheme and would be informed, amongst other things, by engagement with the Mayor's advisory panels referred to above.

12. 9 - Theme 8 – Comments on considering the needs of passengers during the proposed transition period

12.9.1 Two statutory consultees noted the importance of considering the needs of vulnerable and disadvantaged people during the transition to the Proposed Franchising Scheme. Stockport Metropolitan Borough Council said that *"there is a need to ensure the changes and the interim stages of the process are clearly communicated to the public and that all bus providers are supportive of the needs of the vulnerable members of society who will be most affected by the changes…"*. Trafford Council also said that the EQIA should *"consider the impacts on people during the phasing in of the Franchising Scheme factoring in the potential loss or reduction of bus services during this time. This could have a significantly negative effect on people, particularly on specific groups"*.

12.9.2 While the EQIA did not identify any adverse impacts of the Proposed Franchising Scheme on any specific groups, it is accepted that this would need to be monitored and that consideration would need to be given to those who may be vulnerable. It should also be noted that no service reductions or changes are proposed to be made and that as explained at section 13, GMCA would consult on how well the Proposed Franchising Scheme was working and this would include consideration of how well

the transition to and phasing in of the Proposed Franchising Scheme went.

12. 10 - Conclusion

12.10.1 As considered above, there are no aspects of the EQIA which would require significant changes. This means that any revised form of EQIA published by GMCA would not be materially different to the EQIA published for consultation purposes, and GMCA would therefore not be required to re-consult on the same.

12.10.2 No significant comments were raised by statutory consultees, non-statutory consultees or members of the public on GMCA's consideration of its equality duties on the Proposed Franchising Scheme.

12.10.3 Several useful points were raised during the consultation, which has also provided additional insight into the concerns of passengers. While these points and concerns will be considered in the future, nothing has emerged which would invalidate the EQIA or call into question the benefits of the Proposed Franchising Scheme.

12.10.4 The importance of accessibility was emphasised in several responses, including the University of Manchester Student's Union, who suggested driver training, audio cues at bus stops and a second door on buses as ways of improving accessibility. Greater Manchester Disabled People's Panel identified 11 priorities for bus travel by disabled people, including audio-visual real time information at stops and on buses, improved signage and driver training.

12.10.5 Should any decision be taken to make the Proposed Franchising Scheme, it is proposed that some changes to the EQIA would be made. The first would be include a preface to explain to the reader the format of the EQIA itself. In addition, a change would be made to question 8 which would reflect the fact that the proposed Accessible Information Regulations have not yet been published by the Department for Transport. Another minor addition has been made to question 8 which provides consideration of the impacts on autistic passengers. Another change would be to delete the content set out in question 19 of the EQIA, which included consideration of any other comments. Originally this question said that the EQIA would be revised, as appropriate, before any decision is taken to make the Proposed Franchising Scheme. It is therefore proposed that this statement would be removed.

Section 13 - The Proposed Franchising Scheme: Legal and other considerations

13. 1 - Introduction

13.1.1 This section 13 is split into two parts. The first part sets out TfGM's analysis of the responses in relation to particular questions on the Proposed Franchising Scheme, namely:

- 13.2.1 to 13.2.7 considers TfGM's analysis of responses received from consultees on the corrections and changes made to the Proposed Franchising Scheme (question 1);
- 13.2.8 to 13.2.22 considers TfGM's analysis of the responses to the proposal to introduce the Proposed Franchising Scheme across the entirety of Greater Manchester (question 2), including how some consultees thought that the Proposed Franchising Scheme should apply to a smaller area or in some cases should be introduced only as a trial;
- 13.2.23 to 13.2.32 considers TfGM's analysis of comments concerning the services that are proposed to be franchised under the Proposed Franchising Scheme (question 3);
- 13.2.33 to 13.2.44 considers TfGM's analysis of comments concerning the proposed division into three Sub-Areas and the arrangements for transition (question 4);
- 13.2.45 to 13.2.49 considers TfGM's analysis of comments concerning services proposed to be excepted from regulation (question 5);
- 13.2.50 to 13.2.56 considers TfGM's analysis of comments relating to the proposed date for making the Proposed Franchising Scheme (question 6);
- 13.2.59 to 13.2.77 considers TfGM's analysis of responses concerning plans for consulting on how well the scheme is working (question 9). This analysis also considers TfGM's two proposed options that TfGM has considered for adjusting the Proposed Franchising Scheme in relation to this aspect of future consultation;
- 13.2.80 to 13.2.93 considers TfGM's analysis of responses concerning changes to improve the Proposed Franchising Scheme (question 46); and
- Finally, 13.2.94 to 13.2.98 considers TfGM's analysis of responses concerning the effect of suggested changes (question 47).

13.1.2 Throughout the first part of section 13, consideration has also been given to Ipsos MORI's findings, which can be found in chapter 6 of Ipsos MORI's report, again from a legal and procedural perspective. It should also be noted that questions 7, 8, 10 and 11 of the consultation have been considered in the Commercial Case section of

this report at Section 7.

13.1.3 The second part of this section 13 focuses on some of the other challenges raised by consultees from a legal and procedural perspective. These issues have been divided into key themes, namely:

- 13.4 provides TfGM's analysis concerning comments from consultees about the lawfulness, propriety and/or reasonableness of the process followed by GMCA (and TfGM on its behalf) and of the Assessment itself and its audit and in the consultation process; and
- 13.5 provides TfGM's analysis concerning comments from consultees about potential impacts on operators (including consideration of the responses to questions 38 and 39).

13. 2 - TfGM's review of consultation questions

Question 1: Do you have any comments on the corrections and changes made to the Proposed Franchising Scheme?

13.2.1 The first consultation question asked for comments on the corrections and changes that were intended to be made to the version of the draft Proposed Franchising Scheme which was sent to the auditor. Those changes included correcting some typographical errors, inserting a clearer map and removing some markings and/or services from the lists set out in Annex 1 and Annex 4. Both versions of the Proposed Franchising Scheme were made available to consultees. Consultees were told that those changes would have no practical effect if made and that the auditor had also agreed that those changes would have no effect on its opinion, or its observations, on the Assessment.

13.2.2 As it appears from section 6.1 of Ipsos MORI's report, 323 consultees responded to this question. The vast majority of the comments received were from members of the public who in broad terms, made favourable comments on those corrections and changes.

13.2.3 There were however some comments made by members of the public in this question that were not about the proposed corrections and changes but on other matters. For example, some consultees said that the Proposed Franchising Scheme would allow for integration with other modes of transport and that the proposals were not ambitious enough. While these comments have been considered, and the scope for greater integration between modes of transport is consistent with GMCA's objectives, they do not relate to the corrections and changes made to the Proposed Franchising Scheme.

13.2.4 Very few statutory consultees commented on the corrections and changes. Of those statutory consultees who did, such as Travelwatch Northwest and Bolton Council, none of them made any unfavourable comments.

13.2.5 OneBus said that it had *"no comments as we were not given access to the original draft"*. It is not clear what OneBus meant by this as both the original and revised draft versions of the Proposed Franchising Scheme were published and made available alongside the consultation document. Other consultees, as explained above, were able to correctly identify that two versions of the Proposed Franchising Scheme were published. At no point during the consultation period did OneBus express concerns that they had not been given access to both draft versions of the Proposed Franchising Scheme.

13.2.6 Go North West agreed that the corrections and changes proposed were minor and would have no impact on the Proposed Franchising Scheme.

13.2.7 In consideration of the consultation responses it is therefore proposed that those

responding to the consultation will be deemed to have responded to the version of the draft Proposed Franchising Scheme which included those corrections and changes.

Question 2: Do you have any comments on the proposal that the Proposed Franchising Scheme should apply to the entirety of Greater Manchester?

13.2.8 Section 6.2 of Ipsos MORI's report examines the comments received from consultees on the proposal that the Proposed Franchising Scheme should apply to the entirety of Greater Manchester. It notes how the majority of consultees (695 of those 818 who commented on this question), and many of the statutory consultees, made favourable comments in support of the proposal for the Proposed Franchising Scheme to apply to the entirety of Greater Manchester. OneBus, for example, said that *"it is logical that the Proposed Franchising Scheme should apply to the entirety of Greater Manchester…".* In particular, it appears that the majority of the public were generally supportive of the Proposed Franchising Scheme applying to the whole of Greater Manchester.

13.2.9 Some consultees went on to explain why. For example, some said that this would help better integration of bus services into the wider public transport network and could also help to facilitate a simplified ticketing system.

13.2.10 Two members of the public suggested that the Proposed Franchising Scheme should apply to a smaller area of GM. One said "I *believe that if franchising is the preferred option it should only apply to sub sections A and B. Area C should remain on a deregulated basis or in a partnership model*". No reasons where given as to why the Proposed Franchising Scheme should not apply to Sub-Area C. The other person commented that "*Given my stated view of the wrong-headedness of the entire proposal my suggestion would be that the Proposed Franchising Scheme be confined to the route between the offices of the Mayor of GMCA and the offices of the Leader of Manchester City Council, in effect Mount Street*", which in this case only shows that individual's opposition to the proposals generally.

13.2.11 Arriva commented that *"if a franchising scheme is the preferred option of GMCA we feel that it could be restricted to those parts of Greater Manchester in which there is clear evidence of market failure and therefore a case for such significant local authority intervention*". As set out below at paragraph 13.2.16, the Assessment considered why it was appropriate for any intervention to be introduced across the entirety of GM.

13.2.12 While Transdev did say that the proposal was sensible it said something similar to Arriva by suggesting excluding certain corridors which provided cross-boundary services, so that those services would not need a service permit to operate. No specific corridors were suggested by Transdev and it is unclear how this would work practically. Section 4.8 of this report also addresses the comments received in relation to the proposed service permit scheme and explains how the majority of

cross-boundary services should be able to successfully apply for a permit without any significant changes needed to their services.

13.2.13 Section 6.2.3 of Ipsos MORI's report notes how some members of the public also made some other suggestions to the Proposed Franchising Scheme. The example provided by Ipsos which said *"I think it should apply entirely within Greater Manchester with connecting services running out of the region to border towns"*. It was already the case that the Proposed Franchising Scheme would apply to a number of cross-boundary services in so far as they operate within Greater Manchester. Other cross-boundary services would be still able to operate in Greater Manchester if they obtained a service permit. Another suggestion which some consultees appear to have made, that the Proposed Franchising Scheme should be extended beyond the boundary of Greater Manchester, would not require the agreement of other neighbouring authorities to franchise, and in many cases would not be possible without the consent of the Secretary of State for such other authorities to consider a franchising scheme.

13.2.14 There were a few suggestions that the Proposed Franchising Scheme should be introduced initially on a trial or pilot basis, to determine whether franchising would work in a smaller area of GM before rolling it out further. Go North West said that *"it would be unreasonable to roll it out to the whole area without a genuine trial followed by a staggered and gradual implementation*", before going on to propose how it believes franchising should only be introduced on a trial basis for one year in Sub-Area A, following which GMCA would assess the performance of the scheme and undertake another consultation to ask consultees whether that trial should be extended to another Sub-Area or not.

13.2.15 First also suggested a similar approach "*where Franchising…is tested in a ring-fenced location within Greater Manchester, alongside a partnership led approach*". First then went on to explain why a trial would be appropriate as they said "*Once there is a commitment to Franchising the effect on the provision of local bus services is immediate and significant as it changes operators' future plans irrevocably. The proposals… does not offer a credible opportunity to learn, reflect and amend, and will result in the region being irrevocably committed to Franchising, without opportunity to reassess this decision if it proves not to be in the interests of passengers and the wider community."*

13.2.16 There are several reasons why a trial would not be necessary. The first is that as set out in the Assessment, the benefits from the Proposed Franchising Scheme (particularly around network and integration etc) come from the fact that it would apply to the entirety of Greater Manchester and that it would be a long term, enduring model. The Assessment concluded that the entire bus market in Greater Manchester was not performing as well as it could be and that in order to achieve GMCA's objectives and to promote consistent change and improvement across Greater Manchester, any option to intervene in the market should apply to the

entirety of Greater Manchester.

13.2.17 Both Go North West and First suggest that franchising could be trialled within a smaller, specific area of Greater Manchester. No specific areas were identified as being suitable to be 'ring fenced' as such and it is not clear how this would work in practice, particularly in considering how services crossing the boundary of the 'ring-fence' would operate and what exceptions would apply to services within that trial area. It is unlikely that any such option would deliver the same passenger benefits as expected under the Proposed Franchising Scheme as customers would continue to face the same challenges in relation to the current complex fares and ticketing offer, while also needing to purchase an additional product to travel within the trial area and having to deal with the complexity introduced by cross-boundary travel between different parts of Greater Manchester.

13.2.18 Franchising is not a novel system for regulating bus services, but would as First explained be a significant change to the bus market in Greater Manchester as it would change the nature of how the market operates in the long-term. The Assessment considered in detail how the Proposed Franchising Scheme would work across the whole of Greater Manchester, what effects it would be likely to have, how it would contribute to the policies of GMCA and other neighbouring authorities and other factors. A significant amount of work was also undertaken to compare the proposal against other realistic courses of action and without repeating the contents of this report or the Assessment, this followed extensive engagement with operators. Detailed consideration has therefore been given to the proposal and there would be no reason to initially trial any of the options considered in the Assessment, especially given, as described above, they would not be expected to provide the same benefits as a wider franchising scheme, such as the Proposed Franchising Scheme.

13.2.19 First made the point that the Proposed Franchising Scheme "*does not offer a credible opportunity to learn, reflect and amend, and will result in the region being irrevocably committed to Franchising, without opportunity to reassess this decision if it proves not to be in the interests of passengers and the wider community*". As set out from section 13.2.59 of this report, it is proposed that GMCA would modify its plans on consulting on how well the Proposed Franchising Scheme is working. That would allow GMCA to get feedback from users sooner than originally proposed.

13.2.20 The argument that there should be a "*trial*" of franchising with subsequent staggered and gradual roll out across the remainder of Greater Manchester is in effect that the transitional period should be extended to provide a greater opportunity to learn from experience as franchising is introduced. This argument was also made in Section 7.9.28 of the Commercial Case response section.

13.2.21 It should also be noted that the Act also allows for the Proposed Franchising Scheme to be varied and/or revoked, so clearly GMCA would not be *"irrevocably committed*

to Franchising" if it was found that there were significant problems with the Proposed Franchising Scheme that could not be resolved or other reasons for going back to a deregulated market. It is however accepted that there would be a significant amount of complexity that would need to be considered and overcome should any decision be taken to revoke the Proposed Franchising Scheme, for example in relation to any facilities being provided by GMCA.

13.2.22 The majority of consultees agreed with the proposals that the Proposed Franchising Scheme should apply to the entirety of GM and while some suggestions of a trial or pilot approach were raised by some of the bus operators, several reasons have been given as to why such an approach would not be necessary.

Question 3: Do you have any comments on the local services that are proposed to be franchised?

13.2.23 Question 3 asked for comments on the services that are proposed to be franchised under the Proposed Franchising Scheme. Section 6.3 of Ipsos' report notes that 512 consultees responded to this question and that out of the 293 favourable comments made, 128 of those where from members of the public who were generally supportive of the proposal. Only a small number of statutory consultees provided any comments.

13.2.24 Go North West was concerned that services operating from its Queens Road depot (which is in Sub-Area B) would be required to obtain a service permit in order to operate in Sub-Area A if franchising becomes effective in that area. This had already been considered by GMCA and is why GMCA proposes to temporarily except some services under Annex 4 of the Proposed Franchising Scheme. Provided those services are therefore identified at the time of any franchising scheme being made then they would not need a service permit to operate in Sub-Area A.

13.2.25 Some other consultees (such as local authorities and members of the public) said that cross-boundary services should be included in the Proposed Franchising Scheme. The Proposed Franchising Scheme does in fact include some services which would cross the Greater Manchester border, but they are only identified in the Proposed Franchising Scheme to the extent that they operate in Greater Manchester. That is because those services cannot operate under a franchise contract outside of Greater Manchester, as those other areas would not be franchised and it would therefore be unlawful for them to operate in those other areas under a local service contract. To the extent that they operate outside of Greater Manchester then that portion of the route would be secured under other powers. Annexes 1 and 4 of the Proposed Franchising Scheme list the services which would be franchised and those services are currently listed above section 4.8.24 of the Strategic Case response section.

13.2.26 Section 6.3.3 of Ipsos MORI's report notes how the majority of the public who

responded to the question where generally supportive of the proposal.

13.2.27 One member of the public suggested re-instating services which had been previously withdrawn as they commented *"I think it would be good to look to reinstate lost bus services…"*. Another person made a similar point and commented "*The proposals list only existing services. It should also cover services that there should be but that do not exist, either because they used to exist but were dropped, or that are needed but never existed in the first place…"*.

13.2.28 Given the scale of change involved in introducing the Proposed Franchising Scheme and changing how the market operates, it was considered in the Assessment that making service changes during the implementation period would not be appropriate and would create further risk to GMCA and potential confusion to staff and the public. Most consultees were in support of the proposal that only existing services would be franchised at the outset and an example of this can be seen when one person commented *"I presume this is all existing services – it should be"*.

13.2.29 Taking into account the considerations in the Assessment and the few suggestions that other services should either be introduced or reinstated the proposal to franchise existing services only is considered appropriate. Including other services would instead be an issue which GMCA could consider after transition as GMCA would be able to make network changes in the future, for example if making any changes as part of any Phase 2 measures.

13.2.30 Some also suggested introducing express services. A similar view was expressed by those participating in the deliberative research sessions with Ipsos MORI, as set out in section 3.7 of Ipsos MORI's "*Qualitative Research Summary Report"*. If there are express services currently running then they would be included in the list of services identified in Annex 1 of the Proposed Franchising Scheme, albeit that list does not identify which services may be express services. As set out above, the Assessment concluded that introducing new services under the Proposed Franchising Scheme would not be appropriate on day one due to the size and scale of change that would already be required and because the Proposed Franchising Scheme should instead reflect the commercial network at that time. This means that it is not proposed that any new express services would be franchised upon the introduction of the Proposed Franchising Scheme. However, consideration could be given to matters once franchising was properly established and running smoothly, as under the Proposed Franchising Scheme, TfGM would be able to enhance its network of franchised services in order to respond to customer need and demand. This could include provision of more express services.

13.2.31 Section 123A(3)(a) of the Act requires an authority to *"identify the local services that they consider appropriate to be provided…"*. The services in the Proposed Franchising Scheme have been identified based on their routes. Describing the times at which each bus might run or how swiftly any journey might be completed under the

Proposed Franchising Scheme is not necessary for the purposes of section 123A(3)(a) and it would be over-prescriptive, as well as requiring GMCA to vary the Proposed Franchising Scheme in accordance with section 123M of the Act before making any change. It is considered that requiring such a procedure to be followed in the case of all such changes would involve unjustified expense and delay.

13.2.32 It is, therefore, proposed that the services to be franchised should continue to be identified in the current manner proposed (if a decision is taken to make the Proposed Franchising Scheme).

Question 4: Do you have any comments on the proposal that the Proposed Franchising Scheme would be split into three Sub-Areas and on the other arrangements for the purposes of transition?

13.2.33 Section 6.4 of Ipsos MORI's report shows how those who commented on the proposed arrangements for transition, including the proposal to split Greater Manchester into three sub-areas. There was a fairly even split between those who made a favourable comment and those who made an unfavourable comment, with 192 and 173 comments respectively.

13.2.34 It appears that many consultees agreed with the proposed arrangements. OneBus said that "*the splitting into sub areas is sensible however this increases the challenges where services in one area are either de-regulated (operating commercially or with TfGM support) or within the franchise or operate on a service permit basis*". This is exactly why GMCA has proposed to except some specified services from regulation temporarily (which are set out in Annex 4 of the Proposed Franchising Scheme) for the purposes of transition. The purpose of those exceptions is to ensure that those existing commercial services can continue to operate in and out of those sub-areas without needing a service permit. Taking an example, this would allow the Wythenshawe – Sale – Stretford – Eccles service in Annex 4 to operate from Sub-Area C and to go into Sub-Area A and to be excepted from the Proposed Franchising Scheme until franchising becomes effective in Sub-Area C, when that service could be replaced by a franchised service.

13.2.35 The view that the proposed arrangements were sensible was also shared by the members of the public. The majority of the favourable comments received from the public were generally supportive of the proposals. For example one person said that *"I believe this phased approach is the only way to ensure there is a smooth* transition".

13.2.36 However Ipsos MORI also found that 83 of the 202 suggestions made by the public were that the Proposed Franchising Scheme should be introduced uniformly across Greater Manchester with no sub-areas. Section 6.4.3 of Ipsos' report highlights how 28 comments were received from members of the public who said it would be unfair to make changes in one area before rolling it out to other areas. For example, one person said *"No, I don't think this should happen just get on with it the whole of*

Greater Manchester should be treated as a whole and equally and by setting up sub-areas that just leaves it open for delays and potential unfair treatment of different areas".

13.2.37 The consultation document explained that the reason for introducing Sub-Areas was to allow the bus market to move smoothly and efficiently to a new way of operating, meaning that one area has to go first and one area has to go last. It is unavoidable that the phased introduction of the Proposed Franchising Scheme will mean that some passengers will enjoy the benefits of franchising before others. The way phasing is being introducing has been structured exclusively around operational and other practical considerations designed to make the transition as effective as possible. There has been no preferential consideration given to one segment of the travelling public being allowed to benefit before any other segment does so. The alternative would be to introduce the Proposed Franchising Scheme across the entirety of Greater Manchester at once which would not be appropriate due to the size and scale of change. Ipsos MORI's report found that this seems to have been supported by many of the statutory consultees, including Go North West, who said *"in order to manage risk and minimise disruption it is paramount that any franchising scheme is implemented in a staged manner"*.

13.2.38 Section 6.4.2 of Ipsos MORI's report notes a suggestion that "*Interim compensatory arrangements (for example in relation to fares) would be desirable in those areas which come later in the scheme*". No reasons were given as to why compensation should be given to those travelling in Sub-Areas before the Proposed Franchising Scheme takes effect and it is also unclear what this could include and how it would work.

13.2.39 Salford City Council suggested including Irlam and Cadishead into Sub-Area A instead of Sub-Area C. This appears to be so all services operating in and out of Salford would be in the same sub-area however, as set out in this sub-section, it is not proposed that the Sub-Areas or any of their boundaries would change.

13.2.40 Go North West did however say that *"the timeframe for the implementation of the Scheme in sub-areas A, B and C does not represent a genuine trial…".* This is correct because it is not proposed that the Proposed Franchising Scheme, if made, would be introduced only on a trial basis. Whether it should be has been addressed above.

13.2.41 One of the main challenges that consultees raised was that the timescales for implementing the Proposed Franchising Scheme were unrealistic. These have been considered elsewhere in the Commercial Case response Section 7.9 of this report however as that section sets out, it is thought that the original proposals were appropriate at the time and that such dates would be changed depending on if and when any decision is taken to introduce the Proposed Franchising Scheme.

13.2.42 In addition to this, there were some comments made by consultees that the map used in Annex 5 of the Proposed Franchising Scheme lacks sufficient detail. As far as

we are aware, no statutory consultees sought provision of a more detailed map during the consultation process and no statutory consultees said that they were unable to understand the Proposed Franchising Scheme owing to lack of detail in the map itself.

13.2.43 It is proposed that a more detailed version of the map would be published alongside the Proposed Franchising Scheme. This would be published online and also made available for inspection at various locations, such as at GMCA and TfGM's offices.

13.2.44 It is therefore proposed that the Proposed Franchising Scheme if made should be amended so that the relevant map is at a larger scale and is in sufficient detail to make clear the boundary of the Proposed Franchising Scheme and sub-areas.

Question 5: Do you have any comments on the services which have been excepted from regulation under the Proposed Franchising Scheme?

13.2.45 A small number of consultees answered question 5, which asked for comments on the services which are proposed to be excepted from regulation under the Proposed Franchising Scheme. For those who did comment, it appears that there was a focus on Scholars Services which are the only class of services which would be excepted permanently under the Proposed Franchising Scheme. This is different to the services listed in Annex 4 of the Proposed Franchising Scheme, which consultees did not express any concerns about, which would only be excepted for the purposes of transition and to minimise the disruption of services operating between Sub-Areas.

13.2.46 Section 6.5 of Ipsos MORI's report notes how 105 of the 249 responses to this question were favourable comments, 58 of which were from the public who were generally supportive of the proposals. In addition, 60 of the 121 members of the public who commented on the question suggested that all bus services should be included in the scheme, with no exceptions. Assuming that the public mean all local bus services, then that would appear to be largely consistent with the current proposals that the entire existing commercial network of services run by operators would be franchised. Any other services which GMCA did not want to include in the Proposed Franchising Scheme but which an operator may want to provide in the future would need to obtain a service permit from GMCA to operate.

13.2.47 11 consultees also commented that Scholars Services should not be excepted. The proposal for excepting Scholar Services is based on the fact that those services are not registered local services which are open to the public for use and are instead closed services usually arranged privately on by the school or college. It was therefore considered that it would therefore not be appropriate to franchise those services.

13.2.48 Go North West again queried how services would operate during transition between Sub-Areas. It should be noted that it is not proposed that services operating between Sub-Areas would require a service permit and without repeating the above, that is

why some services have been temporarily excepted and listed in Annex 4.

13.2.49 In summary, many consultees agreed with the proposals and no material comments were raised by consultees which gave rise to the need to consider any other services being excepted. As a result of this it is proposed that the services which were proposed to be excepted from regulation, i.e. Scholars Services and those excepted temporarily as listed in Annex 4, would continue to do so should the Proposed Franchising Scheme be made.

Question 6: Do you have any comments on the date on which the Proposed Franchising Scheme is currently proposed to be made?

13.2.50 Consultees were also asked for any comments about the date on which the Proposed Franchising Scheme was proposed to be made. Section 6.6 of Ipsos MORI's report notes how the majority of comments to this question were favourable. This appears to be primarily from members of the public who were generally supportive of the proposed date and said that the Proposed Franchising Scheme was long overdue.

13.2.51 A small number of members of the public (19 of the 337 responses) did say, however, that this date would be too soon. This was a view shared by some of the bus operators (such as Go North West and Arriva) who commented that the proposed date of 6 March would be too early. Go North West said that the date would be too early because *"GMCA cannot meaningfully take into account response to this consultation and make any changes necessary to the Scheme in less than two months…*" before saying that *"GMCA does not appear to have taken into account the obligations and associated timescales for Greater Manchester bus operators to comply with CAZ (Clean Air Zone)"*. The CAZ is an entirely separate proposal which is subject to its own requirements and will be developed irrespective of whether or not the Proposed Franchising Scheme is introduced. It is therefore not accepted that GMCA and the bus operators would be required to focus on any CAZ obligations before any decision can be taken to make the Proposed Franchising Scheme.

13.2.52 Rotala expressed a similar concern on the amount of time available to GMCA to consider the consultation responses because they said *"it would be premature for GMCA to take the decision on the Proposed Franchising Scheme as early as 6 March 2020 – unless of course GMCA has been persuaded that the Proposed Franchising Scheme is not the best option"*. It is accepted that it is important to ensure that sufficient time is given to consider the consultation responses, regardless of whether any decision is taken to make the Proposed Franchising Scheme. Supporters of the proposals have an equal right to ensure that their voices are duly heard before any final decisions are made. Accordingly, Rotala's point that the proposed date of 6 March would have been acceptable only if there was a decision not to make the Proposed Franchising Scheme is not accepted.

13.2.53 The consultation proposed that the Proposed Franchising Scheme would be made on 6 March 2020. That indicative date was identified in the consultation document

and included in the Proposed Franchising Scheme to inform consultees about how GMCA intended, at that point, to reach its decision concerning whether or not to make the Proposed Franchising Scheme and how the Proposed Franchising Scheme would work. The date of 6 March was the earliest possible date for any mayoral decision, based on GMCA's understanding of how long it might take to consider the consultation responses following closure of the consultation period. The consultation document explained that this date may change and that sufficient time would be allowed for full consideration of all the consultation responses to be given before any decision could be reached. Ipsos MORI note in section 6.7.2 of their report how OneBus acknowledged how that date may change and is consistent with TfGM's proposals.

13.2.54 This report detail the process undertaken by TfGM and Ipsos MORI to review the consultation responses. Without repeating those earlier sections it is important to note that some of this work had already begun before the consultation closed on 8 January 2020 as responses were received throughout the consultation period.

13.2.55 There were however a number of responses which were not received until the last day of the consultation, most noticeably from many of the bus operators. This meant that those responses could not be processed, coded and subsequently reviewed until after 8 January 2020.

13.2.56 In summary of the above, the Proposed Franchising Scheme was not made on 6 March 2020 and any decision on whether or not to make the Proposed Franchising Scheme will be for the Mayor to make following consideration of this report by GMCA. As noted in the introduction to this report, the effects of the COVID-19 pandemic are to be considered separately by GMCA and TfGM. It is therefore now proposed that those dates would be removed from the Proposed Franchising Scheme, pending any decision being taken to make the Proposed Franchising Scheme.

Question 7: Do you have any comments on the dates by which it is proposed that franchise contracts may first be entered into?

13.2.57 Sections 7.9.5 - 7.9.32 of the Commercial Case response section of this report considers the responses from consultees on this question. In a similar manner to the date for making the Proposed Franchising Scheme it is proposed that those dates would be removed pending any decision being taken to make the Proposed Franchising Scheme.

Question 8: Do you have any comments on the nine month period that is proposed will expire between entering into a franchise contract and the start of a service under such a contract?

13.2.58 Sections 7.9.33 - 7.9.42 of the Commercial Case response section of this report

considers the responses from consultees on this question.

Question 9: Do you have any comments on the proposals for how GMCA would consult on how well the Proposed Franchising Scheme is working?

13.2.59 Question 9 asked for comments on the proposals for how GMCA would consult on how well the Proposed Franchising Scheme is working.

13.2.60 Section 123A(9) of the Act provides that a franchising scheme must include a description of an authority's plans for consulting such organisations appearing to the authority to be representative of users of local services as they think fit in order to seek their views on how well the scheme is working once it is operational. Consideration was given to this in the Assessment where it was proposed that GMCA would consult such organisations immediately after the expiry of the first franchise contracts, and as appropriate thereafter. In broad terms this meant that the first consultations on how well the Proposed Franchising Scheme was working would take place in 2031.

13.2.61 Section 6.9 of Ipsos MORI's report notes that the majority of the comments received to this question were suggestions (254 of the 397 responses received) and this appears to be broadly consistent across both statutory consultees and non-statutory consultees. Section 6.7 of Ipsos MORI's "*Qualitative Research Summary Report"* also found that some participants were keen to express their thoughts that the Proposed Franchising Scheme should be reviewed as it progresses.

13.2.62 Some consultees did not comment on this question. This included Rotala, Stagecoach and OneBus. Bus Users UK also did not comment on the proposals, although they did challenge the timing of this consultation and also said that it thought *"a detailed passenger and potential passenger consultation to identify the specific needs of local people"* would improve the Proposed Franchising Scheme, which is partly what we understand the primary purpose behind this consultation would be.

13.2.63 Some consultees commented that GMCA should consult sooner, possibly as early as a few weeks after implementation, and should not wait until all the first franchise contracts had expired. This included comments from Arriva and Cheshire West and Chester Council, who Ipsos MORI also identify in section 6.9 of their report as also having raised these concerns. One of the primary reasons behind this was that there may be lessons that GMCA may be able to learn sooner, for example, during the introduction and transition of the Proposed Franchising Scheme, which if consulted upon may inform the roll-out of services during transition and beyond. First made a comment that GMCA should consult sooner because the plans did *"not offer a credible opportunity to learn, reflect and amend and will result in the region being irrevocably committed to Franchising, without opportunity to reassess this decision if it proves not to be in the interests of passengers and the wider community".*

13.2.64 Other consultees said that any consultations should be simpler, particularly in light

of how complex this consultation was TfGM agrees with that view.

13.2.65 Any consultation will be in addition to the normal customer satisfaction and other data that would be collected and analysed in the ordinary course as soon as the scheme had become operational. Nonetheless, having considered the consultation responses, TfGM agrees that there would be benefit in GMCA consulting on how well the Proposed Franchising Scheme was working sooner, and certainly before the expiry of the first franchise contracts. GMCA is able to modify any scheme once made after consultation. Two options have therefore been considered below in terms of when may be a more appropriate time for GMCA to consult in order to seek views on how well the Proposed Franchising Scheme is working and these are set out below. In addition to those plans, the sections below explain how GMCA would also obtain feedback from users during the transition and mobilisation phases too.

Option 1: Change the proposals and consult after 12 months of franchising being effective in Sub-Area A

13.2.66 The first option would be to consult representatives of users 12 months after the Proposed Franchising Scheme is effective in each of the sub-areas, starting with Sub-Area A. This would allow GMCA to obtain the views from local user groups on how well the Proposed Franchising Scheme is working during the transition period (and at a regular interval thereafter).

13.2.67 While consulting as soon as possible may be seen to have its advantages, it is important that any consultation takes place at an appropriate time.

13.2.68 Consulting after 12 months of the first franchised services start to operate in Sub-Area A may not be appropriate if users have not yet experienced or got used to any changes. GMCA would however be carefully monitoring the implementation and transition of the Proposed Franchising Scheme. Among other relevant data, this could include obtaining feedback from bidders to identify any opportunities to improve the procurement process going forwards.

13.2.69 Option 1 was therefore not seen as being preferable.

Option 2: Change proposals and consult within 12 months of franchising being operational in all sub-areas.

13.2.70 This option would involve GMCA consulting on how well the Proposed Franchising Scheme is working within 12 months of franchising being operational in all sub-areas (and again at a regular interval thereafter).

13.2.71 Consulting within 12 months of franchising being operational across GM would allow GMCA to consult representatives of users soon after the Proposed Franchising Scheme as a whole was operational. This would allow GMCA to consult when it could then consider the feedback to that consultation before any subsequent future franchises are let. This option appears to be a sensible alternative to its original

proposals of consulting once all the first franchise contracts have expired.

13.2.72 It is considered, therefore, that the Proposed Franchising Scheme should be modified so that the description of its plans for consulting such organisations appearing to represent users of local services on how well the Proposed Franchising Scheme is working in accordance with section 123A(9) should be changed to reflect Option 2 above.

13.2.73 It should however be noted that there are ways in which GMCA could obtain feedback, both from passengers and others, during the mobilisation and transition phases without undertaking a consultation as required under section 123A(9).

13.2.74 As part of the mobilisation process, TfGM would engage with operators on behalf of GMCA after the award of any franchise contracts to obtain their feedback on the contract award and mobilisation processes. That would be similar to a standard project management exercise as part of the post implementation review. TfGM would also look to engage with customers shortly after new services started, potentially through the use of surveys and online channels where passengers could provide feedback on matters such as fares and ticketing and how effectively the incoming operator has taken over the service. This learning from the customer and operators would be fed back into future tranche mobilisations.

13.2.75 Section 123A(9) of the Act requires GMCA to include in a franchising scheme its plans for consulting such organisations *"appearing to the authority to be representative of users of local services as they think fit…"*. Some consultees also suggested that others, not just organisations appearing to represent users of local services, should also be consulted. Ipsos Mori also found that this was one of the main suggestions given by members of the public, as they commented that passengers should also be consulted. Ipsos MORI's report notes that TravelWatch North West (TWNW) said that it believes it should be consulted on. TWNW said *"as a statutory consultee to this consultation TWNW would expect to be consulted on how well the scheme is working"*. Bolton Council also asked how such consultations were to be conducted and whether any support would be required from any local authorities.

13.2.76 TfGM can see the value of making any consultation as wide in practice as is reasonable in the circumstances and to determine who to consult in addition to organisations representative of users in the light of the circumstances prevailing when the consultation takes place. It is, however, not proposed that the Proposed Franchising Scheme is modified to require consultation with others not required by the Act to be included in any consultation about how the Proposed Franchising Scheme is working. Being a statutory consultee to this consultation does not itself require an organisation automatically being consulted regardless of circumstances subsequently. However, if TWNW were considered by GMCA to represent the views of users at the time of any consultation then they could be consulted with, without the need to be formally incorporated or identified into the Proposed Franchising

Scheme.

13.2.77 How any consultation will be conducted will depend on the prevailing circumstances. At this stage, TfGM considers that the consultations would be best conducted by TfGM on GMCA's behalf, and in respect of specific user groups. TfGM therefore considers that it is unlikely districts would be needed to help deliver the consultation as Bolton Council suggested. If however the circumstances meant that a wider consultation was required, in a similar manner to this consultation, districts may be asked to help raise awareness of the consultation within their own areas.

Question 10: Do you have any comments on GMCA's plans for allowing small and medium sized operators the opportunity to be involved in the Proposed Franchising Scheme?

13.2.78 Sections 7.9.67 - 7.9.111 of the Commercial Case response section of this report considers the responses from consultees on this question.

Question 11: Do you have any comments on the proposal that it would be appropriate for GMCA to provide depots to facilitate the letting of large franchise contracts under the Proposed Franchising Scheme?

13.2.79 Section 7. 3 - of the Commercial Case response section of this report considers the responses from consultees on this question.

Question 46: Are there any changes that you think would improve the Proposed Franchising Scheme? Please provide further details as to the changes you think would improve the Proposed Franchising Scheme

13.2.80 Question 46 asked for comments on whether there were any changes that consultees thought would improve the Proposed Franchising Scheme.

13.2.81 The majority of those who answered this question said that they either did not know if there were any changes which could improve the Proposed Franchising Scheme or said that there were no changes that they thought could be made.

13.2.82 That left around a quarter of responses that did propose changes that consultees thought would improve the Proposed Franchising Scheme. Section 5.1 of Ipsos MORI's report summarises those suggestions and explains how the majority of them were suggestions which had already been proposed or considered. For example, Warrington's Own Buses suggested how SMEs should be able to bid for large franchise contracts. These type of suggestions have been considered by TfGM in reviewing the consultation responses but are not proposed to be adopted and in this example, Section 7.9.96 clarifies that SMEs are not restricted from being able to bid for large franchise contracts but would instead have to meet certain financial tests to provide it would be able to operate a large franchise.

13.2.83 Abellio suggested delaying the proposed timetable to give GMCA enough time to

provide depots for large franchises. This is also considered in detail in Sections 7.7.9 - 7.7.10 of this report.

13.2.84 Ipsos MORI reported on Arriva's suggestion that "*more should be done to ensure operators do not suffer significant financial harm as a result of the introduction of franchising…and that the timescales proposed should be re-considered as they seem somewhat unrealistic given the unprecedent change a scheme would require, if it is to be successful*". There is no requirement to compensate operators under the Act and the impact of the Proposed Franchising Scheme on operators is considered below.

13.2.85 Go North West suggested that the Proposed Franchising Scheme should include cross-boundary services. As set out above from section 13.2.23 that is what has been proposed in many cases insofar as such services are operated within Greater Manchester. It was also suggested that the Proposed Franchising Scheme should operate on a route-by-route basis, that GMCA should not provide large depots and that the proposed timetable should be changed to allow for depot provision. All of these matters are considered in Section 7 of this report. Go North West also suggested that the Proposed Franchising Scheme could be limited to franchising routes which *"in GMCA's view are in need of the additional 30 bus resource".* Given the failures affecting the bus market as a whole, the view that any intervention should apply to the whole of Greater Manchester to promote consistent change and improvement, the difficulties in route franchising referred to above and the delay involved in progressing a new franchising scheme, it is not clear what the benefits or effects to that approach would be nor is it likely to bring the same benefits as the current proposal and it is not recommended.

13.2.86 Go North West also suggested that the Proposed Franchising Scheme should be implemented on a trial basis only for Sub-Area A and that following a further consultation it could be determined whether the Proposed Franchising Scheme should be rolled out to other areas. This was considered above in response to the comments on question 2 of the consultation.

13.2.87 Belle Vue suggested that grants or subsidies should be provided to smaller and medium sized operators. Such support is considered to be unnecessary and could in any event raise state aid and/or procurement issues, which would be avoided under the Proposed Franchising Scheme. As set out in section 3 of the consultation document and Section 7 of this report, the Proposed Franchising Scheme has been structed in a way that allows those operators to participate should they wish.

13.2.88 The other suggestions from statutory consultees have been considered. Some of those suggestions have been considered and adopted, whereas others have not been adopted. For example Cheshire East Council's suggestion that any future consultations on how well the Proposed Franchising Scheme is working should take place during and before the expiry of the first franchise contracts was considered

alongside other similar suggestions in from section 13.2.57 of this report. Blackburn and Darwen Borough Council suggested that it should be involved in the decision making process for the service permit scheme. However, while the Assessment considers how GMCA could engage with applicants before a service permit is applied for, the Act requires any decisions on whether or not to grant a service permit to rest with GMCA only.

13.2.89 In looking at other suggestions made by non-statutory consultees, the second most cited suggestion as set out in section 5.1.3 of Ipsos MORI's report relates to providing free travel to particular groups (such as young people). This was also a key theme which came out of Ipsos MORI's qualitative research findings (see section 5.5 of the "*Qualitative Research Summary Report"*) and was also expressed by some academic institutions. Such a concession could be introduced under all options although it may be easier to implement under the Proposed Franchising Scheme. It could be delivered in the future alongside other Phase 2 interventions.

13.2.90 There were some suggestions to allow bicycles on buses and to increase the provision of cycle lanes. Such proposals would also not affect the content of the Proposed Franchising Scheme.

13.2.91 It was also suggested that more consideration should be given to cross boundary services. Such services were considered in the Assessment and again in this report. It is considered that sufficient consideration has been given to them given the final impact on them will depend on further actions, including the operation of the service permit regime.

13.2.92 Introducing more express routes and/or services which operated 24 hours a day has been considered above and would also not impact on the Proposed Franchising Scheme insofar as they operate on the routes already identified in the Proposed Franchising Scheme. Introducing new express services on routes not currently included in the Proposed Franchising Scheme would require the Proposed Franchising Scheme to be modified now or varied if the Proposed Franchising Scheme was made. This would be possible but as considered already in section 13.3, it would not be desirable for new services not already currently operating to be franchised at the point of making the Proposed Franchising Scheme.

13.2.93 Some consultees also suggested that bus companies should be publicly owned and/or nationalised. This is not what franchising involves and would require further legislation.

Question 47: If you oppose the introduction of the Proposed Franchising Scheme, how likely would you be to support it if the changes you suggested in your answer to the previous question were made?

13.2.94 Having asked consultees whether there were any changes that they thought would improve the Proposed Franchising Scheme, this question asked if they had opposed

the Proposed Franchising Scheme, how likely they would they be to support it if the changes they suggested were made.

13.2.95 Section 5.2 of Ipsos MORI's report shows how a total of 485 consultees responded to that question and that consultees were broadly split in their view. This is because nearly 35% of consultees said that they would be either extremely likely or quite likely to support the Proposed Franchising Scheme if their suggested changes had been made, whilst 37% of others said that their view would not (or would be unlikely) to change.

13.2.96 In summary and looking at some of the responses from the bus operators, Stagecoach did not directly address the substance of question 47 in its response. Rotala simply said that it *"would support the introduction of a partnership option"*. OneBus also said they would still be unlikely to support the Proposed Franchising Scheme because *"the suggested changes above would be unaffordable*" but it is unclear what changes they proposed and is not accepted that, as OneBus suggested, that the Proposed Franchising Scheme fails to achieve GMCA's objectives and would not be affordable to GMCA. Go North West also said something similar, albeit they did also submit that *"if the improvements suggested in the answer to Q46 above were made* (as set out by TfGM in paragraphs 13.2.85 to 13.2.86 of this report)*, GNW would consider the further proposal of GMCA carefully…"*.

13.2.97 By contrast, First did answer the question but commented that it was neither likely nor unlikely to support the Proposed Franchising Scheme if its proposed changes were made. Arriva had previously said that *"we feel more should be done to ensure operators do not suffer significant financial harm as a result of franchising…and that the timescales proposed should be re-considered"*. While both of these are common themes that have been raised by consultees and have been considered in detail in this report, Arriva did not say whether or not those changes would change its view on the Proposed Franchising Scheme.

13.2.98 Bus Users UK and Derbyshire County Council did suggest some changes, they both seemed neutral on whether or not the Proposed Franchising Scheme should be made. Bus Users UK said that *"Passengers generally neither know nor care what the ownership and control structures are"* and that *"We would support a scheme that provides a rounded picture of improvement for all those who need or want to use a bus",* Derbyshire County Council said *"Whilst DCC neither supports nor oppose the proposals, if changes were made in relation to minimising the impact of the scheme on bus services outside the franchise zones and on cross boundary services, it would certainly improve the schemes viability…"*. The Assessment concluded that the Proposed Franchising Scheme would be the option most likely to improve services to passengers and to also arrest the projected decline in patronage. As set out in section 4.8 of this report, it is accepted that the Proposed Franchising Scheme would have an impact on cross-boundary services. That impact is only thought to likely adversely

impact on a small number of services.

13. 3 - TfGM's review of other key themes

13.3.1 The purpose of this section is to set out TfGM's analysis of other key themes raised by consultees. This includes comments made by consultees concerning the process adopted by GMCA in considering the Proposed Franchising Scheme - be that in preparing the Assessment, in obtaining an audit report or having subsequently undertaken this consultation.

13.3.2 There was broad consistency between the findings of Ipsos MORI's report and the themes identified by TfGM from a legal and procedural perspective.

13.3.3 The following key themes have been identified and considered in this section:

- Concerns that the correct process (both in the lead up to and during the consultation) was not followed; and
- Concerns on the potential impacts of the Proposed Franchising Scheme and partnerships on operators and their possessions.

13. 4 - Theme 1: Correct processes not followed

13.4.1 A number of consultees (mainly bus operators) made comments concerning the lawfulness and/or reasonableness of the process followed by GMCA (and TfGM on its behalf) and of the Assessment itself and its audit.

Flaws in the assessment

13.4.2 In section 4.1.1 of its response, Stagecoach's legal advisors Herbert Smith Freehills LLP ("HSF") (and for the purposes of this report any references to Stagecoach, where appropriate, include HSF's response) asserted that there were flaws in the Assessment process which, when taken together, meant that the Assessment does not comply with the requirements of the Act. It claims that:

- The analysis of the current market in the Assessment is incomplete;
- The Economic Case vastly overestimates the benefits of franchising, making significant accounting errors, using assumptions that have not been rigorously stress-tested and a methodology for calculating wider economic impacts that raises significant concerns and lacks transparency about how the benefits have been calculated;
- There is no accurate and comprehensive description of the effects of the Proposed Franchising Scheme on bus users and operators as required by section 123(B)(2) of the Act;
- Neither the Assessment nor the consultation document provides a rigorous and detailed breakdown demonstrating that the proposal is affordable or value for money.

13.4.3 TfGM is satisfied that the Assessment prepared pursuant to GMCA's obligations under section 123B of the Act, was developed in a manner which had careful regard to the statutory guidance issued by the Secretary of State. As the auditor found, in all material respects due regard had been had to the guidance issued under section 123B in preparing the Assessment.

13.4.4 It is inevitably the case that different views may be held about the matters with which any assessment of any Proposed Franchising Scheme prepared under the Act deals, on the adequacy of the methods and depth of analysis it contains and on whether or not there are omissions in it. For that reason Parliament provided that it should be independently audited and the subject of consultation before any decision is taken on whether or not a franchising scheme should be made. Insofar as the points made by Stagecoach criticise the contents of the Assessment, their merits have been considered in the previous sections of this report. But in any event it is considered that the Assessment was one that can reasonably be described as such having regard to the requirements of the Act with which it had to comply and one on

which GMCA was entitled to proceed to have it audited and consulted upon.

13.4.5 Thus, for example, Stagecoach refers to section 123B(2) of the Act, which requires an assessment to *"describe the effects that the proposed scheme is likely to produce"* and contends that the requirement was not met as, in its view, *"there appears to be no accurate and comprehensive description of the effects of the scheme on bus uses and operators".* These matters are set out in detail in the Assessment and were summarised, for example, in respect of passengers (between sections 61.1.3 – 63.1.18) and operators (between sections 61.2.7 to 61.2.13 of the Assessment). Further, given the difficulties of ascertaining the likely effects on individual operators, the consultation invited a response not only on the Assessment's view of the likely impacts on operators but also what positive or negative impacts the Proposed Franchising Scheme might have on their business that any person currently operating local bus services in Greater Manchester anticipated. Apart from making a generalised assertion of non-compliance, Stagecoach has failed to advance any material arguments or comments in its consultation response to justify its position on this point.

13.4.6 Stagecoach appears to suggest, in respect of the affordability of the Proposed Franchising Scheme, that the Assessment had not had regard to paragraphs 1.62, 1.59, and 1.61 of the Secretary of State's guidance.

13.4.7 It is not clear why Stagecoach consider that the analysis of value for money in the Assessment was legally flawed as again apart from making an assertion to that effect they have provided no supporting explanation for it. But, if it is intended to be suggested that regard as not had to the paragraphs of the Secretary of State' guidance (referred to in their representations at [3.3.3(E)], that is incorrect.

Flaws in the audit

13.4.8 Stagecoach state (see section 4.1.3 of the HSF legal paper) that there were flaws in the audit process. Paragraph 4.1.3 (A) of the HSF legal paper states that:

"A major gap in the Audit Report is the failure to analyse the assumptions made by GMCA in terms of the transition costs. These are clearly key to affordability. It is unclear how Grant Thornton could have reached its conclusion on affordability without having considered those costs and the funding proposed for them. It is evident that the Act and DfT Guidance require such costs to be audited. This gap in the Audit Report is all the more pertinent given the observations in the Jacobs paper (see page 22) on potential underestimation of transition costs in the Assessment."

13.4.9 Stagecoach's response asserted that Grant Thornton's ("GT") report had failed to analyse the assumptions made surrounding transition costs but again failed to explain how that was thought to be so. GT's observations letter considered the funding and affordability aspects of the Assessment. It looked specifically at the transition costs and the funding proposed for them in the Assessment and explained

how in their view the proposals met the requirements of the Guidance. Stagecoach have identified no basis for their contention.

13.4.10 Paragraph 4.1.3(B) of the HSF legal paper provides as follows:

"The Audit Report's approach to materiality is incomplete. In summary, Grant Thornton appears to have set the level of materiality for each issue and has considered whether those individual issues would affect its conclusion on the affordability and value for money analysis. While that may well be a reasonable approach, it is incomplete as Grant Thornton do not also carry out an analysis of how all these issues (which may conceivably be just under their materiality threshold) cumulatively impact their overall analysis on affordability and value for money. It is an example of statistical cherry-picking."

13.4.11 As required by the audit framework that applied to the engagement of GT as the auditor (the ISAE 3000 (Revised)) and TfGM's instructions, GT was required to consider *"whether uncorrected misstatements are material, individually or in the aggregate*". GT's audit report confirmed that the assessment was completed in accordance with the instructions of TfGM and that:

"We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised)…".

13.4.12 This means that if GT had considered whether any issues, when considered cumulatively, would have had an impact on its opinion then it would have explained so in its report.

13.4.13 For the avoidance of doubt and to provide GT with an opportunity to respond to this point, GMCA invited from GT to respond to the issue raised by Stagecoach. The letter attached at Appendix 2 of this report dated confirms that GT did in fact consider the materiality of their findings both individually and in aggregate.

13.4.14 Paragraph 4.1.3 (C) of the HSF legal paper states that:

"The Audit Report omits key issues with the economic and financial cases. Stagecoach's business response and, in particular, the Jacobs paper provide numerous examples of fundamental flaws in the economic and financial cases. The Audit Report does not appear to reflect these, and that undermines the auditor's conclusions on both affordability and Value for Money."

13.4.15 GT's audit report and observations letter set out GT's views. The fact that Stagecoach or Jacobs may disagree with them does not show either that GT failed to consider anything material or that its opinion was not one that it was not reasonably entitled

to reach.

13.4.16 Paragraph 4.1.3(D) of the HSF legal submissions states that:

"The Audit Report could not have legitimately reached the view that the information on which the proposal is based is of sufficient quality. It makes a legitimate observation that the data set used by GMCA is from 2016-17, but it appears to provide no reasons to justify its conclusion that GMCA has been reasonable in doing so (see page 113 of the Consultation Document). The Audit Report acknowledges that more recent information is available. It therefore appears that GMCA has acted unreasonably in relying on data that is nearly four years old. If the fundamental premise of the proposal is that bus patronage is declining, it is essential that GMCA relies on wholly up-to-date data. The DfT Guidance also considers this to be an important factor to be taken into account by the auditor when considering the quality of the data. As it currently stands, the Consultation Document paints an out-of-date picture that should not – and cannot – be the basis for such a major decision with wide-ranging impacts on bus users and operators. It is not relevant whether GMCA has acted 'reasonably' - s123D(2)(a) requires the auditor to confirm whether information is of sufficient quality. It cannot be right that an out-of-date data set is considered sufficient quality in a dynamic market."

13.4.17 GT did consider this issue in its opinion. In its observations letter it stated that *"Whilst more recent information is now available, we are satisfied that TfGM has acted reasonably in using 2016/17 data given the constraints it faced in collating the information"*. GT had been aware of the process undertaken to obtain information from operators in accordance with section 143A of the Act.

Flaws in the consultation process

13.4.18 Some operators commented that GMCA's consultation process was flawed. For example, Stagecoach argue that the consultation exercise did not give consultees adequate information and time to allow a fully informed response. Stagecoach submits that it may be unlawful for GMCA to proceed with its proposals highlighting the following concerns:

- GMCA did not publish all of the required documents with its consultation;
- GMCA did not allow sufficient time for the consultation; and
- GMCA may have closed its mind to all other alternatives other than franchising, or there is a real risk that GMCA has refused to meaningfully consider viable alternatives.

13.4.19 Go North West and Transdev also raised concerns regarding the length of time allowed for responses to consultation. OneBus raised its concern that GMCA did not

publish all of the required documents with its consultation.

Claims that GMCA did not publish all of the required documents with its consultation

13.4.20 OneBus and some of the incumbent operators raised concerns and challenged the fact that GMCA did not publish some of the models which had been used to inform the Assessment.

13.4.21 Further detail on the points raised by those consultees and what information was published is set out in the Economic Case Response Themes section of this report and in section 5. This found that sufficient information was published to enable those operators to give proper consideration of, and to provide an intelligent response to the proposals, without needing access to the models requested by OneBus.

Claims that GMCA did not allow sufficient time for the consultation

13.4.22 Stagecoach assert that insufficient time was allowed for the consultation process because GMCA allowed less than three months for the consultation and that the length of the consultation itself was disproportionate compared to the amount of time it had taken TfGM to prepare the Assessment and for GT to provide its audit report on the Assessment.

13.4.23 The Act does not make any provision specifying the length of time that should be afforded to consultees when consulting under section 123E. Determining the parameters of a consultation exercise under the Act, save as for requirements that are expressly required under the Act, is a matter of for the judgment of the consulting authority. As with all such judgments, it must be exercised in a manner that is lawful, not irrational, and otherwise consistent with the principles of administrative and public law.

13.4.24 The general position under common law is that the length of time which a consulting authority is required to allow consultees to prepare and provide their responses must be sufficient to allow for an intelligent response. There is an understandable inability to impose, in abstract terms, general rules as to what amounts to a sufficient length of time, because the length of time that is reasonable will vary depending on the circumstances of any given consultation. Instead, each consultation must be considered on a case-by-case basis. Whilst previous versions of the Cabinet Office's Consultation Principles suggested that the time provided for responses to consultation might typically vary between 2 and 12 weeks, the latest version of these principles from 2018 make it clear that any consultation period should instead last for a proportionate amount of time.

13.4.25 GMCA decided the consultation should last for a period of 12 weeks and 3 days, while acknowledging that the period would fall over Christmas. This period allowed consultees more than three months to prepare and provide their consultation responses. This was consistent with previous major consultations undertaken by GMCA and, having specific regard to the Assessment and the consultation materials

and questions, it was considered to be a proportionate amount of time.

13.4.26 While some bus operators raised concerns regarding the period for consultation in their formal consultation responses, it is of note that no consultees (including Stagecoach) complained about the length of time during the consultation process. In addition, none of the operators nor indeed any other statutory consultees (with the exception of the CMA) asked for further time to complete the consultation. Had any such requests been received by GMCA prior to the end of the consultation period, they would have been considered on their merits and responded to in an appropriate manner (as was the case with the CMA).

13.4.27 It is also considered relevant, to note that Jacobs was able to produce a first draft of its report on 27 November 2019 and complete its report on 20 December 2019 (54 pages, having been able to undertake a second review of its report, including reviewing comments from OneBus and perhaps the operators also) on 4 December 2019, even though the consultation period was to end on 8 January 2020. In addition to this, Stagecoach was able to provide a detailed response (in the time allowed) comprising its covering letter (2 pages), its statutory consultation response (25 pages), its alternative proposal (60 pages), its solicitors' detailed legal opinion (17 pages) and Jacobs' economic review. Similarly, Go North West was able to provide its solicitors' covering letter (1 page), and its detailed 52 page formal response to the consultation.

13.4.28 TfGM is satisfied that the responses demonstrate, as a matter of fact, that consultees were provided with an objectively reasonable and proportionate period of time within which they were able to provide detailed intelligent responses engaging with the consultation. This can also be shown by the response rate to the consultation and as section 15 of Ipsos MORI's report shows, the small number of responses submitted late.

13.4.29 It is considered that consultees had been given a sufficient amount of time to respond to the consultation in an intelligent manner and did in fact do so, as evident from the detailed responses submitted by OneBus and some of the main bus operators.

Claims that GMCA may have closed its mind to all other alternatives other than franchising

13.4.30 Stagecoach's legal submission contends that GMCA has proceeded to consultation on the basis of an overly optimistic view of how franchising would operate which is not supported by facts. Their response makes substantive observations concerning the assessment and concludes with an observation that GMCA may have unlawfully closed its mind to alternatives to the Proposed Franchising Scheme, and that there is a real risk that GMCA has refused to meaningfully consider viable alternatives.

13.4.31 It is considered that there is no basis for these allegations. The fact that having

received the Assessment GMCA sought an independent audit of the Assessment and subsequently then decided, upon receipt of the auditor's opinion, to consult on the Proposed Franchising Scheme, does not show any apparent pre-determination of the outcome of the consultation by GMCA. Stagecoach have not provided any evidence to justify any claim that GMCA or the Mayor has closed its or his mind to alternative proposals. On the contrary, TfGM has engaged extensively with operators throughout the preparation of the Assessment and subsequently, including with OneBus and Stagecoach, to consider and develop alternative options. OneBus and Stagecoach, along with First, were given the opportunity to present their respective proposals submitted during the consultation period to GMCA leaders on 18th February 2020, which they did.

13. 5 - Theme 2: Potential impacts on operators.

13.5.1 The Assessment considered the potential impacts of the shortlisted options, including the Proposed Franchising Scheme and the partnership options, on different groups in society. This included the potential impacts on incumbent operators and the potential benefits to new operators wanting to enter into Greater Manchester bus market.

13. 6 - Question 37: Do you have any comments on the impacts of the Proposed Franchising Scheme on operators as set out in the sub-section on impacts of the different options?

13.6.1 Section 17 of the Assessment sets out the potential impacts of the Proposed Franchising Scheme on operators (including incumbent operators, those not currently active in Greater Manchester and also operators of different sizes) and in doing so, accepted the fact that the Proposed Franchising Scheme would be the option which would have the greatest effect on those operators who predominantly operate commercial services. This is because it would change how local services could be provided in Greater Manchester. Such services could only be provided under a local service contract or with a service permit if not excepted from regulation under the Proposed Franchising Scheme. Moreover, in relation to services provided under a local service contract, it would be GMCA, and not operators, who would take revenue risk and who would determine the network, fares and service quality.

13.6.2 The exact nature of the likely impacts would depend on the outcomes from the tendering process and the profitability of each operator's existing business but in the first instance incumbent operators would not be able to continue to operate their existing services. While this could have a negative impact on incumbent operators, it could increase competition between all operators and give new entrants greater opportunity to participate and to enter into the market.

13.6.3 Question 37 asked for any comments on the impacts of the Proposed Franchising Scheme on operators. As section 12.3 of Ipsos MORI's report sets out, only 161 consultees provided comments on this question and in broad terms there was a mix of favourable comments, unfavourable comments and suggestions given by consultees.

13.6.4 The majority (i.e. 137 out of the 161) of responses to this question where from members of the public. Some commented that the Proposed Franchising Scheme would level the playing field for smaller operators and some commented that the Proposed Franchising Scheme would prevent a monopoly or drive competition, thus showing how the Proposed Franchising Scheme would have a positive impact on some operators.

13.6.5 The main potential impacts of the Proposed Franchising Scheme which were raised

by consultees included:

- Change in how the bus market would operate in GM and potential impacts on operators adversely affected
- Potential for stranded assets
- Potential impact on pension liabilities

13.6.6 Abellio said that "*under the Proposed Franchising Scheme, there would be significant impact on incumbent operators as a result of the change in market structure and a possible loss of business if they failed to win a sufficient volume of work in the franchised market*". This is accepted and has been considered in detail in the assessment. It is however useful to note that Abellio went on to comment in their response that the Proposed Franchising Scheme would have a positive impact on operators as it "*would allow operators currently not present in the Greater Manchester local bus market to bring their knowledge and expertise…*". Abellio also said that it would "*involve rigorous competition between operators…, through a cost-effective tender process*" and that it would "*allow operators to make appropriate financial returns*", thus showing how the Proposed Franchising Scheme could have various positive impacts on smaller operators and new entrants by allowing them to access the market and to do so with certain returns.

13.6.7 OneBus' response on this topic was mixed because it made comments on the potential impacts of the Proposed Franchising Scheme on both incumbent operators and new entrants. OneBus noted that *"there are other operators who will look forward to spending time and resource bidding for contracts in the hope of winning work as a new operator in Greater Manchester*". Whilst identifying that this could have a negative impact on incumbent operators, it is consistent with how the Assessment considers that the Proposed Franchising Scheme would afford potential new entrants an ability to enter into the Greater Manchester bus market, and therefore would have a positive impact on them.

13.6.8 Transdev commented that *"We also recognise the opportunity to expand through successful bids",* which again shows a potential positive impact of the Proposed Franchising Scheme for some operators as it would allow them to expand their business if they wished to participate and were successful in bidding for contracts under the Proposed Franchising Scheme.

13.6.9 Manchester Community Transport also made favourable comments in a similar manner to Abellio. It also thought that the Proposed Franchising Scheme would be a proportionate measure as it said *"This does mean that incumbent operators may lose business but if this happens as a result of increased competition bringing farer fares and better services, this can only be seen as a positive"*.

13.6.10 Sections 7.8.55 - 7.8.57 of this report considers the position on stranded assets and considers how GMCA proposes to mitigate the risk of adverse impacts from stranded

assets and the position for operators who do not want to take advantage of the offers made in respect of strategic depots and their fleets. It also considers suggestions that other depots should also be acquired and their potential uses.

13.6.11 Transdev said that *"many of the vehicles we use are on fixed term leases and thus not covered by the residual value matrix and if we cannot redeploy them we will be left with lease commitments that cannot be serviced by revenue*." It is accepted that this could create a potential adverse impact on some operators. The nature of any impact, however, will depend on the terms of the lease and as Transdev say, whether the fleet could be redeployed.

13.6.12 Rotala commented that it "*would like to make it clear that it considered there to be a real risk that implementation of the Franchising Scheme will result in operators exiting the market and losing their business. This will result in costly litigation for both GMCA and the operator which could delay introduction of the Scheme. Ultimately, incumbent operators and GMCA need to behave in a constructive and supportive way for the Scheme to be a success which, in its current format, simply will not happen*". it is unclear why "*costly litigation*" should necessary for operators and GMCA if the Proposed Franchising Scheme is made but it is accepted that the Proposed Franchising Scheme would result in a significant change to the market and that this could result in some operators exiting the market (including choosing to do so voluntarily) or losing all or part of their business in Greater Manchester.

13.6.13 Rotala went on to say that GMCA *"may want to consider purchasing the businesses/depots of incumbent operators in order to avoid the inevitable litigation"*. It is unclear whether purchasing the businesses from operators as Rotala suggest would be legal given significant limitations on the statutory power for GMCA to carry it on.

13.6.14 Arriva said that "N*otwithstanding the RV mechanism and acquisition of strategic depots, an operator may still be let with stranded assets, a depot for which it has no use and employees for whom there is no work. The current proposals offer no form of compensation or mitigation for this loss and risk placed on operators. This could result in significant redundancies or the closure of bus operator's businesses*." First said something similar in that "*the mitigation measures proposed – for instance at para 4.195 of the consultation – do not offer a robust "safety net" for such operators and depend upon the offer that TfGM might – or might not – be prepared to make in respect of any given asset at any given time, and furthermore there remains no opportunity for such a business to retain its operational cash flow and future business prospects…".*

13.6.15 Go North West said that the risks for operators under the Proposed Franchising Scheme were "*very grave*" and that "*GNW agrees with the articulation of the impact on operators as set out in the Consultation Document from paragraph 4.193 onwards and that of all the options, the Scheme would have the most significant impact on*

operators". It is accepted that the Proposed Franchising Scheme would have the most significant impact of all the options on operators. Go North West went on to give some reasons for this, including how there could be a risk of stranded assets. This is accepted but proposed to be largely mitigated by the proposals for GMCA to acquire the strategic depots and by the introduction of the proposed RV mechanism whereby an operator could upon the introduction of the Proposed Franchising Scheme elect to put its fleet into the mechanism and therefore reduce the risk of having any stranded vehicles in Greater Manchester.

13.6.16 Go North West also said that "*There is therefore a risk of an operator which has been awarded a franchise contract becoming insolvent, and as noted elsewhere, this would disrupt the implementation of the Scheme and may lead to GMCA incurring significant cost in making alternative arrangements*". This was considered in the assessment and is not seen to be likely as it is not common for operators to become insolvent in the current market. This may however change as the operators deal with the impacts to their business caused by the COVID-19, which will in itself be the subject of a review by GMCA. It should also be noted that under the Proposed Franchising Scheme, operators would have to take part in a competitive procurement process before being awarded a franchise contract, which would reduce the risk of a contract being awarded to an operator without the capability to perform to those standards and therefore become insolvent. In any event and should there be any disruption to the Proposed Franchising Scheme in such circumstances, section 123O of the Act does make provision for GMCA to let interim service contracts.

13.6.17 Some consultees commented that the Proposed Franchising Scheme could have an adverse impact on pension liabilities. For example, Stagecoach said that *"this could precipitate additional exit funding in the range of £30-£60m, which under the current arrangements or a partnership model would not be necessary"* (which is considered further in section 6). OneBus said that *"there will also be implications on pension liabilities which is noted in para 4.196 which should not be considered lightly"* but provided no evidence concerning what those pension impacts may include. First also noted that *"The pension implications would vary considerably dependent upon the circumstances at the time of any market closure…"* but importantly do not raise the potential impact of an exit debt on itself. The Assessment noted that the Proposed Franchising Scheme could have an impact on operator's pension liabilities, but noted that the Proposed Franchising Scheme does not create a new requirement for operators to fund their pension schemes, and at most impacts on when and how an operator may be required to pay such deficits.

13.6.18 The Assessment proposes at section 32 that in order to mitigate risks arising from service disruption in the transition period, GMCA would seek to extend the notice period required of an operator to vary or cancel a service to 112 days. No consultees, including any of the operators, commented specifically on this prospect. The decision whether or not to publish such a transitional notice is one that falls to be made by

the Mayor under the Public Service Vehicles (Registration of Local Services) (Franchising Schemes Transitional Provisions and Amendments) (England) Regulations.

13.6.19 TfGM accepts that extending the notice period during transition would have an impact on operators by requiring them to give more notice than they have to do currently before they could vary or change services in the transition period. The benefits of this particularly from a passenger perspective are considered to be important for the purposes of managing the transition to the Proposed Franchising Scheme should it be made, as the notice period would help to reduce the risk of services being disrupted. TfGM is therefore satisfied that the impact would not be disproportionate on the basis of the Assessment and the consultation responses that have been considered. However, it is noteworthy though that GMCA will consider whether experiences associated with the COVID-19 pandemic will be of any consequence to this assessment.

13.6.20 Nevertheless, the potential impacts of this on operators will likely depend on the nature of any services that they may seek to vary or de-register. If a given operator is seeking to de-register a profitable service then it is likely that the extension will not impose a significant burden, as the extension in de-registration should not materially adversely affect them. Alternatively, a given operator may also suffer detriment by being artificially limited in its freedom to seek different, potentially more profitable or more efficient business opportunities, owing to its obligation to continue its services for the duration of the transition period. In contrast, if a service is unprofitable then the lengthening of the period may create an adverse impact on an operator's finances as it will extend the period that they have to continue to run that service by up to 56 days, potentially losing revenue, for that longer period of time.

13.6.21 There is a balance to strike between reducing the adverse impact on introduction of the Proposed Franchising Scheme of operators de-registering services quickly, impacting the bus network, and the instability that this would create, and the potential adverse impact on any operator running the service.

13.6.22 The responses from consultees on the potential impacts of the Proposed Franchising Scheme on operators appear to be consistent with the findings of the Assessment. In summary, it is accepted that the Proposed Franchising Scheme would be the option which would have the greatest impact on operators and while many of the larger incumbent operators commented on how the Proposed Franchising Scheme could adversely impact on their businesses, others did acknowledge some of the positive impacts in allowing other operators to compete and/or to enter the market.

Question 38: Do you have any comments on the impacts of the partnership options on operators, as set out in the sub-section impacts of the different options?

13.6.23 The Assessment considered that the potential impacts on operators of the

partnership options would depend in large part on the level of ambition of the partnership and the governance arrangements used.

13.6.24 Under the Operator Proposed Partnership considered in the Assessment, some aspects of the partnership would still be up for operators to decide and, as demonstrated in other markets, both the benefits and impact on operators may reduce over time. No significant network changes were considered likely but, if there was increased marketing of multi-operator and multi-modal tickets, that could potentially lead to more competition and revenue.

13.6.25 The Ambitious Partnership option would have a greater impact on incumbent operators as that option would include an EPS. This would allow GMCA to define greater changes to the network and could include greater targets and requirements for operators to comply with. It would also have an impact on new entrants to the market and operators running cross-boundary services through the partnership area, particularly if any frequency or route requirements were set. The Assessment noted the uncertainty as to how effective any frequency or route requirements could be and that there could be a risk of service de-registrations.

13.6.26 As well as asking for any comments on the potential impacts of the Proposed Franchising Scheme on operators, question 38 of the consultation also invited comments on the potential impacts of the partnership options on operators.

13.6.27 Section 12.4 of Ipsos MORI's report shows that only 77 consultees provided comments to this question. The majority of whom were members of the public, who were broadly split between those who were supportive of the partnership options and those expressing a preference for the Proposed Franchising Scheme. Bolton Council, for example, agreed in broad terms with the conclusions of the assessment that *"the Partnership options will have a limited impact on the operators as they will continue to run services and retain farebox profits."*

13.6.28 Some of the operators provided comments but in broad terms their view of the potential impacts were mixed. Abellio and Manchester Community Transport both seemed to make similar points that the partnership options are unlikely to impact on operators due to the lack of change those options would deliver. Abellio said that *"As the scale of those commitments is within the gift and control of the operators, it is unlikely that they would be significantly disadvantaged"*, while Manchester Community Transport said that *"The operator partnership proposal requires little of operators and as a result the impacts – are likely to be minimal"*.

13.6.29 Stagecoach asserted that it would not be able to comment fully as the Ambitious Partnership option had not been tested with them. Stagecoach could have commented in its response, however, on what impacts that option could have and in a similar fashion could have commented on the potential impacts of the Operator Proposed Partnership, which it had been involved in the negotiations and discussions

of the same throughout the development of that option with operators.

13.6.30 Go North West and other operators said that, with a partnership, *"the major costs and risks are borne by bus operators and GMCA is sheltered from major cost and risk"*. The Assessment recognised that a partnership would involve GMCA incurring less cost and risk than the Proposed Franchising Scheme.

13.6.31 First said that under the Operator Proposed Partnership operators "*have indicated their willingness to voluntarily reduce their ability to take unilateral decisions*…". Go North West went on to say that "*Operators would be subject to obligations and would face financial penalties if these were not met. Operators would commit considerable resource and investment (including capital expenditure) to delivering GMCA's obligations and would face increasing public scrutiny of their performance".* What obligations any operator undertook, and the resources and investment required to comply with them, would depend on the commitments agreed to in any partnership and whether it participated in it.

13.6.32 Rotala said that a partnership would have positive impacts on operators "*since…it would give rise to an improvement in services, materially increase bus patronage, and enable bus operators to allow price to reflect costs in a competitive environment".* It is accepted that a partnership option could have a positive impact on operators as Rotala seem to suggest but it is not considered that it will materially increase bus patronage.

13.6.33 In summary, while the majority of responses to this question were from members of the public, none of the operators seemed to disagree with the findings of the Assessment that the impacts on operators of a partnership option would depend in large part on the level of ambition of any partnership and the governance arrangements used. It should also be noted that none of the operators appeared to comment on the potential impacts of the Ambitious Partnership option and some used that opportunity to express their view that a voluntary partnership would be preferable.

Question 39: If you currently operate local bus services in Greater Manchester, do you anticipate any positive or negative impacts that the different options may have on your business? If so, please explain what you think those positive or negative impacts may be.

13.6.34 Operators were specifically asked at question 39 if they anticipated any positive or negative impacts that the different options may have on their business. Section 12.5 of Ipsos MORI's report notes that nine consultees responded to this question, five of whom chose the answer that they did not know whether the options would have any positive or negative impacts on their business.

13.6.35 Section 17 of the Assessment did consider the potential impacts of the options specifically on current incumbent operators. As well as the potential impacts on

assets and pension schemes as described above, it found that under the Proposed Franchising Scheme there could be a change to the market share and profit margins for the current large incumbent operators.

13.6.36 For smaller operators, the Assessment did not assess the profitability of their services and whether they could be expected to increase or decrease their profit margins under the Proposed Franchising Scheme. Instead, it was considered that smaller operators would still be able to participate in the Proposed Franchising Scheme by bidding for smaller franchises which could provide an opportunity for the current incumbent smaller operators to operate on a similar scale to that on which they operate currently.

13.6.37 The consultees who answered this question and who said that they did anticipate positive or negative impacts on their business were Go North West, Transdev, OneBus and Arriva.

13.6.38 Go North West, Transdev and Arriva all asserted that the Proposed Franchising Scheme would have a negative impact on their assets. It is accepted that the Proposed Franchising Scheme could impact on the assets of incumbent operators, however measures have been proposed to reduce any risk of such assets being 'stranded'. In Transdev's case, their Rochdale depot was not considered to be a strategic depot for the purposes of the Proposed Franchising Scheme (as explained at Section 7.3.20 above) and it is also not proposed that any of the services operating from that depot would be included in any of the large franchises. This means that it is possible that Transdev could continue to operate services from its Rochdale depot – either through successfully bidding for small franchise packages or through obtaining service permits for such services.

13.6.39 Both Go North West and Arriva claimed that the Proposed Franchising Scheme could result in a significant amount of redundancies. As explained at section 8.5 above, there could be a small number of roles that might become redundant as a result of the Proposed Franchising Scheme being implemented but the majority of staff are expected to be transferred either between operators or to TfGM.

13.6.40 Section 123X of the Act provides that staff can be transferred not only in the steady state but also upon the introduction of the Proposed Franchising Scheme. This was made clear through the Guidance which at paragraph 1.108 provided that *"In recognition of the fact that it is not entirely clear whether the Transfer of Undertakings (Protection of Employment) Regulations 2006 would apply to the franchising scenario, particularly when franchising is first introduced, the Act makes specific provision for TUPE to apply to these situations. This should protect existing staff working on the affected bus services, help reduce the burden of redundancy payments for operators who have to cease trading or downsize because of franchising while ensuring that there is a workforce ready to provide the new*

franchised services".

13.6.41 It is not therefore accepted that the Proposed Franchising Scheme could lead to the redundancy of a significant number of employees as both Go North West and Arriva suggest because the current workforce would largely be required to operate services under the Proposed Franchising Scheme, and the Act makes specific provision for transfer.

13.6.42 Go North West identified various other potential negative impacts that the Proposed Franchising Scheme would have on its business. It said:

- *"The rigid terms of franchise contracts would dampen and discourage innovation and market* responsiveness"*.*
- *"The control of the bus network by GMCA which is implicit in the Scheme is likely to lead to less focused scrutiny and improvement in the market since GMCA's time and resource is subject to other* demands*. This is by comparison to the scrutiny which is undertaken by operators because of commercial incentives".*
- *"There is no assurance that under the Scheme GMCA will prioritise growth in the bus network and there is a risk that it could instead prioritise the tram network, or prioritise funding to other aspects of its social duties, such as social care, healthcare and education. Currently funding of the bus network is not a risk from competing local authority demands, but it would be under the Scheme."*

13.6.43 The nature of franchising would mean that operators would not enjoy the same level of control over the network as they currently do, meaning the Proposed Franchising Scheme would impact on operators' influence over market changes. That being said, innovation and control of the market would be the responsibility of GMCA, and operators would be in a position to suggest innovations and market responses that could be adopted in the wider network. This could be beneficial to operators in promoting innovation that is consistent across the whole of the bus network. It should also be noted that the specifications in the franchise contracts would be primarily focused on outcomes and this would provide operators with a level of flexibility.

13.6.44 In relation to the second point raised by Go North West, GMCA would have more scrutiny and involvement in the market than it currently does if the Proposed Franchising Scheme was made. In particular, TfGM and GMCA will occupy an important position in ensuring that the network is developed, improved and maintained in a way that generates a collective improvement in the effectiveness of the network. It is accepted that this would have an impact on operators as they would subsequently have less control of the market. Concerning competing demands for funding allocation, TfGM is satisfied that the financial case under the Assessment will support the funding requirements for TfGM to run the Proposed Franchising

Scheme and that this would not adversely impact operators.

13.6.45 Go North West also said that some of these impacts could be mitigated by a route-by-route franchise, which has been considered in Section 7.9.61 of this report.

13.6.46 Transdev were of the view that the Proposed Franchising Scheme could have a positive impact on its business as it would allow it to potentially expand its operations. It said "*Should franchising be adopted we would be a* willing *bidder, committed to delivering great customer service. We also see the opportunity for our growing cross boundary services from Lancashire and Blackburn to continue to flourish and grow further".* This is consistent with the Assessment, which found that the Proposed Franchising Scheme would allow operators not currently active in Greater Manchester, including SME operators, to participate and compete with the other operators.

13.6.47 OneBus, while not an operator, answered this question but did not identify any positive or negative impacts that any of the options could have on operators in its response to Question 39. Instead, OneBus said that it was *"of the firm opinion that the best option is partnership. The benefits of faster delivery with no risk to the public purse outweigh the fact that the proposed Franchising Scheme has political support*". Consideration of the partnership options available have been considered in this report and while GMCA has decided to proceed with the consideration of the Proposed Franchising Scheme by progressing through the legal process and by undertaking this consultation, it has not closed its mind to other alternatives.

13.6.48 In relation to partnerships, Transdev did not comment on whether it thought the partnership options contained in the Assessment would have a positive or negative impact on its business but did say that *"we expect to continue our strategy of growing patronage through strong marketing, branding and good customer service. We would also actively influence the wider partnership to deliver similar outcomes"*.

13.6.49 Go North West said that a partnership model would have positive impacts on its business because it would give certainty to its operators, it would offer more stability and security to its staff and would allow it the same level of flexibility that operators currently enjoy in being able to change the network to reflect demand. A partnership option would not have the same scale of change as the Proposed Franchising Scheme, and would therefore have many of the same benefits from an operator's perspective as the current market does. There would however be certainty to operators under the Proposed Franchising Scheme as operators would no longer take revenue risk on any services they were able to successfully bid for, thus also giving a level of stability and security to staff who would know that they had a job for as long as that franchised service was contracted.

13.6.50 In considering the above and the other potential impacts identified by consultees in response to questions 37 and 38, it is clear that some incumbent operators believe that the Proposed Franchising Scheme would impact how their businesses operate,

and could result in some negative impacts including redundancies of staff and some assets being stranded. Measures have been proposed to reduce the risks of those particular impacts materialising and, as noted above, the Proposed Franchising Scheme would allow other operators to enter the market, expand on their current market share and increase their profit margins.

Convention Rights

13.6.51 Section 6 of the Human Rights Act 1998 makes it unlawful generally for a public authority to act in a way which is incompatible with Convention rights. One such right is conferred by Article 1 to the First Protocol to the Convention on Human Rights ("A1P1"). That article provides that *"Every natural or legal person is entitled to the peaceful enjoyment of his possessions. No one shall be deprived of his possessions except in the public interest and subject to the conditions provided for by law and by the general principles of international law. The preceding provisions shall not, however, in any way impair the right of a State to enforce such laws as it deems necessary to control the use of property in accordance with the general interest...."*

13.6.52 The introduction of franchising has the potential to involve an interference with, or a practical control of the use of, the possessions of those providing bus services in Greater Manchester. The Assessment included consideration of the potential effects that the Proposed Franchising Scheme is likely to produce, particularly on operators of various sizes. In order to consider the lawfulness of any franchising scheme, the consultation sought responses not only on that part of the assessment but also specifically on the potential impacts that the Proposed Franchising Scheme could have on the businesses of those currently operating bus services in Greater Manchester. The responses to those questions have been summarised above.

13.6.53 Stagecoach argued the Proposed Franchising Scheme, if proceeded with, was likely to breach their rights under A1P1. First also made similar comments but without direct reference to their rights under A1P1. None of the smaller operators made such representations.

13.6.54 Stagecoach submitted that franchising would interfere with the business and possessions of Greater Manchester Buses South Limited, the legal entity for Stagecoach, which has operated in Greater Manchester since early 1996. They argued that, absent compensation, the drastic effect of franchising, wiping out the goodwill built up by that company and potentially rendering their depots and fleet useless, would involve a disproportionate interference with its possessions absent any compensation mechanism. In any event, they claimed the Proposed Franchising Scheme would be a disproportionate interference as (i) its benefits are insufficient to justify the adverse effects on operators and (ii) partnership has the potential, which has not been adequately tested, to provide superior or equivalent benefits to the Proposed Franchising Scheme. A franchising scheme that was incompatible with A1P1, they argued, would entitle operators to seek damages equivalent to the destruction of goodwill in their existing businesses and for other losses flowing from

its imposition, such as additional pension liabilities.

13.6.55 The possessions identified by Stagecoach with which it was claimed that the Proposed Franchising Scheme would interfere were its fleet and depots. Stagecoach said:

"For instance, GMCA accepts that it will "seek to take control" of strategic depots (para 4.85, Consultation), and that market change could potentially "expose operators to a risk of stranded assets" in terms of fleets and deports [depots]. Consequently, we consider that A1P1 will be engaged".

13.6.56 Stagecoach also claimed that its goodwill is also a possession for the purpose of A1P1, with which the Proposed Franchising Scheme would interfere. Stagecoach commented:

"As a starting point, the effect of the proposal would be wipe out (sic) the goodwill built up by operators in the existing businesses. For Stagecoach, this goodwill has been generated by the operation of a successful business for over 20 years, and is clearly a result of a successful branding strategy and customer loyalty on the routes it currently operates on with customer satisfaction levels of 89% for Stagecoach services in 2018. The proposal effectively introduces a "blank slate" across the region, and means that Stagecoach stands to suffer considerable loss in value. While the physical assets deployed on these routes may well be redeployed elsewhere and/or sold, the value attributable to goodwill in the business will be destroyed."

13.6.57 First, who did not specifically refer to A1P1, stated that:

"Franchising has the effect of closing the market and can result in business confiscation. An operator with a current operation in Greater Manchester might find that under a Franchised regime, not only is it prevented from maintaining its current operations as the deregulated market is suspended, it is undercut in its bid to provide the same (or indeed another network of) services by a newcomer to the market or another incumbent. That operator then faces the issues of what to do with redundant assets such as staff – whilst drivers and maintenance staff may have the opportunity to transfer to the new operator under the TUPE provisions, the same is far less likely to apply to its management and support staff, and stranded assets including vehicles (which may still be within a fixed term lease, or be owned and retain considerable residual value which may or not be realised dependent on the prevailing state of the second-hand bus market) and depots, not to mention the essential element of any commercial business, "goodwill". The mitigation measures proposed – for instance at para 4.195 of the consultation – do not offer a robust "safety net" for such operators and depend upon the offer that TfGM might – or might not – be prepared to make in respect of any given asset at any given time, and furthermore there remains no opportunity for such a business to retain its operational cash flow and future business prospects. The pensions implications would vary considerably dependent upon the circumstances at the time of any market closure – including

wider economic considerations"

13.6.58 It also indicated that the ultimate impact of the Proposed Franchising Scheme on it would depend on *"what contracts were successfully won and the scale and nature of these compared with the existing business"*. This is correct and the Assessment was clear in stating that the potential impacts of the Proposed Franchising Scheme on operators would depend on both their appetite and ability to successful bid for contracts under the Proposed Franchising Scheme.

13.6.59 The concept of "*possessions*" in A1P1 has an autonomous meaning which is not limited to the ownership of land or physical goods: certain other rights and interests constituting assets can also be regarded as "*property rights*", and thus "*possessions*" for the purposes of this provision. Rights akin to property rights have been recognised in cases where persons have built up a clientele or goodwill which have a certain worth in their own right. A1P1 it does not protect the current value of a business which merely reflects its capacity to earn profits in the future. But the accrued capacity to attract or retain further clients or customers can be a possession that A1P1 protects.

13.6.60 In this case the Proposed Franchising Scheme does not involve the expropriation of any depots or fleet or any other property used in providing or supporting local services in Greater Manchester that any bus operator may own or lease. It has, however, the practical effect of limiting the use to which they may be put in providing or supporting such local services for the purpose of the business in which they are now employed.

13.6.61 It will also effectively deprive any operator of any goodwill it has built up in respect of such services in Greater Manchester if it is unable to provide them under its brand. None of the operators has provided any detailed estimate of the amount of the goodwill that it contends it would lose as a result of franchising. It is difficult for TfGM to estimate any reliable estimate of any goodwill that any operator may have to be acquired. The extent and value of any such goodwill is not included in financial statements and it is difficult to estimate, given that customers may be motivated primarily by the availability of services for the journey they may wish to make and its cost, rather than by any loyalty that any particular operator may have earned by its efforts. But it cannot be assumed that there is none that may represent an asset to an operator.

13.6.62 The Proposed Franchising Scheme will involve a control of use for the purpose of A1P1. For that control to be lawful, the Proposed Franchising Scheme must be otherwise lawful and it must pursue a legitimate aim. It is considered that the aims that franchising seeks to achieve are legitimate. To be compatible with A1P1, however, any interference must also strike a "fair balance" between the demands of the general interest of the community and the requirements of the protection of a person's fundamental rights. There must be a reasonable relationship of

proportionality between the steps taken and the aim sought to be realised. Alternative means of achieving the same aims that do not involve such an interference are relevant when considering the relationship of proportionality. A fair balance between the general interest and a person's rights will not be found if the person concerned has had to bear an individual and excessive burden. The availability of compensation, or the lack of it, may be material to the assessment of whether any measure respects the requisite fair balance or whether it imposes an individual and disproportionate burden.

13.6.63 The reasons for the introduction of franchising and the suggested alternatives to it designed to achieve the same aims have already been considered, including the partnership options developed with and by operators. TfGM does not consider that the alternatives suggested and examined will secure that the aims that franchising seeks to achieve will be achieved to the same extent; that they fall substantially short of doing so for the reasons given; and that the introduction of the Proposed Franchising Scheme, rather than any partnership, is in the public interest.

13.6.64 Although the use that may now be made of any depot, fleet and other property used to provide or support bus services in Greater Manchester may be limited if franchising is introduced, as described above, land now used as a depot, the fleet and any other property affected remain the operators'. They may be used to support any bid for a local service contract that the operator may make when franchising is introduced, although there is no guarantee that the operator would necessarily win contracts that would enable them to be fully used. But in any event GMCA proposes to offer to acquire strategic depots at market value and to provide an option to incumbent operators to sell their suitable existing vehicles at their residual value. Land now used as a depot by any operator and its vehicles and other affected property may also be capable of valuable use for purposes other than the provision by that operator of bus services in Greater Manchester.

13.6.65 It cannot, therefore, be assumed that the introduction of the Proposed Franchising Scheme will deprive the depot, fleet or other affected property of any operator of all their value. But franchising may cause some operators a not significant loss in relation to their ability to exploit such assets for the purposes of providing the services that they currently provide, notwithstanding the mitigation available in respect of strategic depots and their fleet, and it will involve the loss of any relevant goodwill that it can be shown that the operator has earned in relation to its existing business in providing local services in Greater Manchester which it can no longer provide under its own brand. It may well also involve operators in other costs, such as those that will be involved if employees are made redundant and pension scheme exit payments are made.

13.6.66 In summary, like many schemes to regulate markets that have not hitherto been regulated, the legislation providing for franchising does not include any provision for the compensation of any person adversely affected by the introduction of such

regulation. GMCA and the Mayor will need to consider, therefore, whether, in the absence of such provision, such are the benefits of franchising in the public interest given the alternatives, that, having regard to the proposals for acquiring strategic depots and the fleet of bus operators and the opportunity they will have to bid for local contracts under the Proposed Franchising Scheme, the interference with their possessions is nonetheless justified and does not impose an individual and disproportionate burden on any of them. GMCA and the Mayor will need to be satisfied that it is.

13. 7 - Conclusion

13.7.1 This section has considered the responses to the consultation that relate to the Proposed Franchising Scheme. This was done by reviewing the replies to the questions on the Proposed Franchising Scheme (see section 13.2) and by reviewing some other substantive points that were raised by consultees outside of questions included in the consultation document (see sections 13.2.4 and 13.2.5). This includes the responses from OneBus and the incumbent operators, who opposed the introduction of the Proposed Franchising Scheme and challenged the legal process undertaken by GMCA, as well as saying that the Proposed Franchising Scheme would have a disproportionate impact on its business and A1P1 rights.

13.7.2 In general there was a lot of support for all aspects of the Proposed Franchising Scheme from both statutory consultees and others. Section 13.2 above looks at some of the unfavourable comments and suggestions put forward by consultees and considers whether any aspect of the Proposed Franchising Scheme should be modified. For example, some consultees thought that the Proposed Franchising Scheme should not apply to the entirety of GM and should instead apply to a smaller area however in order to meet GMCA's objectives and to reduce any consequences from having competing models within GM, it is important that any intervention applies consistently across the entirety of GM.

13.7.3 Go North West and First also suggested that the Proposed Franchising Scheme should effectively be trialled in a smaller area first but for similar reasons it was not considered appropriate to propose that the Proposed Franchising Scheme should be introduced on a trial basis only.

13.7.4 Many consultees commented that the dates and the proposed nine-month mobilisation period in the Proposed Franchising Scheme were unrealistic. Those issues were considered in the Commercial Case at Sections 7.9.33 - 7.9.42. This section did consider the responses to the question on the proposed date for making the Proposed Franchising Scheme and as set out above in section 13.2, while the majority of consultees were supportive, some did say that the proposed date did not give enough time for GMCA to consider the consultation responses and that it did not account for any potential CAZ obligations. This date, as well as the dates by which it is proposed that franchise contracts may first be entered into, where provided to allow consultees to see how the Proposed Franchising Scheme would work and it is accepted that should any decision be taken to introduce the Proposed Franchising Scheme, those dates would have to change as those dates have now passed.

13.7.5 Some consultees also commented on GMCA's plans for consulting on how well the Proposed Franchising Scheme is working and suggested that GMCA should consult sooner than originally proposed. It was found that consulting sooner would have benefits however any consultations would have to take place at an appropriate time when passengers had become used to any changes, so any consultations would be

as effective and productive as possible. Two alternative options where considered by TfGM to address the consultation responses and it was considered appropriate that should any decision be taken to introduce the Proposed Franchising Scheme, GMCA is advised to change the proposed plans so that it would consult within 12 months of franchising being operational in all sub-areas.

13.7.6 As well as these questions some consultees, mainly OneBus and some of the incumbent operators who opposed the Proposed Franchising Scheme, made comments about the process undertaken by GMCA so far. They claimed that there were flaws in the Assessment, in the audit and in the consultation process. These claims are considered in detail in section 13.4 above. Having carefully considered the consultation responses, and having undertaken its own detailed assessment of the lawfulness, propriety and reasonableness of the procedural matters discussed, TfGM is confident that the criticisms addressed by consultees do not have any merit.

13.7.7 Consideration was also given to the potential impacts of the options and how the Proposed Franchising Scheme may impact on operators. Some commented that the Proposed Franchising Scheme would result in a significant change in how the market operates and that it could lead to operators having stranded assets (such as depots and vehicles) and/or outstanding pension liabilities. Consideration of these issues and the potential mechanisms proposed by GMCA to reduce some of these issues, such as through the proposed RV mechanism and by GMCA proposing to acquire strategic depots from operators.

13.7.8 Stagecoach's consultation response also made the case that the Proposed Franchising Scheme would impact on its property (or A1P1) rights and that it would be a disproportionate intervention by GMCA. Detailed consideration of this issue was given between sections 13.6.51 to 13.6.66 and TfGM has set out its understanding of this particular issue to inform GMCA's determination on it when it makes its final decision.

Section 14 - Overall Conclusion

14.1.1 This conclusion is divided into three sections:

- A short summary of support for and opposition to the Proposed Franchising Scheme among respondents to the consultation
- Conclusions reached on issues raised by responses to each section of the consultation
- A final conclusion and recommendation, drawing out the key issues for decision makers

14.1.2 While TfGM were in the process of reviewing the consultation responses and preparing this report there was an outbreak of COVID-19 across the country which amongst other things, had a significant impact on the bus market in GM. The consultation responses have been considered on the basis on which they were submitted, namely without reference to the potential consequences of COVID-19 for the economy and the bus market and assuming that both developed as was then anticipated.

14. 2 - Support for and opposition to the Proposed Franchising Scheme

14.2.1 There was a high level of engagement with the consultation process, supporting information and the Proposed Franchising Scheme evident in the engagement and awareness activity which supported the consultation. There were over 50,500 visits to the consultation webpage, as well as the responses received from the public and also from bus operators, academic institutions, charities and other bodies active in Greater Manchester. There was general support for the Proposed Franchising Scheme among respondents to the consultation. As the Ipsos MORI's report sets out (4, p. 1) of those who completed a questionnaire (5,978 participants), the vast majority (83%) were supportive of the introduction of the Proposed Franchising Scheme, while far fewer (8%) were opposed.

14.2.2 Most of the organisations that completed a questionnaire were also supportive of the introduction of the Proposed Franchising Scheme, and in terms of overall support, there was very little difference between statutory consultees and non-statutory consultees (87% and 86% were in support of the Proposed Franchising Scheme respectively). The exception to this was incumbent bus operators who mostly opposed the Proposed Franchising Scheme, as set out below. Respondents to the consultation supported the arguments set out in the consultation that planning the bus network as part of an integrated public transport system would bring benefits and efficiencies to Greater Manchester; that integrated, simplified and reduced fares would be positive; and that high standards of customer service would be beneficial. Respondents shared the vision of an integrated transport system that supports the broader economic, social and environmental objectives of GMCA, and

the place of a franchised bus service within that.

14.2.3 The majority of challenges to the Proposed Franchising Scheme came from the incumbent operators in Greater Manchester who have a significant share of the current deregulated market. This is because they would lose the automatic right to run services in Greater Manchester and to do so would need to compete for franchise contracts alongside other operators. Their key arguments concerning the analysis in the Assessment and partnership alternatives are detailed below. Among members of the public, the key issues raised by those that opposed the Proposed Franchising Scheme were around affordability and the potential exposure of taxpayers to costs arising from the Proposed Franchising Scheme.

14.2.4 Ipsos MORI's consultation report notes that commercial operators not operating in Greater Manchester, such as Abellio, HCT Group and Warrington's Own Buses, were supportive of the Proposed Franchising Scheme and the arrangements to allow open competition for franchises. There was also support from unions, academic institutions and action groups. As with the views of action groups, there was very strong support for the proposal among charitable organisations including Greater Manchester Disabled People's Panel, Dunham Massey National Trust, Whalley Range Community Forum, and the Equality and Human Rights Commission. All of the elected representatives who provided comments were in favour of the Proposed Franchising Scheme. There was also very strong support for the introduction of the Proposed Franchising Scheme from environmental, heritage, amenity and community groups (4, pp. 8-11 of Ipsos MORI's report).

Conclusions reached on issues raised in responses to the Consultation

14. 3 - Strategic Case

14.3.1 The consultation asked a number of questions relating to the Strategic Case. These included the challenges facing the local bus market, the extent to which reforming the local bus market addresses these challenges, and GMCA's objectives for the future provision of bus services and how far the Proposed Franchising Scheme and a partnership option would go in contributing to achieving these objectives.

14.3.2 Ipsos' report concluded that most participants agreed with the challenges facing the local bus market as set out in the Strategic Case, that reform was needed, and that such reform would be the right thing to do to address such challenges. Of the 6,032 participants who completed the tick-box question (Q13a.) on whether they agreed with the strategic case for reform, 89% agreed. Furthermore, 74% agreed strongly with reform, just 4% disagreed strongly.

14.3.3 The consultee responses can be grouped into a number of recurring themes. These include the market analysis and the causes of decline within the local bus market – the significance in the Assessment of congestion and the effect of Metrolink on demand was challenged. Responses also focused on the Proposed Franchise Scheme itself. These included the challenges associated with the franchising proposition on fares, network planning and customer service. A number of challenges to the Assessment were received on the partnership option, specifically, whether enough consideration was given to this option in the Assessment and whether the value of a partnership has been underestimated. Finally, there were challenges in relation to the potential for Phase 2 measures under the Proposed Franchising Scheme, and arguments that money spent on franchising transition costs could better be spent on Phase 2 measures to reduce congestion.

Market Update

14.3.4 The market update demonstrates that the loss of patronage in the Greater Manchester bus market has continued in the latest figures available, from 189.1m in 2017/18 to 184.3 million in 2018/19. Commercial mileage run by operators has also declined significantly by a further 5.2% between 2018 and 2019, and subsidised mileage has declined by 2.2% over the same period. This means the bus network in Greater Manchester is nearly 5% smaller than a year previously.

14.3.5 TfGM's analysis in the Assessment pointed to the disadvantages of limited competition, and also the inefficiencies that the current market structure can cause. It is not thought that the sale of some of First's operations makes a fundamental change to the challenges facing Greater Manchester from the operation of the bus market. The sale of two of First Manchester's depots and associated business to other operators has not led at present to any significant changes to how any of these parts of the network have been run (apart from the overall declines noted above). The fares arrangement that initially allowed passengers with an operator ticket to travel across the three areas covered by First, Rotala and Go North West has now

ended. There are now passengers who would need to pay a premium for a System One ticket for a journey that they would have been able to undertake previously with a First ticket, highlighting that interoperability has reduced in North Manchester as a result of this.

14.3.6 The market update does not include any changes to the market since the outbreak of COVID-19 across the country, which has had a significant impact on the bus market in GM.

Causes of Decline

14.3.7 A number of incumbent operators who responded to the consultation challenged the account in the Assessment of the causes of decline of the bus services. They argued that the discussion of the challenges facing the bus services in the Assessment placed too much emphasis on issues with the bus services themselves (such as a lack of co-ordination in the network, fares and ticketing issues etc.) and gave too little weight on the other factors that influence demand, such as the effects of congestion. Given the multiplicity of factors affecting bus patronage over the medium term, positively (the economy and population of Greater Manchester have grown over this period, which will have a positive effect on patronage) as well as negatively, it is not possible to be definitive about the causes of decline in patronage.

14.3.8 However, TfGM is confident that the Assessment did not materially underestimate the effects of the key factors of congestion and Metrolink abstraction adduced by operators: the figures quoted in the Assessment on abstraction from bus to Metrolink are an overestimate of the likely effect of new lines and increased patronage. Operators' comments on the role of the expansion of Metrolink and cuts to funding of subsidised services, and their calculations of their potential effect, do not reflect the scale of those challenges. The Strategic Case in the Assessment clearly set out the challenge from increases in congestion and the knock-on effects to bus journey times. The forecasting for the Reference Case, set out in the Assessment at section 14.4, takes a number of factors into account to create a forecast of how the bus market might evolve without intervention. Improvement in the punctuality and reliability of bus services are clearly set out in the third objective for GMCA to improve the speed and reliability of the bus service (section 7.2.9 – 7.2.10).

14.3.9 Operators have also suggested that the issues with the current market framework, including the network and the complexity of fares, are not significant and do not consider that there is any detriment to passengers Such issues should therefore not have a place in understanding the challenges facing the bus market. Assertions that these factors have little significance do not address the evidence presented in the Assessment, and it is clear from responses to this consultation and others (particularly the consultation on the 2040 Transport Strategy) that complexity of fares and ticketing in Greater Manchester is a challenge for passengers.

14.3.10 Responses from other consultees such as local authorities and bus users

overwhelmingly support TfGM's analysis concerning the factors influencing decline, and support the Proposed Franchising Scheme. TfGM is confident that the Assessment takes account of these factors in its consideration of the bus market and how it is likely to evolve in the future on the basis of fundamental variables.

14.3.11 Finally, the objectives set out by GMCA for bus reform are generally endorsed, including by those who oppose the Proposed Franchising Scheme. A number of operators have acknowledged the appropriateness of these objectives and accepted that doing nothing, which was considered as an option in the Assessment, would not arrest the decline in patronage or meet any of the objectives for reform.

Competition and the change to a franchised market

14.3.12 Many respondents indicated their preference for a franchised, as opposed to a deregulated, market and Abellio and Unison cited reports supporting this type of reform. The CMA (and some incumbent operators) indicated in their responses a preference for 'on-road' competition in a deregulated market. While the CMA acknowledge that competition in bus markets is limited, they point out to the risks of changing to franchising and that it represents a change in market structure that may be hard to reverse. The CMA are supportive of TfGM proposed measures to ensure that there is competitive tendering for franchises to improve value for money and customer service.

14.3.13 Some operators criticised the record of London since the market there was franchised rather than deregulated. In fact, over the long term, London has been the only place in the UK to buck the trend of declining patronage. In recent years, while there have been cuts to the subsidy offered to London, that performance has held up. DfT note that between 2008/9 and 2018/19 the number of trips fell in London by 1.4% whereas in England outside London they fell by 11.9%, contradicting operators' suggestions that the franchised market in London has performed less well than deregulated markets.

Franchising Proposition – network

14.3.14 There are challenges from OneBus and incumbent operators on whether it is possible to plan the network better under the Proposed Franchising Scheme and whether TfGM and GMCA have the skills and capability to do so. The responses do not provide any detailed evidence that GMCA would not be able to plan the network effectively or contradict the point that a number of partially competing networks that are planned separately are likely to be less efficient than one integrated public transport network. Other respondents, notably members of the public, however, are very supportive of the principle that services should be planned and coordinated as a single network by one party.

14.3.15 Some operators argued that political interference would mean that network planning would not be optimised. TfGM has a track record of running both bus and Metrolink services and properly optimising the service for the funds available. There

is no evidence that any such interference would render franchised services less efficient.

14.3.16 Operators also argue that the Proposed Franchising Scheme does not change some of the determinants of the reliability of the service. While operators will be incentivised to run a reliable service, the Proposed Franchising Scheme will not change highway conditions. This is why further 'Phase 2' measures are envisaged whatever market reform option may be chosen.

Franchising Proposition Customer

14.3.17 OneBus and incumbent operators have challenged the Proposed Franchising Scheme in terms of some of the customer service elements. Some incumbent operators (such First and Stagecoach), along with OneBus, have argued that there is not a great deal of difference between the Proposed Franchising Scheme and partnership proposals. TfGM remains of the view that there is greater potential to improve the customer proposition under the Proposed Franchising Scheme.

14.3.18 The Assessment (at section 9.4) argues that the Proposed Franchising Scheme is able to align a brand for Greater Manchester with the provision of information and a single point of contact for customers, which would link directly to the body accountable for the service. TfGM is satisfied this would be beneficial to customers and non-customer alike in their ability to understand and use bus services. Operators have suggested that a partnership could involve a common livery, some common information services and an initial, common point of contact. TfGM considers, however, that the Proposed Franchising Scheme would allow a far stronger overall single branding proposition to be put in place, showing customers how navigable and easy to use the service was, having a single point of contact for planning and service issues, demonstrating accountability, and contributing to placemaking in Greater Manchester. It would be an essential pre-requisite to reducing the confusion about ticketing and fares in Greater Manchester.

14.3.19 There is no evidence that franchised markets are less innovative than deregulated markets, as one operator argued. While there may be some areas where change will be less significant, in other areas such as branding and the provision of consistent, single source information to improve the usability and legibility of the network, there are clear significant advantages to the Proposed Franchising Scheme. Again, this view is endorsed by GM local authorities and the majority of the members of the public.

Franchising Proposition Fares

14.3.20 OneBus and incumbent operators have raised some challenges on the fares proposition for the Proposed Franchising Scheme in relation to both the levels fares and also the objective of simplification of fares. Some respondents have misunderstood the RPI +1.4% assumption for future fare rises as being a feature only of franchising. It is in fact common to all the different options assessed. TfGM is of the view that it would not be appropriate to assume lower fares rises for franchising.

Such fare rises would not happen, however, unless they were necessary to fund the service.

14.3.21 Fares simplification is an appropriate objective for GMCA to have. This was strongly endorsed by members of the public who responded to the consultation who largely agreed with TfGM's analysis that fares are complex in Greater Manchester. The fact that the Proposed Franchising Scheme would lead to greater degree of simplification than alternatives is an advantage of the Proposed Franchising Scheme. It also means that the objectives in terms of unified branding and a single point of contact have added importance.

Cross Boundary Services

14.3.22 Contrary to some assertions by operators, the Assessment set out sufficient material for respondents to understand, and respond to, the general arrangements for cross-boundary services. A number of authorities in Greater Manchester and also neighbouring authorities raised concerns about the effects on cross-boundary services that they felt were valuable to passengers in their areas.

14.3.23 TfGM accepted in the Assessment that the Proposed Franchising Scheme would impact on some cross-boundary services, given the legal requirement to apply for a service permit, which could lead to some services needing to change. To gain a permit the service would need to pass two statutory tests. The statutory tests are (i) that *"the proposed service will benefit persons making journeys on local services in the area to which the scheme relates*," and (ii) that *"the proposed service will not have an adverse effect on any local service that is provided under a local service contract in the area to which the scheme relates."* One category of services are those that are mostly run within Greater Manchester and are proposed to be franchised for that portion of their route, and supported by GMCA on a different legal basis for the small portion of their route outside GM. These services would not require a permit.

14.3.24 It is important to note that the process set out in the Assessment for applying for permits would be run so as to facilitate services that benefit passengers, even where change is necessary for a statutory test to be passed. In applying the statutory tests, TfGM would, first, take into account the interests and benefits to all passengers that make journeys on local services in GM, including those that are resident outside Greater Manchester; second, in looking at the impact on any franchised service, it will take account of any positive as well as negative impacts on that service; and third, TfGM will welcome the involvement of local relevant local authorities.

14.3.25 TfGM values cross boundary services and the expectation is that the majority of services would not be prevented from being able to successfully obtain a service permit. Where a cross boundary service is altered such that an operator no longer wishes to run the service then GMCA would be able to support a similar service to serve the needs to passengers in neighbouring authorities. GMCA, with local

authorities, would have the power to do so and it takes seriously its responsibilities to passengers outside Greater Manchester for whom cross-boundary journeys are important, as well as those who reside in Greater Manchester. The potential for new fares arrangements (including 'add on' tickets giving access to the whole Greater Manchester bus network for a reduced price) should encourage greater cross-boundary bus travel and mode shift from the private car. This will contribute to GMCA's objective set out in the Assessment (section 2.1.5) to increase the share of non-car modes to 50%.

Clean Air Plan

14.3.26 Although a number of unfavourable comments were received regarding the lack of detail on the Clean Air Plan contained in the Assessment, given TfGM is separately producing an FBC to implement a Clean Air Plan on behalf of the 10 districts in Greater Manchester in coordination with GMCA, and that this is neutral as to whether the Proposed Franchising Scheme is introduced or not, TfGM remains satisfied that the approach (i.e. to consider each of bus reform and the implementation of a Clean Air Plan separately) is the appropriate approach.

14.3.27 A number of comments were received regarding the implications of the Clean Air Plan on fleet, in particular from a cost and funding perspective. However, as future clean air requirements will be determined by the Clean Air Plan FBC (which is neutral as to whether the Proposed Franchising Scheme is introduced or not) rather than the Assessment, the Proposed Franchising Scheme is not anticipated to impact either the cost or funding of compliance with the requirements of the Clean Air Plan.

14.3.28 Unfavourable comments received from operators when comparing the Clean Air Plan from the perspective of the scheme and the Partnership option have been considered. The Assessment, and our review of the partnership proposals submitted as part of the consultation process, have identified where operators were making commitments in relation to fleet investment at Euro VI and better. TfGM is satisfied that such commitments have been taken into account in both the Assessment and consultation response. The conclusions drawn are that the fleet commitments which would benefit clean air, from the various operator proposals are dependent on government funding being available. Therefore, it has been concluded that these proposals do not bear a significant difference to what could be achieved under the "Do Minimum" option.

Consideration of partnership proposals

14.3.29 A number of the consultee responses raised a concern that the partnership option had not been given enough consideration in the Assessment. In general, different operators argued that the consideration of the partnership proposals overestimated their costs. They argued that insufficient time had been given to develop a final partnership offer and that the Assessment came as a surprise to them. There has been extensive engagement with the operators to discuss their partnership offer

whilst the Assessment was developed (including over 50 meetings on different aspects of this), and it is considered that operators had considerable opportunity to come forward with their best offer. TfGM has continued to engage with operators since the Assessment and further development of a partnership option (including the alternative proposals received during the consultation) has been given consideration as part of the development of this report.

14.3.30 Operators challenged the costs for TfGM ascribed to partnership in the Assessment, arguing that they could be absorbed as part of business as usual. However, the governance proposals require a great deal of active participation and engagement by TfGM to be confident of any benefits arising from a partnership. The partnership costs were developed based upon information received from the operators, the proposed governance structure and by following a logical process.

14.3.31 Operators suggested that TfGM did not give sufficient consideration to a partnership because of a prejudice against partnerships, citing examples of partnerships in the UK which they claimed illustrated their benefits. The record of these partnerships is mixed. TfGM's Assessment was based on the best understanding of what partnership could achieve in Greater Manchester rather than the general notion of partnership. None of the examples support the suggestion that the benefits of partnership in Greater Manchester have been underestimated.

14.3.32 Some operators asserted that a partnership could achieve more than was set out in terms of achievement against each of GMCA's objectives. While it is accepted in the Assessment that partnership comes at less cost and risk than the Proposed Franchising Scheme, no evidence was presented during the consultation that would show the Operator Proposed Partnership which was considered in the Assessment would achieve materially more than was assessed. A partnership, as is acknowledged in the Assessment, could be put in place in more quickly than the Proposed Franchising Scheme. Considering the responses from those operators advocating a partnership, TfGM does not believe that the Assessment failed to properly consider its merits. Such responses did not identify credible benefits that has been overlooked.

14.3.33 There have been subsequent (mutually exclusive) partnership proposals, and the potential for these to deliver greater benefit than that considered in the Assessment is considered elsewhere (Section 9, Section 10, and Section 11 of this report). None of these proposals were found to bring significantly greater benefits or achieve GMCA's objectives to a much greater extent than the Ambitious Partnership in the Assessment.

Franchising and the place of further ('phase 2') measures to improve the bus service

14.3.34 Franchising is not proposed as an alternative to Phase 2 measures but as a reform of the bus market which will enable a greater variety of Phase 2 measures to be implemented. The need for reform demonstrated in the Assessment means that it

would not be appropriate, as First Manchester suggest, invest in bus priority measures before considering the Proposed Franchising Scheme. This would be to continue with the current policy of implementing bus priority measures without reforming the market which the Assessment shows has left significant challenges unaddressed. Investment in such measures and reform are complementary measures as the GM 2040 Strategy sets out.

14.3.35 In terms of the challenge from Stagecoach that combining a partnership with investment of money "saved" from not implementing franchising would deliver better value for money, a number of points should be made.

14.3.36 First, the options in the Assessment were chosen to meet the full set of GMCA's objectives for improving the bus service. It is not typical, nor would it be appropriate or reasonable, to seek to "level up" the financial cost of each option under consideration in a business case assessment study of this type. It may not be desirable to spend any available funds solely on bus priority.

14.3.37 Second, the figure quoted by Stagecoach of the money available (£134 million) does not take account of the costs of the different options over the appraisal period. In cash terms the partnership would cost GMCA more than franchising over the whole period. On a discounted basis, taking account of the greater value of spending in the near term, there would be a 'saving' of not introducing the franchising scheme in the order of £56 million (ignoring any forecast surplus from franchising after the end of the transition period).

14.3.38 Third, efforts to develop schemes with operators have not yielded a viable set of schemes. Even if schemes had been identified, then where more significant intervention is required, there would be a need for engagement with many stakeholders, including operators and the relevant highway authorities, who would need to be involved in the development of such schemes.

14.3.39 Fourth, because there is no detailed programme specifying which measures would be carried out and when to appraise, it is not possible to make confident predictions about the value of such schemes. There is no reason to assume, as Stagecoach appears to do, that, when their value is added to that of a partnership, it would exceed the likely value of franchising. Thus, even if the money were spent on schemes that achieved the high value for money set out for such schemes in the Greener Journeys report, the NPV over the appraisal period for the Proposed Franchising Scheme would remain higher than that of the partnership.

14.3.40 Fifth, the value for money of any Phase 2 measures taken in conjunction with a partnership is likely to be lower than such measures taken in conjunction with the Proposed Franchising Scheme, as there would be a narrower range of options available for spending and those that could be undertaken under either option would be likely to have poorer value for money with a partnership than with franchising

because revenue generation associated with the improved service would not accrue to GMCA to offset investment costs.

14.3.41 Thus, although it may reduce the commercial risks associated with franchising, combining a partnership with Phase 2 measures that might be financed by "savings" to GMCA over the appraisal period if franchising were not introduced may well provide less value for money, would not represent the best platform for implementing Phase 2 measures and would not best achieve GMCA's strategic.

Overall Strategic Case conclusion

14.3.42 Considering the responses, the support for the evidence and arguments present in the Strategic Case, as well as challenges and comments from consultees, TfGM is confident in the evidence presented in the Assessment and the conclusions it came to. Much of the analysis concerning the challenges faced by the bus network was endorsed by respondents to the consultation – both individuals and statutory consultees, as well as the assessments of how effectively the different options for reform were likely to perform in terms of meeting GMCA's objectives.

14.3.43 The greatest challenge came from incumbent operators, who argued that TfGM had underplayed the importance of congestion in terms of the current decline in bus services, and consequently should have given greater consideration to a partnership accompanied by greater spending on anti-congestion measures. As set out in the Assessment and this report, a partnership does not achieve GMCA's objectives as effectively as the Proposed Franchising Scheme. This does not change even considering the higher cost of the Proposed Franchising Scheme and its opportunity cost – which is reflected in the value for money assessment. While partnership would help to improve the efficacy of many measures to reduce the effects of congestion on, greater improvement in bus services could be achieved through the Proposed Franchising Scheme.

14. 4 - Economic Case Conclusion:

14.4.1 Most consultees who provided a response to the Economic Case (2147 out of 2693) were favourable. Of the unfavourable comments, the most substantive comments and challenges were received from incumbent Greater Manchester bus operators.

14.4.2 As noted by Ipsos MORI, of those providing favourable comments the most frequently cited comments were general support and agreement with the conclusion of the Economic Case (1119). The Proposed Franchising Scheme delivering better value fares (266), the fact that services should serve the public benefit and not be run for profit (133) and agreement that the Proposed Franchising Scheme provides best value for money (130) were other commonly cited responses.

14.4.3 This chapter focussed on providing responses to the unfavourable comments received from consultees, predominantly bus operators, and a summary of the key points and TfGM responses is provided below.

Appraisal Specification Themes

14.4.4 Some consultees questioned the long term fares growth assumption of RPI+1.4%. Empirical data has been cited to address this issue.

14.4.5 The basis of the appraisal period and the assumptions that underpin the construction of the reference case were also questioned. Evidence to explain how appraisal specification choices have been made in a way that is consistent with best practice and are unbiased has been provided.

14.4.6 The use of the chosen analytical methods and models has also been questioned. Responses to each of these concerns, along with references to the relevant sections of the Assessment and the ECSP have been provided.

14.4.7 Members of the public asked about the extent to which the appraisal accounts for the environmental and social impacts. The appraisal has been carried out in line with government guidance and does include environmental and quality of life impacts within the Economic Case.

Reference Case Results Themes

14.4.8 Concerns were raised regarding the scale of impact that increasing congestion is forecast to have on bus patronage over time. TfGM agreed with those consultees who noted that the presentation of direct congestion impacts in the Economic Case masks the true extent of the impact of this issue on passenger demand. However, the implications of this are presentational and not substantive to the economic VfM recommendation for the reasons set out within this report.

14.4.9 Several operators argued that the modelling of ENCTS patronage was not appropriate. This view is based on a subset of the factors that were considered by

the assessment team when making a determination on this issue and is therefore considered to be a partially evidenced proposition.

Partnership Option Themes

14.4.10 It has been noted that whilst the BCR for partnership may be slightly higher, the NPV of the Proposed Franchising Scheme is considerably higher. Some consultees felt more weight should be placed on the BCR value.

14.4.11 Some consultees also argued that the benefits of a single brand are possible through partnership. This proposition is found to be based on a partial understanding of the definition of brand benefits. Further explanation has been provided to explain why brand benefits, as defined in the assessment, cannot be realised under the partnership option.

Proposed Franchising Scheme Themes

14.4.12 Jacobs raised concerns that the transition period is not modelled appropriately and expressed concern that the benefits during this period could be overstated, stating that "*all of the impact on demand is expected to have occurred within 3 years*". This confused two different elements on the model – the way in which the impact of any fare and GJT changes are lagged over 3 years, and the way in which implementation of the interventions has been staggered over the transition period and beyond in some cases. The latter is more complex and is carried out in line with the implementation plan as documented in ECSP Appendix 2.

14.4.13 Brand benefits have been questioned. A range of evidence has been presented to support the idea that this benefit will be realised and is of value to passengers.

14.4.14 Several concerns were raised regarding some other elements of the benefits, including those due to congestion relief and fare reductions. The approach to calculating these benefits is prescribed in DfT TAG guidance and references to the relevant sections of guidance have been provided.

14.4.15 There was also a query as to how fare and decongestion benefits could arise when passenger trips were still declining. This is because the benefits are calculated based on the difference between the Reference Case and the option being considered.

14.4.16 Several consultees, including members of the public, were concerned that the Proposed Franchising Scheme does not deliver any immediate benefit to passengers and that patronage continues to decline. The expected ramp up of benefit in the context of overall demand has been explained.

14.4.17 Some consultees felt that alterative and untested options would represent a better use of public funds. These propositions have been explored thoroughly and found to

be without merit.

Risk Analysis and Wider Economic Impacts Themes

14.4.18 As part of their review, Jacobs conclude that the method used to identify and quantify risk is in line with HMT Green Book and DfT TAG guidance. A number of clarification questions and challenges have been asked by Jacobs and other consultees and appropriate responses have been provided.

14.4.19 Jacobs and Stagecoach have raised concerns that the value of WEIs is larger than might be expected for this type of scheme, particularly since very few business trips are made using bus. The relevant national guidance from DfT TAG has been reviewed to clarify the basis upon which the analysis was undertaken. The analysis undertaken was consistent with this national guidance.

Overall Conclusion

14.4.20 In conclusion, TfGM remain of the view that the methods and datasets used to inform the Economic Case are appropriate and that there are no issues arising that require alterations to the Economic Case or that would lead us to believe that the relative performance of the options in the Assessment would change as a result of issues raised.

14. 5 - Financial Case Conclusion

14.5.1 As reported by Ipsos MORI, the majority of consultee responses made favourable comments on the Financial Case conclusion. A number of concerns were however raised, principally by incumbent operators, in relation to the income and costs of the Proposed Franchising Scheme over the transition period and on an ongoing basis. TfGM has not identified any omitted costs on the basis of these comments. It should be noted in the context of employment costs, as these represent the most significant ongoing cost, however, that the Proposed Franchising Scheme does not include provision for a harmonisation upwards of current terms and conditions. Fleet upgrade and any Clean Air Zone costs are not included within the scope of the Assessment on the basis that they are covered under a separate business case in which GMCA has made clear the requirement for financial support from government.

14.5.2 Some local authorities raised concerns over the financial risks of the Proposed Franchising Scheme and the potential impact on the delivery of local priorities; while, incumbent operators, for the most part, considered that a partnership option would avoid transfer of risk to the public sector.

14.5.3 The Assessment acknowledges that, allied to greater control, the Proposed Franchising Scheme would carry greater financial risks than other options, and, in the event of a downside scenario which could not be accommodated within the modelled net cumulative surplus post transition or the quantified risk provision, the GMCA would retain policy levers, principally across fares policy, network scale and funding. As explained further below, the proposed funding strategy has also considered the ongoing sustainability of the Proposed Franchising Scheme during and after transition through the precept requirement.

14.5.4 Some incumbent operators also raised concerns over the ongoing availability and value of public funding from BSOG and concessionary reimbursements. GMCA currently receives approximately £16.1 million of BSOG per annum which, as set out in the Assessment, is assumed to be retained at the current nominal value over the appraisal period under all bus reform options. The Assessment acknowledges the availability of BSOG from Government is a risk, which, if the risk materialised, TfGM considers would very likely impact all options. As GMCA would face this risk more directly under the Proposed Franchising Scheme, the quantified risk assessment includes a risk provision in the event there were an unforeseen reduction in BSOG. However, a reduction in value or withdrawal of BSOG funding over the long term could not be accommodated within the risk provision and would necessitate GMCA undertaking mitigating actions to achieve a balanced budget.

14.5.5 Similar concerns were raised in relation to funding for concessionary reimbursements and that a reduction in the value of this funding compared to the Assessment assumptions would represent a 'cost' or loss of government funding to GMCA. However, TfGM considers that, whilst the English National Concessionary

Travel Scheme (ENCTS) is a national mandatory scheme, in practice the risk of variation in concessionary reimbursement costs (and the associated funding) sits locally with GMCA, as the travel concession authority, and with the GM local authorities who provide funding through the statutory contribution.

14.5.6 In relation to proposed funding, the Assessment sets out a range of credible funding sources that could fund the additional net costs to implement the Proposed Franchising Scheme. GMCA, at its 7th October 2019 meeting, approved, for the purposes of consultation, a subset of the credible funding sources identified in the Assessment.

14.5.7 Under the funding proposal, the local authorities of Greater Manchester would provide a one-off contribution of £17.8 million for the additional costs to implement the Proposed Franchising Scheme. The Mayor's 2020/21 budget report to the GMCA set out the proposed arrangements for this contribution if the Proposed Franchising Scheme were introduced. The Financial Case section also sets out the individual authority shares of the proposed contribution on a proposed population weighted basis.

14.5.8 Some authorities, whilst supportive of the Proposed Franchising Scheme more generally, made their support conditional on there being no further funding requirement from authorities after transition. It is relevant to note that, as set out in the Assessment, the value of required public sector funding is forecast to grow in cash terms under all bus reform options. The funding proposal approved for consultation by GMCA includes approximately £12.5m of forecast cost escalation/indexation in current budgets over the transition period up to 2024/25 that would occur under all scenarios, including the Do Minimum. The Mayoral precept requirement would provide an ongoing source of revenue funds and would provide a level of base funding for forecast escalation in the funding required beyond 2024/25.

14.5.9 A number of consultees commented that it would be desirable if Government provided additional funding. This was fully acknowledged in the 7th October 2019 report to GMCA; and Government has subsequently made a number of policy announcements in relation the funding of bus services. Officers remain actively engaged with Government in seeking to secure additional funding for bus in Greater Manchester. While the immediate availability of additional government funding would be welcome, TfGM considers this is not a pre-condition of the Proposed Franchising Scheme being implemented. The Assessment sets out credible sources of funding that exceed the transition requirement; and GMCA approved a funding proposal for consultation that does not rely on additional government funding and that reflects sources of funding that are in the control of local decision makers.

14.5.10 Incumbent operators, for the most part, raised a number of concerns over the funding proposal and associated matters, including the availability of the identified

funding sources; and the appropriateness of using, and the impact on, the Mayoral precept and on council tax. It is relevant to note, however, that local sources of funding already make a significant contribution to the funding of bus services in Greater Manchester (currently up to £86.7 million per annum is funded by the local authorities of Greater Manchester), and this would continue to be the case under all bus reform scenarios, including the Do Minimum. In relation to the Mayoral precept, it should be noted that the majority of the proposed funding to implement franchising is provided from non precept sources and that the proposed contribution from local authorities to implement the Proposed Franchising Scheme is not anticipated to impact council tax.

14.5.11 Having considered these responses, TfGM considers that the forecast net costs, the balance of risk and the proposed funding strategy approved by the GMCA for the purposes of consultation remain appropriate; and that the sources of funding remain credible and represent a sub set of the sources identified in the Assessment.

14.5.12 In relation to funding, whilst an element of the identified earn back funding is already retained, the principal risk to the funding strategy, approved by GMCA in October 2019, was the release of the next five-year tranche of earn back covering financial years 2020/21 to 2024/25. The release of this funding has subsequently been confirmed by Government and has therefore consequently mitigated this risk.

14. 6 - Commercial Case Conclusion:

14.6.1 The consultation asked a number of questions in respect of the Commercial Case. These questions covered the various aspects of the franchise commercial proposition including franchise design, asset strategy and procurement strategy, along with additional questions on the partnership commercial proposition.

14.6.2 As reported by Ipsos MORI the majority of public made favourable comments on the Commercial Case conclusion with 108 favourable comments and 57 unfavourable comments from members of the public. The views of other consultees (such as the incumbent bus operators) were mixed responses, some specific examples of which are set out in this report.

14.6.3 There was a range of views on the appropriateness of the packaging strategy for franchising contracts, with comments ranging from those supporting the proposition to those arguing in favour of route based franchises. Whilst a route based model was considered in the development of the Assessment, it was concluded to be suboptimal given low depot density in Greater Manchester, the potential for customer confusion, multiple changing cross-boundaries, slow roll-out of benefits, less efficient network management, and the failure to benefit from the economies of scale associated with larger franchises. While some consultees argued in favour of route-based franchises, there was nothing in their consultation responses to change the view that this would not be as beneficial as the Proposed Franchising Scheme.

14.6.4 Some operators stated that the proposed franchise term should be longer, either to encourage investment or to provide more efficient periods for leasing fleet. Other operators, local authorities and transport user groups stated their approval for the proposed contract lengths. The proposed contract length takes account of the need to provide GMCA with the flexibility to make changes to the franchising proposition at regular re-procurement intervals, whilst also noting that it is unlikely that contracts over ten years would be permissible pursuant to UK law. It is not therefore considered desirable for the proposed franchise term to be longer than proposed in the consultation.

14.6.5 There were positive responses about the principle of a having an appropriately calibrated performance regime, although a number of operators were clear that the performance regime should not include measures outside an operator's control. TfGM agrees with this principle and intends to manage this directly via the calibration of the performance regime, or alternatively by reflecting such factors in the franchise network specification.

14.6.6 Most incumbent large bus operators raised challenges surrounding GMCA's proposals on depots. The first area of challenge was whether GMCA should be providing any depots and if so which. TfGM remains confident that such an intervention by GMCA in relation to strategic depots will deliver significant

competition benefits and that the strategic depots identified in the Assessment collectively provide the most efficient model for delivery of large franchises during the transitional phase. Some consultees also suggested that GMCA should consider providing depots for smaller operators. However as set out in Section 7.2 above, that is not considered to be appropriate or necessary.

14.6.7 The second area of challenge was whether incumbents will sell the strategic depots to GMCA voluntarily. TfGM notes the position of some of the operators who said they would not do so. Part of the rationale for the proposed approach, however, was to reduce the impact of franchising on those operators as it would mitigate the risk of them being left with stranded assets (as well as reducing the impact on employees). In the event of a decision to introduce the Proposed Franchising Scheme, GMCA would continue to seek its preferred option of negotiated depot transfer through proactive dialogue with operators and believes it is not unreasonable at this stage to assume that such negotiations would be successful and realistic in the timescales proposed given the potential advantages of such voluntary sales to the incumbents.

14.6.8 The third area of challenge was whether the alternatives for large franchises are feasible. The Assessment sets out a number of alternative routes to depot provision at the transitional stage. However, with the exception of the possibility of any CPO, there has been little comment in the consultation response in relation to these alternative routes. It is considered that they continue to provide viable strategies for the provision of depots.

14.6.9 The fourth area of challenge was whether GMCA can legally use CPO powers to acquire strategic depots TfGM remains confident that it has the legal powers to undertake CPO if required.

14.6.10 The fifth area of challenge was whether the timeline for delivering the Proposed Franchising Scheme would be achievable in the event GMCA had to exercise its CPO powers. The proposed mobilisation timetable in the Assessment assumes that operators would be willing to sell their depots to GMCA and as such, it is accepted that if it was necessary to use CPO powers then the dates on which it was proposed that the Proposed Franchising Scheme would become effective would need to be changed, which is allowed for under the Act.

14.6.11 TfGM's preferred route to depot control, therefore, remains via negotiated transfer, which will also help mitigate operator impact, but in the event that this is not achievable it would seek to deploy one or more of the alternative viable options described in the Assessment.

14.6.12 The final area of challenge concerned the reasonableness of the costs allowed for in the Financial Case in respect of the depot strategy. The Assessment makes a prudent estimate of the cost of acquiring control of strategic depots whilst the Financial Case includes a quantified risk assessment which estimates the cost of specific uncertain

events including the delivery of the depot strategy. Therefore, TfGM is satisfied that an appropriate allowance has been made in the Financial Case in respect of the depot strategy.

14.6.13 A number of operators argue that the success of the fleet RV mechanism is dependent on take-up by operators. However, to the extent that incumbent operators choose not to engage in RV negotiations with GMCA and/or agreement cannot be reached for the transfer of incumbent fleet into the RV mechanism, each franchise bidder would simply be responsible for the provision of fleet to account for any difference between franchise fleet requirements and RV fleet allocation.

14.6.14 Having considered all the responses in respect of proposed commercial arrangements, it is considered the principal risk to the successful delivery of franchising within the timeframe described in the Assessment is the delivery of the depot strategy in respect of large franchises. Although consultation responses from the large operators who own the strategic depots indicates that there is limited appetite to engage in negotiation with GMCA in respect of the potential transfer of depot control, the Assessment describes a number of alternative transitional models which would deliver franchising to the timescales described. In conclusion, TfGM considers that the proposed commercial proposition, including the impact on competition and the facilitation of cross-boundary services, remains appropriate.

14. 7 - Management Case Conclusion

14.7.1 Of the 183 responses to managing franchised operations under the Proposed Franchising Scheme, 73 provided favourable comments while 56 were unfavourable. Of the 14 statutory consultee responses, 6 were favourable and 6 were unfavourable. Those which were unfavourable were generally mostly bus operators. There were 62 favourable comments from members of the public with 47 unfavourable. Most of the concerns raised focus on the costs and difficulties associated with securing sufficiently qualified staff for the relevant core and support teams. There were also concerns associated with additional management costs. Comments from bus operators were generally unfavourable and operators agreed that the additional required full-time employees would be costly to attract, recruit and train and would ultimately be not sufficient to cover the necessary responsibilities. The members of the public making unfavourable comments were also concerned with costs, affordability and value for money on the proposed approach. Most of the favourable comments from the public were on the opportunity to boost employment and that the Proposed Franchising Scheme would give TfGM / GMCA more authority and control of bus services.

14.7.2 On the approach to the transition and implementation of the Proposed Franchising Scheme, of the 258 comments, 130 were favourable and 81 unfavourable. Around a third of those statutory consultees which provided comments made favourable ones while around half made unfavourable comments. The main concerns were criticism relating to timescales and lack of time built in for evaluating and reviewing progress during the transition. Others expressed similar opinions that the associated costs had been underestimated. The feasibility of the timescales was the main point from unfavourable comments from the public. Favourable comments from non-statutory consultees agreed TfGM would be capable of managing franchised operations throughout transition and implementation and favourable comments from members of the public agreed with the approach and accepted there was a level of risk that would be inevitable in such a change. The response to comments on timescales were merged with the implementation section of the Commercial Case response to avoid duplication. A number of statutory consultees commented on the potential for confusion during transition and the impact that it may have upon customer experience. Stagecoach commented on the approach to risk management and how it may have underestimated costs.

14.7.3 The assessment acknowledged the complexity that would be involved during implementation, transition and management of the Proposed Franchising Scheme but also identified sufficient resource and existing capability and process from which to build on. Some operators believed the number of staff identified and the proposed salaries required to manage were too low. The response demonstrates that rigorous approaches were used including benchmarking and data modelling to assess the required resources and salaries needed to attract talent with the right skills to manage franchising. The recruitment of additional resources would also be

supported with an organisational change ensuring exiting TfGM employees have the right skills and capabilities to support franchising.

14.7.4 Acknowledging the potential risk of confusion to customers during transition the Assessment proposed mitigation plans which would include extensive customer communications during mobilisation and the commencement of franchised operations. A transitional ticketing proposition would also be jointly developed with the existing operators. With regard to understating risk in the Assessment a comprehensive risk register was developed adopting best practise approaches to ensure that there was appropriate risks provision with supporting mitigation plans where required.

14.7.5 Some operators raised concern around potential redundancies as a consequence of franchising. While TfGM cannot guarantee that there will be no redundancies the proposed approach would be to procure franchises around the strategic depots. It is therefore envisaged that the majority of staff including drivers and engineers would be considered "principally connected" and still required under franchising. OneBus stated additional resources would be required to manage data and operational performance. Operational performance and data management would remain the responsibility of the operator as it is today, and therefore it is not envisaged that this would require additional resources.

14.7.6 Pensions issues were considered in the Assessment and a separate supporting paper - the Pensions Impact Supporting Paper ("PISP"). These considered impacts on incumbent operators; impacts on prospective operators; and, set out options for how pension arrangements could be delivered under franchising to meet the requirements of enhanced pension protection under the Act. A number of comments were raised around pensions implications, specifically in relation to concerns over defined benefit arrangements and impacts. It is relevant to note that TfGM understands that the vast majority of current pension provision is now through defined contribution schemes, however, it is acknowledged defined benefit arrangements are inherently more complex to provide.

14.7.7 Incumbent operators, Stagecoach in particular, who participate in defined benefit schemes raised a concern that the introduction of franchising would lead to 'exit debts' relating to past service liabilities, due to the last active member leaving their schemes. Stagecoach consider the Proposed Franchising Scheme could crystallise a Greater Manchester Pension Fund (GMPF) 'exit debt' that could be in the range of £30m to £60m for all current GM operators, although it did not set out the specific basis of this estimate.

14.7.8 Franchising does not introduce a new requirement that an incumbent operator should be liable for any of its past service pension liabilities, but franchising may increase the risk of an earlier date on which the last active member may leave a

scheme.

14.7.9 Whilst this eventuality cannot be precluded, it is considered unlikely that it would occur across all participating operators and operators can themselves influence this risk, for example by bidding for local service contracts.

14.7.10 Even if an 'exit debt' were to arise, TfGM considers there would be options for an operator to mitigate the impact of any debt, including negotiation with the GMPF around the basis on which exit debts are calculated and the associated payment terms.

14.7.11 Whilst TfGM cannot validate, or otherwise, the £30m-£60m exit debt estimate provided by Stagecoach, it is considered the likely extent of this risk has been overstated; and, even if an exit debt were to arise, GMPF's Funding Strategy sets out mitigations that an operator could seek to negotiate with it.

14.7.12 The concern was also raised that a franchised operator could be left with an 'exit debt' at the end of a contract term. Whilst defined benefit liabilities would be expected to be of a significantly smaller scale under franchising (as incumbent operators would remain responsible for past service liabilities), the response sets out the proposals included in the Assessment and the Pensions Impact Supporting Paper which include a proposed guarantee provided by TfGM/GMCA if the Local Government Pensions Scheme required additional financial security, and a contractual risk sharing arrangement, with appropriate safeguards, which it is considered would address these concerns.

14.7.13 In conclusion, there are no challenges arising that require alterations to the Management Case or would impact the ability to deliver the transition, implementation and management of the Proposed Franchising Scheme as outlined.

14. 8 - Partnership Plus Conclusion

14.8.1 In preparing its Assessment, consideration was given by GMCA on how the Proposed Franchising Scheme would compare to other courses of action. That led to the development of two partnership options and although work continued to review and develop those proposals after the completion of the Assessment, TfGM determined that those discussions had reached a stage in which they could be appropriately compared to the Proposed Franchising Scheme.

14.8.2 Section 9 of this report details the work undertaken by TfGM in reviewing the Partnership Plus proposal which was put forward by OneBus. In a similar manner to how Stagecoach's partnership proposal was considered, this includes consideration of that option against each of the five cases to the Assessment.

14.8.3 In many respects this proposal was the same as that appraised in the Assessment, and the financial implications, commercial arrangements and management requirements are very similar. It added some further commitments and changed some others in the original partnership proposal. TfGM is confident that sufficient consideration has been given to Partnership Plus to come to the view that overall it is expected that the proposal would deliver no greater benefits than the Ambitious Partnership option considered in the Assessment. Therefore, this does not impact our overall conclusions in the Assessment.

14. 9 - Stagecoach partnership proposal conclusion:

14.9.1 TfGM has received a proposal from Stagecoach to set up a partnership in the South of Greater Manchester that is intended to "*complement any decision to franchise the North*". Further information on this proposal is set out in Section 10 of this report. In its proposal, Stagecoach puts forward 35 initiatives over the key areas of network, fares, fleet investment and customer, and a governance structure to coordinate the market.

14.9.2 The proposals can be summarised as follows:

- Operations & fleet investment – Investment in fleet to deliver a reduction in the average age of Stagecoach's fleet in the South of GM to 7 years, investment in fleet to deliver Euro VI compliance by September 2021 (subject to funding from Defra), as well as a target to ensure that 45% of Stagecoach's fleet in the South of GM is 'better' than Euro VI compliant by the same date.
- Network planning & performance – Improved consultation on changes made to services including the provision of additional data on unprofitable routes, the establishment of Key Performance Indicators including a performance regime. Stagecoach notably also proposes to commercialise a portion of the currently subsidised services in the South of GM and has calculated that this would represent a saving of approximately £1.8m to GMCA per annum.
- Customer – Various initiatives to improve customer experience (eleven in total) including a proposed unified brand and a proposed single point of customer contact.
- Fares, Ticketing & Retail – Initiatives aimed at simplifying the fares and ticketing proposition including reducing the number of fare bands to four on its services, the creation a single suite of period tickets for its services in the South of GM by January 2021, extending the introduction of carnet ticketing, introducing a flat fare in the evenings and rolling out fare capping on its services in the South of GM by the summer of 2021.
- Financial proposals – A proposed profit-sharing mechanism that would split any profit generated by Stagecoach above an agreed 'target level of profit' between GMCA, a 'South Manchester Partnership Fund' and Stagecoach. The money received by GMCA could be spent across the whole of GM on initiatives that benefit the bus user experience and encourage modal shift to bus. Stagecoach proposes that the money in the partnership fund would also be spent on initiatives that benefit the bus user experience and encourage modal shift to bus, with two thirds specifically for reinvestment in the South of GM.
- Community & Employee – Stagecoach intends to continue to enhance the role

that it plays in the community throughout the duration of the partnership.

14.9.3 Stagecoach anticipates that the partnership would be set up using a Voluntary Partnership Agreement, while making use of Advanced Quality Partnership Schemes on key routes/corridors to enforce certain standards. Stagecoach's intention is that other commercial operators in the South of GM may also enter into the South Manchester partnership and Stagecoach confirmed that they have received initial support from Arriva. Stagecoach proposes an initial partnership term of ten years.

14.9.4 The report analyses the implications of the proposals from the perspective of each of the five cases to understand most how likely the proposals are to deliver on GMCA's objectives (Strategic Implications), whether there is likely to be any economic benefit from Stagecoach's proposals (Economic Implications), and whether there are any other commercial, financial, management or legal issues to consider for GMCA.

14.9.5 The Strategic Implications section analyses whether the proposals would enable GMCA to achieve the Vision for Bus as part of its 2040 Strategy. The Strategic Implications section finds that overall, whilst Stagecoach intends that its proposal will create a "*seamless"* market in Greater Manchester, under the scenario proposed, it is unlikely that GMCA would achieve all of its objectives on simplicity, integration and in a number of other key areas including network. GMCA would not have control to be able to make its own decisions for the South of GM, unlike in the North. Furthermore, there remains a risk around the longevity and coverage of any intervention (one of GMCA's objectives) as any partnership is voluntary. This is an important consideration given that GMCA is seeking to achieve its 2040 Strategy.

14.9.6 In respect of a franchise scheme in the North, there is also a key strategic issue given that the need to assess a new franchise scheme covering the North and follow all relevant statutory procedures would inevitably result in delay to the introduction of any franchise scheme in the North and delivery of the associated benefits. Therefore, while potentially accelerating the introduction of some initiatives in the South, there would be a delay to when a franchise scheme in the North of GM could be delivered.

14.9.7 The Commercial Implications section explains that, while Stagecoach's proposals result in a combination of two options already considered in the Assessment, the proposal would mean allowing two different regulatory frameworks for the bus network in GM and this leads to some complications (particularly for services at the boundary between the North and South of GM) and potential inefficiencies in managing the network. This means that, as the Management Implications section explains, whilst the operating costs of operating a combined partnership and franchising network could be less than operating the Proposed Franchising Scheme, it is likely that the overall scenario would be less efficient to manage, as TfGM would be effectively monitoring the bus network in GM under two different regulatory and

commercial frameworks.

14.9.8 The Financial Implications section analyses how the overall funding requirement would likely change and finds that it would not reduce in proportion to the scaled-down revenues and costs in a franchised area as there would be costs to manage the partnership. It is also worth noting that as Stagecoach is commercially the most successful and profitable operator in GM there is a risk the revised franchised area is commercially weaker and requires additional ongoing funding as a result.

14.9.9 The Economic Implications section concludes that there would likely be significantly lower benefits compared with franchising the whole GM as proposed under the Proposed Franchising Scheme (partly due to some of the strategic issues noted). Combined with costs that are likely to be proportionally higher for the partnership and franchise areas (compared to when introducing either of these proposals across the whole of GM on their own), the section concludes that the NPV and BCR of this proposal are both likely to be substantially lower the Proposed Franchising Scheme. The NPV may even be lower than the Ambitious Partnership option as considered in the Assessment, as Stagecoach's proposal would not result in the existing premium between the individual and multi-operator tickets being reduced, as was assumed possible in the Ambitious Partnership option.

14.9.10 Overall, given that GMCA would be unlikely to be able to achieve its objectives under the proposals and the Economic Implications section concludes that the proposal would deliver an NPV that is likely to be substantially lower than the Proposed Franchising Scheme, the conclusions in the Assessment remain valid.

14. 10 - EQIA Response Themes Conclusion

14.10.1 Under equality legislation, GMCA and the Mayor have a duty to consider how any policies or decisions may affect people who have what are known as relevant "protected characteristics". TfGM uses a standard questionnaire (known as an equality impact assessment or "EQIA") for internal purposes to consider the affects of policies and as part of the consultation, the initial assessment EQIA for the Proposed Franchising Scheme was published so that consultees could consider and comment on those affects.

14.10.2 As set out in Section 12 of this report the EQIA concluded that the Proposed Franchising Scheme would have a high positive impact on certain groups and that no groups would suffer a significant adverse impact of the Proposed Franchising Scheme was introduced. As this report and chapter 13 of Ipsos MORI's report shows, there was a broad level of support from consultees on the EQIA.

14.10.3 Several useful points were raised during the consultation which has provided additional insight into the concerns of passengers and which could be incorporated into the EQIA. For example, some consultees commented that the document was hard to follow and understand so it is proposed that a preface would be attached to the front of the EQIA to explain the purpose of the document and to explain the format used. In addition to this, one question in the EQIA would be changed to consider the impacts on autistic passengers and to note that the proposed Accessible Information Regulations have not yet been introduced. Should any decision be taken to introduce the Proposed Franchising Scheme in the future then GMCA would have to carry out a final EQIA and the Mayor would have to comply with the public sector equality duty.

14. 11 - First's Partnership Proposal Conclusion

14.11.1 As set out in Section 11 of this report, First proposed an alternative option to the Proposed Franchising Scheme. This was based on a pilot let approach where a Local Partnership ("LP") would be run as a trial in one area of GM alongside any new franchising or similar scheme being piloted in another area of GM. First suggested that Oldham would be *"particularly amenable"* to the LP.

14.11.2 Engagement was undertaken by TfGM to consider and discuss the nature of the proposal with First but due to the limited detail contained in the proposal, a proportionate approach has been taken to consider the proposal against GMCA's objectives at this stage. It was concluded that First's proposal would not provide any greater benefits than Partnership Plus, and significantly less benefits than the Ambitious Partnership modelled in the Assessment. In a similar manner to the concerns noted on the partnership options, there is a risk that a partnership would not be long-lasting and that First's proposal would effectively create three different markets within GM (including the partnership and franchising pilots with the rest of GM remaining deregulated). It is not clear how that would work, particularly in terms of passengers being able to make multiple journeys across those areas and services being able to operate across the entirety of GM.

14. 12 - The Proposed Franchising Scheme: Legal and other considerations conclusion

14.12.1 Section 13 of this report considered the responses to the consultation that related to the questions on the Proposed Franchising Scheme. In broad terms there was a lot of support from consultees on all aspects of the proposal. Some of the incumbent operators and OneBus, however, oppose the Proposed Franchising Scheme and were critical of the Proposed Franchising Scheme.

14.12.2 One of the consultation questions asked consultees to comment on the proposal for the Proposed Franchising Scheme to apply to the entirety of GM. The majority of consultees, including OneBus, were supportive of this proposal. A small number of consultees did suggest, however, that the Proposed Franchising Scheme should be restricted to smaller areas of GM, whether that be by excluding the South of GM, by franchising areas where there was "*clear evidence of market failure*" (as suggested by Arriva) or (as Go North West and First suggested), by introducing franchising on a trial or pilot basis only. Several reasons why these suggestions should not be adopted are given. These include why trialling franchising is not considered to be necessary and the fact that many of the benefits from the Proposed Franchising Scheme depend on the fact that it would apply across the entirety of GM, introducing a greater level of improvement and consistency across the whole area.

14.12.3 The majority of consultees were supportive of the local services which were proposed to be franchised. Some commented that cross-boundary services should be included. Some cross-boundary services are in fact proposed to be franchised, but only for the portion of the service that operates in GM (as set out in the Proposed Franchising Scheme and as explained in the Strategic Case Response Themes at Section 4.8). Some consultees also commented that new services, or services that had been previously withdrawn, should be included in the Proposed Franchising Scheme. Given the scale of change that would be involved when introducing franchising in any event, however, it is not considered to be appropriate to make any significant service changes at the outset and that instead, the services that would be franchised should reflect the existing commercial services.

14.12.4 Ipsos MORI found that there was more of an even split between those who commented on the proposal to divide GM into three Sub-Areas and for the other proposed arrangements for transition. While many recognised the size and scale of the change and were therefore supportive of the proposals, many consultees (and particularly members of the public) commented that the Proposed Franchising Scheme should be introduced uniformly across GM (which is what is being proposed) and that it would be unfair to roll out franchising in one area before another, and the Proposed Franchising Scheme should be introduced, therefore across the entirety of GM at once. This report reiterates the reasons for why a proposed transition is sensible and that it is unavoidable that it would mean that one Sub-Area would be

last.

14.12.5 Consultees were asked to comment on the dates included in the Proposed Franchising Scheme, including the proposed date for making the Proposed Franchising Scheme itself. Many commented that the dates would be too soon. It is accepted that this is now the case, particularly as the proposed date for making the Proposed Franchising Scheme (6 March 2020) has passed. It is therefore proposed that all the dates would be removed from the Proposed Franchising Scheme, pending any decision being taken to make the Proposed Franchising Scheme.

14.12.6 Some consultees also commented on GMCA's plans for consulting on how well the Proposed Franchising Scheme is working and suggested that GMCA should consult sooner than originally proposed. It is considered that consulting sooner would have benefits but that any consultations would have to take place at an appropriate time when passengers had become used to any changes. Two alternative options where considered by TfGM to address the consultation responses and it is recommended that, should any decision be taken to introduce the Proposed Franchising Scheme, the proposed plans should be changed so that the GMCA would consult within 12 months of franchising being operational in all sub-areas.

14.12.7 Section 13 of the report also considers other points raised by consultees, namely the bus operators and OneBus, that related to the legal process undertaken by GMCA. Some consultees raised concerns that the correct process had not been followed, whether that be in terms of preparation of the Assessment, the audit report or the consultation itself. These concerns are considered in section 13.4 and it was not thought that they have any merit. Some of the operators also raised concerns that GMCA had not provided access to some of the underlying models to the Assessment. That is considered in section 5.2 of the Economic Case Response Themes: access to those models themselves was not required and that sufficient information was provided to consultees to allow them to consider and respond to the consultation intelligently (as they have in fact done).

14.12.8 In terms of the impacts of the Proposed Franchising Scheme, there were also challenges to the information presented in the Assessment on the potential impacts on incumbent operators. While the Assessment acknowledged that such operators would need to compete to run services in Greater Manchester and could lose the ability to do so and possibly be left with stranded assets (notably depots or vehicles), operators have set out in their responses that the effects of losing their business could be more severe in particular because pensions liabilities may be greater and some other assets are at risk of being stranded. Some operators also claimed that the introduction of the Proposed Franchising Scheme would have a disproportionate impact on their property rights. However, as set out above in section 13.6, while the introduction of the Proposed Franchising Scheme may involve a control or use of an operator's possessions, for that control to be lawful the introduction of the Proposed Franchising Scheme must be lawful and must be made to pursue a legitimate aim.

This means that, before any decision could be taken to introduce the Proposed Franchising Scheme, GMCA and the Mayor would have to consider whether franchising would be a proportionate interference with the peaceful enjoyment of such operators' possessions. Advice on how that judgment should be made is provided in section 13.6.

14. 13 - Overall TfGM Conclusion and recommendation

Comments on to the Assessment

14.13.1 While there was support for the Proposed Franchising Scheme from the majority of public and statutory respondents, there was also some opposition and challenge to TfGM's analysis in the Assessment. Those who opposed the Proposed Franchising Scheme, principally the incumbent bus operators in Greater Manchester, set out some challenges to the analysis. This was done in three broad areas – challenging the case for change and the conclusion that the Proposed Franchising Scheme would best fit GMCA's objectives; the economic and financial forecasts showing that the Proposed Franchising Scheme represented good value for money and was affordable; and the commercial and management arrangements showing that GMCA would be able to successfully implement the Proposed Franchising Scheme in the timescales proposed.

The case for change

14.13.2 The operators raised concerns about the analysis presented in the Assessment on the challenges facing the bus market. They considered that too little emphasis had been placed on congestion and Metrolink as causes of the decline in bus patronage, and hence too much emphasis had been placed on the problems of network inefficiency and complex fares and ticketing (issues that franchising would solve). The Strategic Case in the Assessment does acknowledge and analyse congestion and sets out how further 'Phase 2' interventions could address it. The Assessment also sets out the impact that Metrolink and other exogenous factors have on bus patronage. Considering the responses to the consultation, TfGM remains confident in the analysis of congestion presented. While there are undoubtedly external reasons that have impacted bus patronage, this does not mean reform of the bus market should not be pursued.

14.13.3 Overall, there was support for GMCA's objectives. There was some disagreement with the analysis of the areas in which the Proposed Franchising Scheme is likely to perform better than the alternatives. On the network, some operators argued that TfGM would not be able to improve the network significantly, although they did not present any counterargument to the key point that planning one integrated network as opposed to a set of competing, separately planned networks could bring significant advantages. Some operators disagreed with the idea of simplifying ticketing and said that the proposition that period tickets should give access to all buses was not necessarily advantageous to passengers. However other responses, and the evidence presented in the Assessment and its supporting documents makes a convincing case that simplifying ticketing in the way described in the Assessment would be of advantage to passengers. Operators also argued either that a single brand was not as advantageous as claimed, or that a partnership could deliver its key aspects – such as a similar livery for buses. However, TfGM remains of the view that the unifying the bus network under one brand with simplified ticketing and sources

of information and clear accountability enhances confidence in the network for both current and potential passengers.

14.13.4 Concerns were also raised by some operators and some neighbouring authorities in terms of the potential effects on cross-boundary services. The statutory tests that would be necessary to grant a service permit mean that some services – albeit a small proportion – might require some conditions to be placed upon them. This could mean operators ceasing to operate them on a commercial basis. This report sets out how GMCA could work with neighbouring authorities using existing powers to replace services and ensure that passengers did not lose out.

14.13.5 Considering points made by incumbent operators and others, TfGM considers that there are considerable benefits of the Proposed Franchising Scheme and that its advantages as set out in the Assessment for passengers are substantial.

Economic and financial forecasts

14.13.6 The economic and financial analysis presented in the Assessment was based upon a modelling exercise that created a baseline for the bus market and tested the effect of different interventions. A report from Jacobs was commissioned by OneBus that detailed some criticisms of this analysis that in some cases were repeated, or added to, by some of the incumbent operators. This report details how these points are either misplaced or would not affect the conclusions drawn about the value for money or affordability of the Proposed Franchising Scheme.

14.13.7 Forecasting by its very nature involves a large number of assumptions that feed into the outputs that are produced and there are different levels of confidence for each of them. Thus, it is recognised, for instance, that the evidence-base for the specific values placed on unifying the bus service in Greater Manchester under a single brand is not deep or broad. However, the discussion set out in the response shows that TfGM is confident in the outputs that show the Proposed Franchising Scheme to be better value for money than the alternatives. It is also the case that TfGM is confident that the Proposed Franchising Scheme is affordable for GMCA to implement.

Implementing the Proposed Franchising Scheme

14.13.8 A number of respondents suggested changes to the commercial model for implementing franchising, for instance in terms of the ownership of assets, the size or length of franchise packages. Although these have been reviewed in detail, TfGM is still confident that the commercial approach will best meet the objectives of achieving strong competition and value for money. However ongoing engagement with the market will continue as any procurement activity commences and refinement of the detail will continue based on feedback.

14.13.9 The main objections from incumbent operators concerned the proposal that GMCA should acquire the strategic bus depots. Some operators said that they would not

cooperate with GMCA in the voluntary sale of the depots, despite the fact that this would mitigate one of the largest potential impacts of the Proposed Franchising Scheme on them if they did not win a relevant local service contract. Given that, TfGM considers that it is not unreasonable in the circumstances to proceed on the basis that depots could be purchased voluntarily from operators but that GMCA has alternative proposals (most of which were not commented on) to provide alternative depots if needed. It is considered that depot ownership will support enduring competition and lower barriers to entry, a point endorsed by the CMA. None of the feedback received has led to any changes being proposed to how the Proposed Franchising Scheme should work.

14.13.10 Some incumbent operators thought that the cost and timescales for implementation the Proposed Franchising Scheme were unrealistic, as they doubted the capability of TfGM (who would be charged with managing the Proposed Franchising Scheme). Incumbent operators stated that the assessed costs of TfGM for the partnership proposals were too high and that the implementation of franchising would take longer and cost more – for instance because of the difficulty of purchasing depots. There are uncertainties in the implementation process, and, if operators were to choose not to be co-operate, that would make the process more difficult. However, the response sets out that the original assumptions were reliable, that the plans for implementation were capable of being implemented and are capable of being modified should that be necessary.

14.13.11 TfGM recognise the need to change its organisation to deal with the challenge of running a franchised bus operation. While some services are currently contracted by TfGM, that capability would need to be augmented and extended to allow the running of a network covering the whole of Greater Manchester. This is explained in the Assessment. The critiques offered of the capability of TfGM do not contain any persuasive evidence or reasons why the organisation would not be able to implement and manage the Proposed Franchising Scheme.

Alternatives to franchising

14.13.12 In terms of alternatives to the Proposed Franchising Scheme, incumbent operators in Greater Manchester argued that the Operator Proposed Partnership had not been given sufficient credit in the Assessment and they put forward new partnership proposals additional to that considered in the Assessment. They also suggested that measures to reduce congestion should be put in place, alongside partnership, in preference to the Proposed Franchising Scheme. This would rely on using the transition funding that GMCA had approved in October 2019 for the Proposed Franchising Scheme.

14.13.13 Two substantive proposals were put forward – firstly by OneBus, following discussions with TfGM between October 2017 and June of 2019, which was called Partnership Plus and was claimed to add further commitments to the Operator Proposed Partnership. Secondly Stagecoach put forward a proposal that a

partnership with them as majority operator in the south of Greater Manchester could be combined with a franchising scheme in the north. Consideration was also given to a proposal by First for a local partnership in Oldham and consideration of that proposal is set out further in Section 11.

14.13.14 The Partnership Plus proposal is examined in the report and, while it is considered to deliver some additional benefit compared to the version analysed in the Assessment, it would not go significantly further than the Operator Proposed Partnership in meeting GMCA's objectives. The Stagecoach proposal also offers a range of benefits, notably the commercialising of a large number of currently subsidised services and a profit share mechanism. However, the proposal would introduce difficulties in running two market systems in Greater Manchester and potentially confuse passengers on issues such as ticket validity and accountability. Detailed examination showed that it would not deliver benefits comparable to the Proposed Franchising Scheme, and its costs were likely to be closer to that of franchising than the lower costs of partnership. Additionally, it would require GMCA to undertake a new process to assess the smaller franchising scheme in the north of GM thereby delaying any benefits in that area.

14.13.15 Analysis of the partnership proposals in the Assessment showed that in themselves they did not achieve comparable benefits to the Proposed Franchising Scheme, and the new proposals put forward do not perform significantly better. The consultation showed support for a reinvigorated bus offer in Greater Manchester, with many looking to see bus journey times improved alongside (not as an alternative to) the Proposed Franchising Scheme. Measures to address congestion are part of GMCA's transport policy, whether the market is franchised or continues to be deregulated, as is set out in the Delivery Plan for the Transport Strategy 2040 published in 2019. The Proposed Franchising Scheme would enable a broader range of further measures than would be possible in the current, deregulated, market.

14.13.16 Incumbent operators, as well as some local authorities, raised the point that greater costs and risks that would be borne by GMCA if the Proposed Franchising Scheme were implemented. While there was endorsement of the approach to risk analysis performed (even from opponents of the Proposed Franchising Scheme) it remains that case that the Proposed Franchising Scheme entails a transfer of revenue risk to the public authorities in Greater Manchester, as well as a significant transition cost in the early years of the scheme. The future direction of the bus market and travel is by its nature uncertain, and forecasts, however well performed, can never be absolutely relied upon to predict the state of a market over decades. GMCA would thus have the responsibility of determining how the bus market in Greater Manchester should respond to pressures of costs or reduced patronage if franchising is introduced. More broadly, GMCA and its constituent authorities will bear the risks of the bus system in Greater Manchester and responsibility for ensuring that

economic growth is not impeded by a weaker transport system.

14.13.17 GMCA, as set out in the Assessment, has approved funding for the Proposed Franchising Scheme, but it should be recognised that development of the bus network should not be achieved at the expense of other competing costs faced by fiscally constrained local authorities. GMCA should continue to engage with central government to establish sustainable funding propositions to support network growth and increased bus use. While progress on some key issues such as clean air will require some further investment, it is concluded that the Proposed Franchising Scheme is affordable and offers a stronger basis for investment of public money into a broader range of measures and better value for money than the alternatives.

Recommendation

14.13.18 Considering the analysis in the Assessment and the responses to the consultation, it is concluded that the Proposed Franchising Scheme offers the best opportunity to achieve GMCA's objectives and to drive further improvements to the bus service and to the wider public transport system in Greater Manchester. Modifications to the Proposed Franchising Scheme (relating to the dates included in the Proposed Franchising Scheme and the description of GMCA's plans for undertaking future consultations) have been proposed in light of some of the consultation responses. Those modifications are summarised in sections 13.7.4 and 13.7.5 of this report.

14.13.19 Before taking any decision on the Proposed Franchising Scheme, however, it will be necessary to consider the consequences of COVID-19 once its impacts on the economy and on public transport in GM become clearer.

Section 15 - Appendices

15. 1 - Appendix 1 – List of statutory consultees

15. 2 - Appendix 2 - Grant Thornton - Independent Reasonable Assurance Report on TfGM assessment of proposed franchising system

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Dear Liz

Independent Reasonable Assurance Report on TfGM assessment of proposed franchising system

Thank you for your letter dated 28th February 2020 clarifying our approach in undertaking the Independent Reasonable Assurance Report on the TfGM assessment of a proposed franchising system.

You have highlighted that as part of the Consultation process followed by GMCA you have received a response which queries whether we set a level of materiality at an individual level rather than considering all aspects in aggregate. We have reviewed the wording in our opinion letter which states:

"In reviewing the Assessment we set a threshold for materiality at a level where a finding is considered material if it demonstrates the proposed scheme would no longer be affordable or represent value for money and would not be consistent with Section 123B (3) (d) and (e) of the Act."

As stated in our opinion letter we conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised), "Assurance engagements other than audits and reviews of historical financial information". Applying ISAE 3000 (Revised) to this engagement, required us to conclude whether the Assessment had been prepared, in all material respects, in accordance with the requirements of 123D of the Act. ISAE 3000 required us to consider our findings individually and in aggregate and we can confirm that in undertaking our review we complied with this guidance. As such the findings we identified were considered both individually and in aggregate when forming our opinion and conclusions and these remain unchanged. Our observations letter, which accompanied our opinion, refers to the findings we raised with TfGM but did not view as sufficiently material (individually or in aggregate) to generate a modified conclusion.

Grant Thornton UK LLP

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6 March 2020