Covid-19 Impact on Bus Franchising Report

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1. Introduction

1.1 Introduction

Purpose of the Document

1.1.1 This document updates GMCA on the potential impact and effects of the Covid-19 pandemic on the steps undertaken by TfGM and GMCA when considering the introduction of a proposed bus franchising scheme for Greater Manchester.

1.1.2 From October 2019 to January 2020, GMCA consulted on its proposed bus franchising scheme ("the Proposed Franchising Scheme"). A consultation document was published to inform consultees of the proposals, and this included a description of the Proposed Franchising Scheme itself (see Section 3 of that document). A copy of that consultation document can be found here https://www.gmconsult.org/strategy-team/gmbusconsultation/.

1.1.3 In June 2020, TfGM reported on the findings of the consultation. This report included consideration of the issues and themes raised by consultees and TfGM's response to those matters. A copy of that report (the "Consultation Report") can also be found here https://greatermanchester-ca.gov.uk/what-we-do/transport/doing-buses-differently-consultation-on-proposed-franchising-scheme/. As the potential implications of Covid-19 were not taken into account in either TfGM's assessment of the Proposed Franchising Scheme ("the Assessment") or the consultation, GMCA noted the contents of that report and also noted that TfGM would prepare a further report to consider the potential impact and effects of Covid-19 on the bus market in Greater Manchester.

1.1.4 The purpose of this report is to consider the potential impact and effects of Covid-19 on the bus market in Greater Manchester, the options considered in the Assessment and how Covid-19 may impact on the recommendation made in the Consultation Report that the Proposed Franchising Scheme would be the best option for reforming the bus market in Greater Manchester.

1.1.5 This report sets out:

- The effects that Covid-19 has had on the bus market in Greater Manchester;
- Potential future Scenarios for travel in Greater Manchester and the effects on bus ("the Scenarios") as detailed below at Section 1.4 (Possible future transport scenarios) below;
- How Covid-19 and the potential future Scenarios may affect the case for change set out in the Strategic Case in the Assessment, and the conclusion that the Proposed Franchising Scheme was the best option to achieve GMCA's objectives;
- How Covid-19 and potential future Scenarios may affect the conclusion set out in the Economic Case in the Assessment that the Proposed Franchising Scheme was good value for money;
- How Covid-19 and potential future Scenarios may affect the considerations set out in the Commercial Case in the Assessment on the commercial strategy for implementing the Proposed Franchising Scheme, and the conclusion that it could be successfully procured;

- How Covid-19 and potential future Scenarios may affect the conclusion set out in the Financial Case in the Assessment that the Proposed Franchising Scheme was affordable;
- How Covid-19 and potential future Scenarios may affect the considerations set out in the Management Case in the Assessment, the implementation of the Proposed Franchising Scheme and the conclusion that this could be managed successfully;
- How Covid-19 and the potential future Scenarios may affect the Proposed Franchising Scheme and the conclusion that no modifications to the Proposed Franchising Scheme are required at this stage beyond those already contemplated;
- How Covid-19 may affect the partnership options considered in the Assessment and those put forward by operators during the consultation; and
- A conclusion on the effect of Covid-19 on the previous recommendation in the Consultation Report that the Proposed Franchising Scheme should be implemented.

1.1.6 This report is intended to help GMCA and the Mayor to decide on whether, and, if so, how, to proceed with the Proposed Franchising Scheme. It recognises that in the current circumstances the uncertainty over long-term forecasts is greater than it would normally be and that the range of factors and their variance which may influence the bus market is also wider.

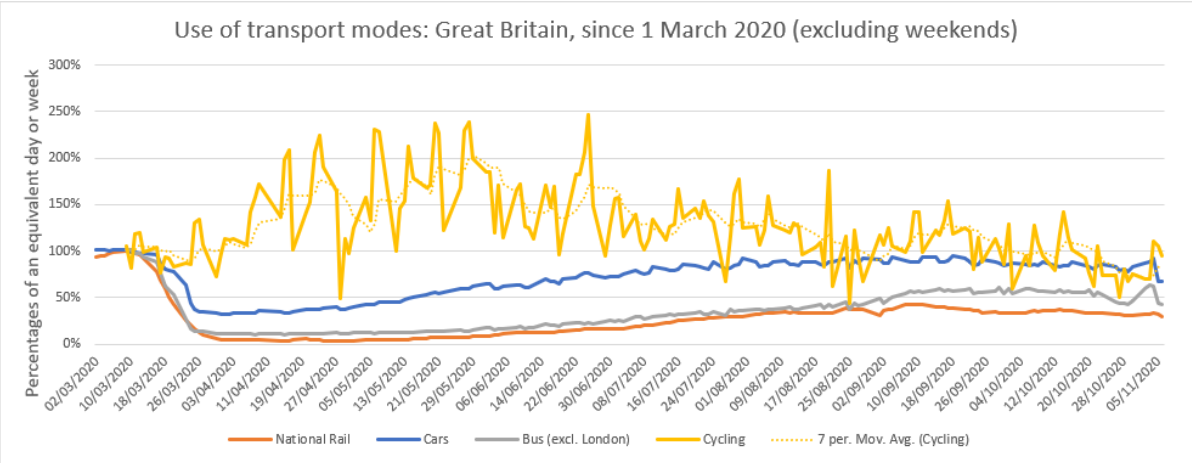
1.1.7 Whilst the Covid-19 pandemic has shown the importance of bus services to Greater Manchester, and the importance of such services has been recognised by the level of Government support for them across the UK, it has also impacted patronage and services and may potentially lead to longer-term reductions in revenue. Both the Proposed Franchising Scheme and the Partnership options are affected by the changes in travel in Greater Manchester that have occurred because of the Covid-19 pandemic, and some impacts are likely to endure.

1.1.8 TfGM have developed a set of potential Scenarios for future travel in Greater Manchester to help inform efforts to support recovery across all of the areas where TfGM have responsibility. As well as reporting what has happened (in terms of the Greater Manchester bus market) since March 2020, this report sets out these potential Scenarios and how they might affect the bus market. The report then sets out the potential effects on the conclusions drawn in the Assessment of the Proposed Franchising Scheme and Consultation Report across each of the cases, taking into account how the Scenarios would affect both the Proposed Franchising Scheme and an improved partnership.

1.2 What has happened in the Greater Manchester bus market

1.2.1 Covid-19 has had a significant impact on transport demand across the UK. Major cities, such as Manchester, have seen the effects of lockdown restrictions and ongoing changes to travel patterns driven by the direct consequences of the pandemic, and by the social and economic change brought about by the pandemic. Chart 1 below sets out these effects on different modes of transport at a UK level.

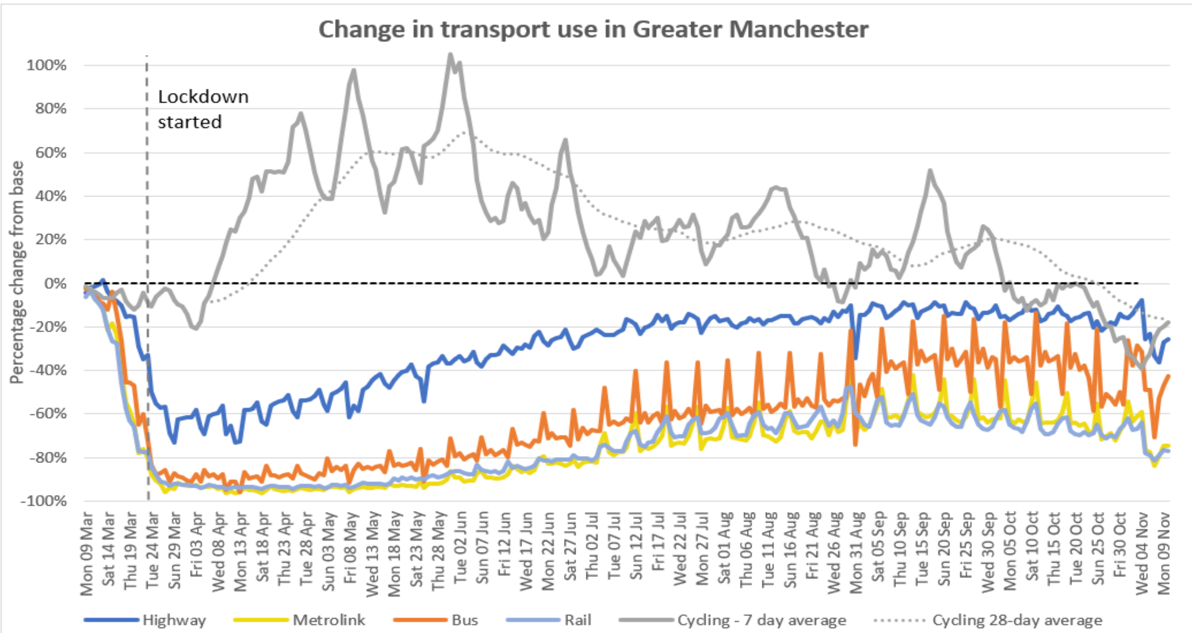
Chart 1: Use of transport modes: Great Britain, since 1st March 2020 (Excluding weekends)



Source: DfT Transport use by mode: Great Britain, since 1 March 2020, September 2020

1.2.2 Chart 1 above illustrates that throughout the pandemic there has been a shift in the use of different modes of transport. There has been an increase in cycling as a result of Covid-19 (although from a low base in terms of mode share). As can be seen in Chart 1 above, the amount of cycling has fluctuated on a weekly basis but generally remains above 100% of pre-Covid-19 levels. However, it is difficult to predict whether this trend will continue throughout the winter months. Having reached nearly 250% of pre-Covid-19 levels, cycling as a mode has fluctuated between 100%–150% of pre-Covid-19 levels throughout July, August and September 2020. The use of cars is greater than public transport modes such as bus and rail. Having seen an initial drop to below 50% of pre-Covid-19 levels for cars, this has increased at a steady rate back towards 100% of pre-Covid-19 levels by the end of September 2020. Since lockdown at the end of March 2020, we can see there is a steady increase in bus and car use, whereas rail has remained fairly constant and at a much lower level than pre-Covid-19 typical levels.

Chart 2: Change in transport use in Greater Manchester, March-November 2020



Source: TfGM internal data, August 2020

1.2.3 The Chart 2 above illustrates the change in transport use in Greater Manchester. The trends are similar to Chart 1 relating to the whole of Great Britain, with cycling showing the largest increase in use and fluctuating week on week. “Highways” (car and van together) has shown the quickest recovery back towards pre-Covid-19 levels. The chart shows that Metrolink, Bus and Rail have seen the greatest percentage fall in use as a result of Covid-19. Bus is showing the largest recovery out of the public transport modes but increasing at a slower rate compared with “Highways” use. Some bus operators faced difficulties providing a full service due to staff shielding between March and July. Bus operators initially operated a skeleton ‘key worker network’ to enable social distancing on-board buses, where the effective capacity of each vehicle was significantly reduced. As of mid-July 2020, the social distancing restrictions on buses were reduced to 0.8m, which allowed capacity to increase to c. 50% of seating.

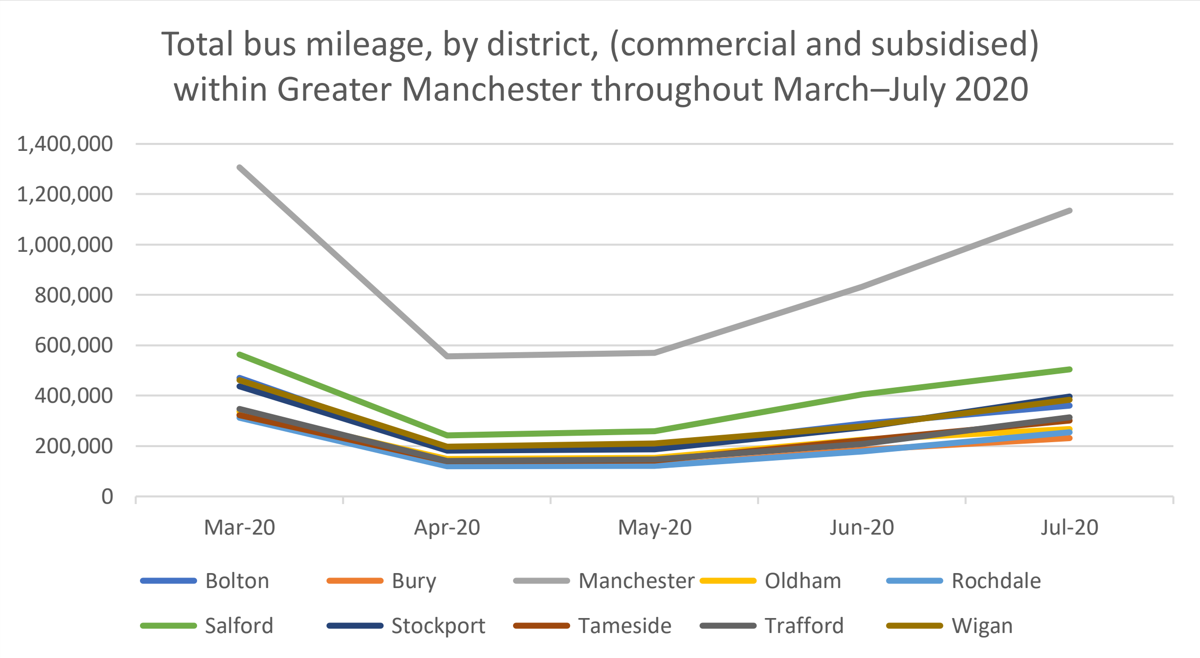
1.2.4 Patronage on bus services in Greater Manchester has been steadily rising overall since June 2020, in line with the various steps taken to lift the lockdown restrictions. It has returned to around 60% of pre-Covid-19 levels before the introduction of the second national lockdown on 4 November 2020, and operators have returned on average to approximately 95% of pre-Covid-19 levels as at week ending 8 November 2020. Increases in bus patronage vary greatly by district. The beginning of July 2020 saw the largest growth in patronage in Bury, followed by Salford and Stockport, whilst Trafford, Oldham and Wigan had the smallest increase.

1.2.5 Patronage on rail since the end of June 2020 has begun to increase at a much greater rate. For the week ending 26 July 2020, Piccadilly Station footfall was up 13.7% compared with the previous week and Victoria Station daily footfall was over 4,000, approximately 30% higher than at the start of the month. For the week ending 26 July 2020, cycling had increased 5% compared with the previous week and was 6% higher than the annual average. Pedestrian activity remains around 50% below pre-lockdown levels.

Bus Mileage

1.2.6 Chart 3 below shows the effect of Covid-19 on bus mileage in each district within Greater Manchester between March and July 2020. The starting point in March 2020 broadly reflects the pre-Covid-19 position for each region and is in line with the 2019 figures.

Chart 3: Total bus mileage, by district (commercial and subsidised) within Greater Manchester, March-July 2020



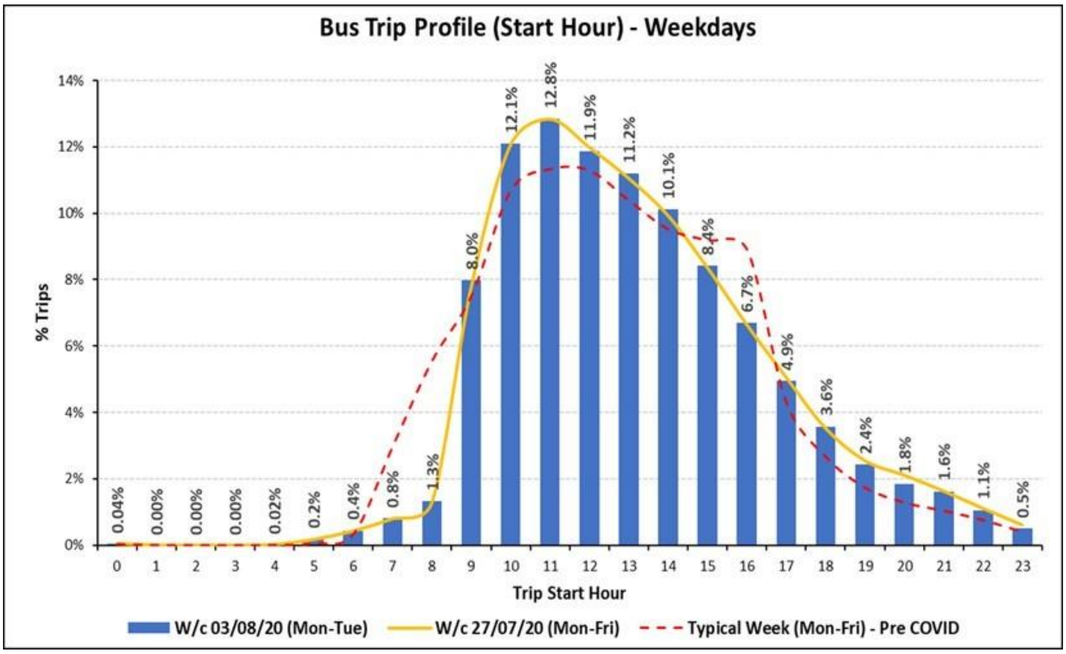
Source: TfGM internal data, July 2020

A shift in travel patterns

1.2.7 With more people working from home and a reduction in the use of public transport, there has been a shift in travel patterns across Greater Manchester. At the end of June, overall travel volumes were at around 58% of pre-lockdown levels. Rural and regional towns saw the highest travel volumes, at approximately 65% of pre-lockdown levels. As the use of highways continues to increase, the growth in traffic across Greater Manchester is not consistent. For example, at the beginning of July 2020, Bolton, Oldham, Rochdale and Wigan had traffic levels closest to pre-Covid-19 figures, whereas Manchester, Trafford and Salford remained significantly lower.

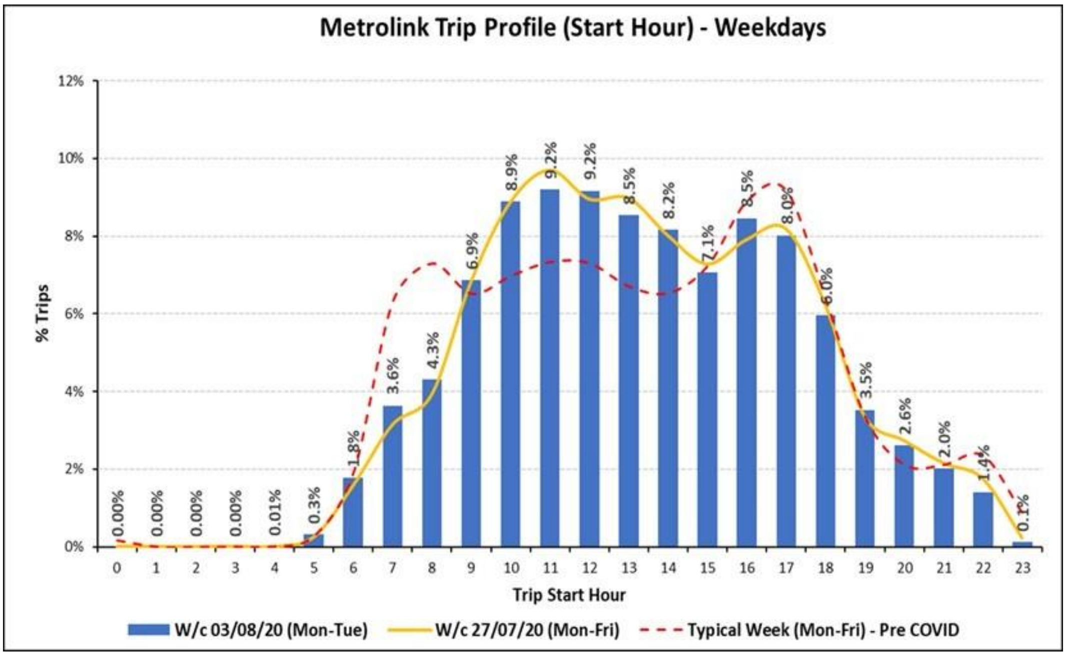
1.2.8 As a reflection of the change in working patterns, there has also been a shift in road traffic profile. The beginning of July saw a 35% decrease in traffic compared with typical levels, in the AM peak, whilst the interpeak and the PM peak saw only a 10% below-typical reduction. Patronage on buses and Metrolink at the beginning of July was significantly below average during the peak periods although they saw an increase in the interpeak period. Stagecoach note that their busiest times are now daily between 11:00 and 14:30 (Stagecoachbus.com, August 2020). As can be seen in Chart 4 and Chart 5 below, the trip profile for bus has seen a shift to the right, with a large decrease in the number of trips being made in the AM peak and a larger number of trips being made between 10:00 and 14:00. It should be noted that the 'new' later peak is still seeing fewer passengers than the old peak was. The charts below show a similar change in the trip profile for Metrolink, with a decrease in the percentage of trips between 07:00 and 09:00 and an increase in the percentage of trips made between 10:00 and 14:00, compared with a pre-Covid-19 typical week.

Chart 4: Bus Trip Profile (by journey start hour) - Weekdays



Source: TfGM internal data, August 2020

Chart 5: Metrolink Trip Profile (by journey start hour) - Weekdays



Source: TfGM internal data, August 2020

1.2.9 These changes are likely to reflect a reduction in commuting for work in retail and office employment, particularly in the Regional Centre. It is difficult to predict the extent to which home working will remain popular as restrictions ease, and this pattern will continue. This question is addressed in Section 1.4 (Possible future transport scenarios) on potential future Scenarios.

Government policy

1.2.10 Changes in Government policy associated with Covid-19 has played a significant part in the changes we have seen in the bus market within Greater Manchester. The lockdown was initiated on the 23 March 2020. On 10 May 2020 people unable to work from home were urged to return to work. From 15 June 2020 non-essential shops could re-open and from 4 July 2020, the leisure and hospitality sector re-opened, including museums, cinemas, restaurants and pubs. The beginning of July also saw the two-metre social distancing measure being relaxed to one metre 'plus'. The opening of retail stores on 4 July 2020 led to a significant increase in patronage across public transport. Further relaxations correlate with increases in travel, whilst local lockdowns reduce travel when they are imposed.

1.2.11 On 17 July 2020, the previous national Government guidance issued throughout lockdown of 'work from home if you can and avoid public transport where possible' was relaxed. This meant that anybody could use public transport (but people were still encouraged to consider alternative means of transport where available) and from 1 August 2020, responsibility for working arrangements for employees has been devolved to employers. The onus is now on employers to make decisions about how their employees work. Rail firms are considering three-days-a-week season tickets to entice workers back to the office part-time, and TfN and Northern Rail have launched smart 'flexi' season tickets ready for passengers returning to commuting. Indoor pools and gyms were able to reopen from 25 July 2020.

1.2.12 Public transport has relied heavily on Government subsidy in order to continue to operate effectively, as the reduction in patronage has significantly reduced revenues. Concession payments have been maintained based on previous assessments. The Covid-19 Bus Services Support Grant (CBSSG) provided an additional £167m temporary funding for the bus industry, in addition to the increased amounts of Bus Service Operator Grant (BSOG) to pre-Covid-19 levels, with Greater Manchester receiving c. £3.5m of CBSSG per month from the start of the grant in March to June 2020. The CBSSG Restart has since replaced the CBSSG. The scheme will be subject to monthly reviews by the DfT and the Treasury. This uncertainty is reflected in the Scenarios for the potential future of the bus service.

1.3 Summary of current UK market intelligence

Operator performance before Covid-19

1.3.1 Prior to the Covid-19 pandemic, bus operators were experiencing some positive performances in the year (2020), with increases in like-for-like passenger revenue seen across several operators, although First and Stagecoach reported reduced passenger numbers at UK level. Although the bus industry has received strong support from the Government, operators have still experienced financial difficulties due to Covid-19 and have responded to the future uncertainty on levels of revenue.

Operators in Greater Manchester since Covid-19

1.3.2 The Confederation of Passenger Transport, which represents bus operators, has pointed to the potential effects on the industry of Covid-19 and the reduction in patronage that we have seen. They have said: "*Continued social distancing measures mean capacity on buses remains reduced, and income from passenger fares is still significantly lower than normal. This latest funding will help us keep running a comprehensive bus network that millions of people rely on*".

First Group

1.3.3 First's results for the year ending 31 March 2020 were published on 8 July 2020. The results show that First had an operating profit of £256.8m, a statutory pre-tax loss of £299.6m, and a £324.6m loss after tax. The statutory loss was predominantly due to several non-GAAP adjustments, which are not subject to audit in the UK. However, they are regulated by the SEC and hence, included in the Group accounts. They measure large, unusual or nonrecurring transactions that have occurred in the year – such as losses on onerous contracts, an over-hedge on fuel, significant impairment of their Greyhound business, large provisions put in place for North American insurance and significant restructuring and reorganisation costs.

1.3.4 Their net cash flow for the year was £98.5m, with a net cash increase across the Group of £149.1m before foreign exchange movements were taken into account. Group cash reserves at the year-end were £692.9m. Since the year-end, Group liquidity has increased with c. £850m in committed, undrawn headroom plus free cash at the end of June 2020.

1.3.5 With all of the above taken into account, First still consider themselves to be a going concern, with which the auditors of their annual accounts have agreed.

1.3.6 On 19 March 2020, the Group signed a new £250m bank bridge facility for the refinancing of the next bond maturity in April 2021. The Group also have access to a £150m accordion feature on the revolving bank facility and other leasing facilities, which are currently unutilised as at July 2020. They outline actions that have been taken to reduce operating expenditure. They also state that future capital expenditure orders are on hold and they are managing existing commitments accordingly, and they are increasing utilisation of lease financing where appropriate. They also confirmed that they have agreed to supplier financing arrangements of >£100m and £75m in new vehicle leasing facilities. The Group have set up a commercial paper programme to access the UK Covid-19 Corporate Finance Facility scheme. Other actions taken, as noted in their annual report, include decisive management actions comprising a range of salary deferrals and sacrifice; hiring freezes; and halting of consultant and contract labour where possible across the Group.

1.3.7 In a trading update on 15 September, First reported stronger than expected financial performance during the pandemic, driven by better revenue recovery and strong cost control. It had c.£850m in committed undrawn liquidity.

1.3.8 On 9 November 2020, First stated that it was confident that it would comfortably meet covenant tests for its 30 September 2020 Half Year, and that the balance sheet was robust in a range of downside scenarios. However, it has prudently agreed covenant amendments with its lenders for the next 12 months to provide flexibility. In return, First has committed to maintain net debt (including rail ring-fenced cash) of under £2bn and minimum liquidity of £150m.

Go-Ahead

1.3.9 Go-Ahead released its results for the year ending 27 June 2020 on 24 September 2020. The results show an operating profit (pre-exceptional items) of £77.9m, significantly lower than in 2019. Operating profit in the regional bus division was £20.5m, less than half of the 2019 amount, with government support enabling a breakeven position since March 2020. Go-Ahead state that the Integration of Go North West impacted pre-COVID-19 profits in regional bus.

1.3.10 The Group reported they have a robust balance sheet, with adjusted net debt to EBITDA of

1.96x, within its target range and well below its 3.5x banking covenant. There was unrestricted cash and unutilised facilities of c. £230m at the year end, which had increased to c. £240m by September 2020. There are no debt maturities ahead of 2024. They have a strong balance sheet and good liquidity with adjusted net debt of £306.4m as at 28 December 2019.

1.3.11 Through a combination of available headroom via their committed facilities, management action and 90% of their revenue being secured through contracts with no revenue risk, the Group believes it is well placed to withstand the challenges the pandemic presents. Management action included use of the UK government’s Job Retention Scheme, optimising service provision to match demand, restricting capital expenditure and operating expenditure where possible.

1.3.12 Go-Ahead also suspended the proposed interim dividend of 30.17 pence per share (amounting to a saving of £13m), announced on 12 March 2020, and will not pay a final dividend.

Rotala plc

1.3.13 Rotala released a trading update on the 16 November 2020 on its business and the likely impact on trading results for the year ending 30 November 2020. Since mid-March 2020, the Company has concentrated on aligning bus services with local requirements, reducing the costs of operation where possible and conserving cash. Cash flow has been positive since the beginning of May 2020 and is expected to remain so for the foreseeable future.

1.3.14 The provision of the CBSSG and other UK Government support measures means there is an expectation that the company will make neither a profit nor a loss at the normalised level for the second half of FY20. The financial and operational performance of Rotala throughout COVID-19 has been underpinned by Government support. Currently, these support measures encompass a specific grant ("CBSSG Restart") and the maintenance of the Bus Services Operator's Grant, concessionary fares re-imbursements and payments for contracted bus services broadly at their pre-COVID-19 levels.

1.3.15 Rotala announced revenues of £35.5m in their half year results (6-month period ending 31 May 2020) and a gross profit of £5.0m (14.2% gross profit margin). HSBC, the Company’s bankers have extended their overdraft facility and there has been no necessity to utilise any of the Government Load schemes.

1.3.16 The trading update set out that Rotala’s service delivery and reliability levels have improved throughout the crisis. The Board is therefore confident that operationally the company is in good shape, well able to meet the challenges and capture the opportunities that lie beyond the end of the COVID-19 crisis.

Stagecoach

1.3.17 Stagecoach released the preliminary results for the year ended 2 May 2020 on 22 July 2020. The results show that the Stagecoach had an operating profit of £119.7m for the year (2019 to 2020), down from £180.9m in the previous year. A significant proportion of the reduction in operating profit was due to the effects of Covid-19 in the last two months of the financial year. They had a reported profit after tax of £36.1m, showing they were still able to remain profitable thanks to strong performance in the first 10 months of the year.

1.3.18 Like-for-like revenue from their UK regional bus operations was down 3.8% year-on-year, with operating profit for these operations down 22.6% year-on-year from £117m to £90.6m. They note that like-for-like revenue growth was positive in the period leading up to Covid-19.

1.3.19 Stagecoach highlight that they have substantial available liquidity to navigate through the Covid-19 pandemic, with over £800m of undrawn, committed, bank facilities and available cash/deposits, which they argue should enable them to navigate the Covid-19 pandemic. In May 2020, they issued £300m of commercial paper as an eligible issuer under the UK Government and Bank of England's Covid-19 Corporate Financing Facility. In June 2020, they took the precautionary measure of agreeing to covenant waivers on the £325m of new bank facilities they had for the years ending 31 October 2020 and 1 May 2021. On the 16 November 2020, Stagecoach confirmed these waivers had been extended to 30 October 2021.

1.3.20 Stagecoach state in their preliminary results that no new non-essential capital commitments are being made and non-essential discretionary operating expenditure has been stopped, and no new business acquisitions are currently being considered. They have frozen all but essential recruitment of new staff, and Stagecoach's directors sacrificed 50% of their salaries/fees for a period of time, and there will be no 2019/20 director or management bonuses. The Group reported it unlikely they will propose any further dividends in respect of the year ending 2 May 2020.

1.3.21 Stagecoach released a Trading Update on 9 October 2020 where it confirmed it still had available liquidity of over £800m. Stagecoach note that passenger demand in deregulated bus had returned to 50-60% of prior year levels, with over 93% of prior year mileage operated. However, Stagecoach note that recent increased restrictions, even before the latest lockdown measures, would reduce passenger demand in the short term. Stagecoach is reliant on government funding support to avoid significant operating losses.

Effects of Covid-19 on SME operators in Greater Manchester

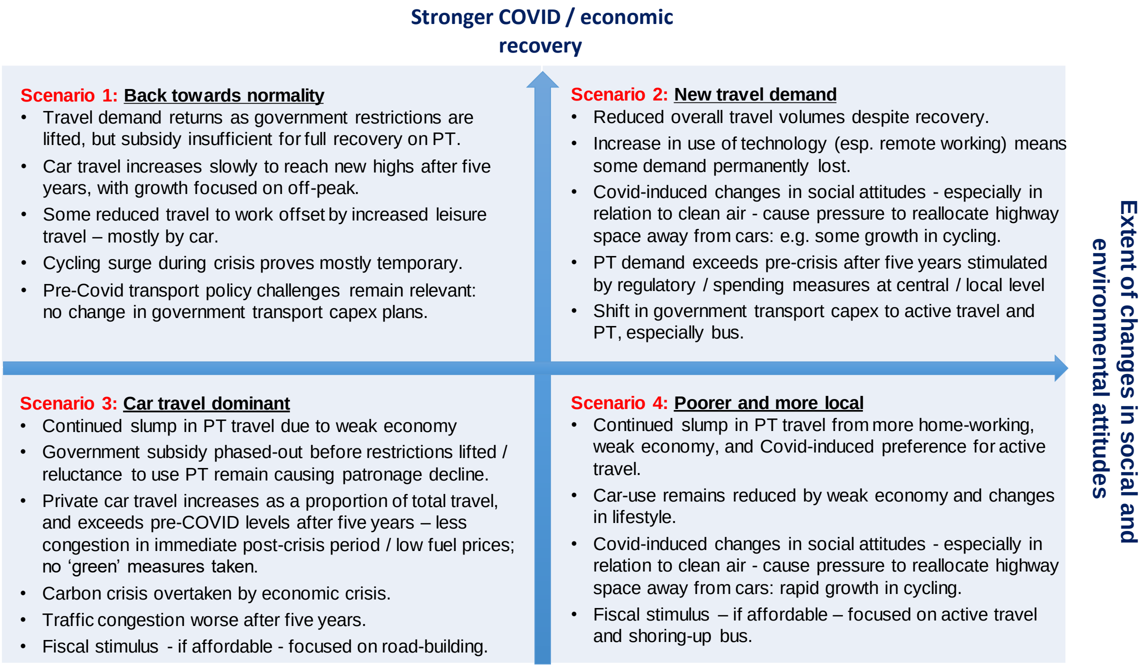
1.3.22 Based on the above information on operator performance during Covid-19, and the measures they have had to take in response which have significantly affected their business, it is clear there are significant challenges in the market presented by Covid-19, and that Government support has played an essential role in supporting operators during this time so that they are able to continue providing bus services across the UK. Whilst there does not appear to be an immediate threat to the operations in Greater Manchester, thanks mostly to the Government subsidies being received, there could be a risk in the future, particularly when these subsidies begin to be reduced or withdrawn.

1.4 Possible future transport Scenarios

1.4.1 The transport market in Greater Manchester is in a state of disruption from Covid-19. To enable consideration of the potential impact and effects of Covid-19, it is necessary to take account of the fact that the current situation carries a great deal of uncertainty that was not foreseen in the Assessment. There is a range of potential outcomes for the transport system in Greater Manchester as a result of Covid-19 both in terms of how patronage evolves and what problems and issues are caused. To help make informed decisions across different aspects of travel (not just bus reform), TfGM have taken a scenario-based approach, looking forward to 2026 (when it might be assumed that any longer-term effects of Covid-19 would have run their course), considering potential future outcomes with different characteristics. The use of such scenarios enables the key conclusions of the Assessment to be tested by reference to such potential outcomes to see whether the uncertainty associated with Covid-19 may make a material difference to those conclusions.

1.4.2 The scenarios chosen are intended to reflect the key drivers of likely public transport use, including bus patronage, over this period: the progress of the pandemic, social distancing and other rules in place, its economic effects, and any knock-on effects on the attitudes to environmental measures and sustainable transport among the public and in government. Whilst there are many factors, to give a useful range of outcomes, the scenarios were considered as the product of two important trends: (i) the pace and nature of the economic recovery, and the associated employment and travel that would occur; and (ii) the social attitudes to public transport and employment (for instance, where people choose or are able to work). This provides four potential futures (otherwise referred to in this report as the 'Scenarios') which are characterised by different social and economic circumstances, and which are likely to have different outcomes in terms of bus patronage.

Figure 1: Grid of the four recovery Scenarios and their underlying drivers



Potential Impacts on the bus market

Scenario 1 : Back towards normality

1.4.3 There would involve a reduction in operated mileage. This is unlikely to be restricted to reductions in frequency and at this scale may see operators taking out entire routes because they are less profitable than previously. Second-order effects from network reduction could be significant as there would be further potential losses of patronage from the service.

1.4.4 Fares may be in danger of rising more quickly than anticipated if operators face financial difficulty as a result of reduced patronage. This would have a knock-on effect on patronage.

1.4.5 There could be fragmentation of the market – patronage reductions at this scale could cause some operators to exit the market or to reduce operations drastically. Other operators may come into the market if gaps appear, which would result in a more fragmented market than now, and a more fragmented situation in terms of fares and network, as well as customer service.

1.4.6 There is likely to be less investment in the market by operators because of reduced farebox. This would affect the age and environmental performance of the fleet, which may not improve as new vehicles are not brought into the market. There would also be less potential for transformative change, such as electrification.

Scenario 2 : New travel demand

1.4.7 There may be some reduction in operated mileage and services during the recovery period whilst patronage remains below pre-Covid-19 levels. As patronage returns (and with support for the bus service during this period), it is assumed that operators would maintain or improve services and increase the operated mileage run.

1.4.8 Fares are not anticipated to rise faster than the current assumption on fare rises. Support for bus services could include fares under a franchised market. In a commercial market, other factors might enable operators to keep fares lower.

1.4.9 The potential downsides of market exit and fragmentation would be avoided under this Scenario. Operators may have the ability to invest in services and also other aspects of the service such as fleet, reducing the average age.

Scenario 3 : Car travel dominant

1.4.10 The loss of patronage would inevitably result in a dramatic loss of operated mileage and a very different bus service to the one that Greater Manchester currently enjoys. Whilst a great deal of commercially run operated mileage has been lost in the last decade, such a downturn would mean a large number of routes disappearing, as well as frequency changes. A ‘core’ network on some corridors would remain, but large numbers of people would lose easy access to bus services.

1.4.11 In these circumstances, it is not clear that the subsidised portion of the network would easily be able to adapt (or have the funding to maintain even its current level of support). The publicly supported network would not be able to maintain the coherence of the overall network in the face of such extensive cuts.

1.4.12 A smaller network could see higher-than-anticipated fare rises.

1.4.13 It is likely there would be market exit and change because of the low level of patronage anticipated, leading to a more fragmented market than currently exists. There is likely to be a period of instability in the market, followed by a ‘new normal’ at a lower level of patronage. This ‘new normal’ could see new operators enter the market, or more aggressive behaviour in the market being adopted by operators as the status quo is removed.

1.4.14 Investment plans are likely to be put on hold, and the quality of buses and the overall service would be likely to reduce.

1.4.15 Mode shift could become permanent as passengers turn to other modes of transport, exacerbating the problems of congestion. It would be harder in future years to recover the bus market to previous levels.

1.4.16 There could be social effects as people would be cut off from travel options – restricting access to healthcare, education, and employment opportunities.

Scenario 4 : Poorer and more local

1.4.17 There would be a reduction in mileage, as with Scenario 1. This is unlikely to be restricted to reductions in frequency, but at this scale may see operators taking out entire routes because they are less profitable than previously. Second-order effects from network reduction could be significant as there would be further potential losses of patronage from the service.

1.4.18 Fares may be in danger of rising more quickly than anticipated if operators face financial difficulty as a result of reduced patronage.

1.4.19 There could be fragmentation of the market – while patronage reductions are less than Scenario 1, this could still cause some operators to exit the market or reduce operations drastically. Other operators may come into the market if gaps appear, which would result in a more fragmented market than is currently the case, and a more fragmented situation in terms of fares and network, as well as customer service.

1.4.20 There is likely to be less investment in the market because of reduced farebox. This would affect the age and environmental performance of the fleet, which may not improve as new vehicles are not brought into the market. There would also be less potential for transformative change, such as electrification.

Current status

1.4.21 The Scenarios were originally devised in May and June of 2020. Assumptions were then made about how each Scenario might develop in the first 18 months and then in the five years thereafter, and numbers were ascribed to each Scenario in terms of patronage after 6 months and at those dates. The numbers were not modelled from a set of quantified inputs but were devised to fit the Scenarios and to help to understand of what a range of outcomes could look like. They were expressed as a percentage of pre-Covid-19 demand that would be reached at 18 months and 78 months from March 2020.

1.4.22 Since the Scenarios were formulated, assumptions about how circumstances might initially evolve in each scenario have in some cases, unsurprisingly, been shown not to be the case. The initial stages of the Covid-19 pandemic and the economic and social changes that have started to play out have also provided some information on which to base a judgement about the likelihood of the different scenarios materialising. For example:

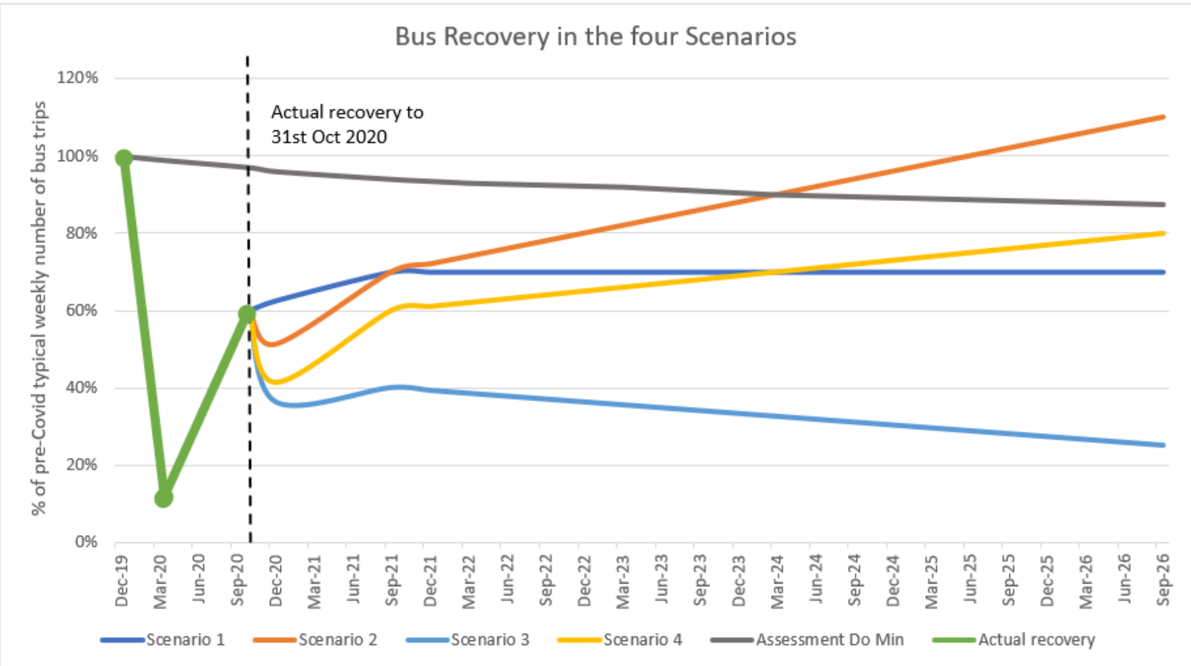
- Restrictions have been lifted when the advice suggested they should be, and restrictions on public transport have been appropriate and not reduced capacity so that the service was unviable. However, a new national lockdown is in place and some restrictions are likely to continue thereafter.
- There have not been dramatic macro-economic changes – sterling remains relatively stable, global trade has been maintained, and both inflation and borrowing rates remain low. The Bank of England has followed an expansionist monetary policy (e.g. early November announcement of a £150bn monetary stimulus).
- A return to workplaces was encouraged by the Government in the summer, although the recent lockdown means that those who are able to work from home are encouraged to do so.
- There has not been a large-scale change in the attitudes to environmental measures or sustainable transport. Whilst there was an increase in cycling, the return of car travel has meant that this is not necessarily going to be sustained.

- There does not seem to have been a widespread continued aversion to public transport following the easing of restrictions, particularly bus.
- Subsidy to public transport has been maintained during the crisis from both central and local government. There is no sign that this will be prematurely removed.

1.4.23 Bus patronage had recovered to approximately 60% of pre-Covid-19 levels before the second national lockdown was introduced on 4 November. This happened even though parts of Greater Manchester remained in local lockdown. The recovery in bus patronage was greater than had been anticipated earlier in all the Scenarios. However, the UK is now in the second phase of national lockdown which is likely to dampen bus demand once more and create more uncertainty (although schools will remain open and other aspects of the lockdown are less severe than previously).

1.4.24 Chart 6 below shows the level of recovery to 31 October 2020 and sets out the projections of the typical weekly number of bus trips for the four different Scenarios outlined above, when they were developed in May and June of 2020. It shows that initially, the bus market decreased to c. 25% of pre-Covid-19 levels under all scenarios, and then the varying degrees of recovery are shown across the Scenarios. Scenario 3 assumes a significant permanent decline in the bus market by 2026, whilst Scenario 1 and Scenario 4 show some recovery towards pre-Covid-19 levels of between 70%-80%, whereas Scenario 2 shows the market recovering and exceeding pre-Covid-19 levels (to c. 110%).

Chart 6: Actual bus recovery, bus recovery under the four Scenarios, and the forecast decline in patronage from the Assessment



1.4.25 As noted above, there have been developments since these projections were developed and some of the original assumptions upon which each of the Scenarios might develop have, unsurprisingly, not proved correct and some in future will, also unsurprisingly, prove not to be the case. The projections in the Scenarios are nonetheless useful for the purpose of testing the impact of Covid-19 on the appraisal of options in the Assessment. They represent the range of future outcomes that could still come from the interaction of the long-term drivers – the strength of the economic recovery and the attitudes to public transport among decision-makers and the public. It is still possible (though less likely) that there will be a trajectory derived from Scenario 2, as Greater Manchester looks to ‘build it back better’; a down side scenario, Scenario 3, with a more dramatic loss of patronage reflecting a weaker economy and less support for public transport (though again less likely); a scenario, Scenario 1, where a recovering economy leads ‘back toward normality’ but patronage still falls short of where it would have been; and a ‘poorer and more local’ future, Scenario 4, where the economy does not recover strongly but there are more local and public transport journeys. As the key drivers of the four Scenarios take effect over the medium and longer term, these different futures will all remain possible for a while, though their relative likelihood will change.

1.4.26 The recovery of bus by the end of October 2020 (bus has shown it can rebound quickly following restrictions being lifted and it has rebounded more strongly than light and heavy rail modes that support more travel to the regional centre) and the continued support for public transport in policy and monetary terms mean that Scenario 3 now looks far less likely to occur. Also, there is no sense that the Government are not still committed to support for public transport and also the wider economy through schemes such as the furlough scheme. By the same token, the lack of evidence of a sustained change in attitudes to sustainability means that Scenario 2 (showing an increase in bus patronage and all modes of sustainable transport) may also be less likely to occur. These two Scenarios (and particularly the dramatic loss of patronage in Scenario 3) can now be seen as more likely to be outliers, and less likely to occur.

1.4.27 The economy has so far shown the ability to bounce back from the first downturn, but there are headwinds in terms of the potential for further lockdowns and restrictions. There is also continued uncertainty about the nature of the arrangements with the EU following the end of the transition period. It is still therefore possible that a future that looks more like Scenario 4 than Scenario 1 will occur, with a poorer Greater Manchester emerging and a greater impact on bus patronage than in Scenario 1.

1.4.28 Not all of these potential Scenarios, therefore, are equally likely, but it is helpful for decision-makers to be aware of a broad range of possible outcomes as to what the market may look like in the future. By covering such a wide range of outcomes that could occur, it is considered that the actual outcome would be extremely unlikely to fall outside of this range. Decision-makers need to be aware that they could be working in the context of an outcome that looks like one of these Scenarios or one that lies between them. None of these Scenarios is likely to be exactly what happens to travel and the bus network, but they each help to illustrate the range of potential outcomes that exist. Whilst the future is unlikely to look exactly like any one of the Scenarios, this is a way of making tangible an analysis from a position of uncertainty and also of making better judgements about what type of future is more likely to occur.

Conclusion

1.4.29 It is unlikely that events will unfold as set out in any of the individual Scenarios. Whilst each of the four Scenarios is not equally likely to occur, they represent a range of outcomes in the period to 2026 that should be considered when looking at the decision of whether to franchise bus services in Greater Manchester.

1.4.30 Thus far, the Government has supported the public transport sector and ensured that bus and rail services can continue running, irrespective of market structure. As noted above, the CBSSG Restart grant has been extended so long as bus operators claiming the money from the Government are able to provide assurance that they will increase services to 100% of pre-Covid-19 levels. This will continue to be reviewed by the DfT and the Treasury on a monthly basis.

1.4.31 As set out above, this means that something like Scenario 3, where a more severe economic downturn is combined with a withdrawal of support for public transport, is probably less likely to occur than other potential outcomes. However, even the more modest reductions in patronage in Scenarios 1 and 4 would have serious effects on the bus service. By comparison, Greater Manchester has seen a roughly 15% reduction in patronage in the past decade, and higher levels of reduction in commercial mileage run as a result.

1.4.32 Apart from in Scenario 2, where the service is able to improve, the outcome of the Scenarios would be a weakened bus service in Greater Manchester, particularly by comparison with more expensive modes of travel such as the car. Such an outcome would have damaging effects on access to education, employment and services for poorer people. The greater this effect, the more it would damage people’s life chances and make GMCA’s objectives for Greater Manchester harder to achieve.

2. Strategic Case

2.1.1 This section considers the effects of the Covid-19 pandemic on the Strategic Case for bus reform, and the conclusion of the Assessment that the preferred option would be the Proposed Franchising Scheme. It contains the following sections:

- A review of the impact of Covid-19 on challenges faced by the bus market in Greater Manchester
- Consideration of new challenges faced by the bus market as a result of Covid-19
- A review of GMCA's objectives for the bus network
- A revisit of the interventions considered in the Assessment
- Intervention performance against GMCA's objectives
- Cross-boundary services and neighbouring authorities
- The effects of Covid-19 on Phase 2 interventions

2.2 Challenges to the market

2.2.1 The Assessment set out some of the challenges faced by the bus market, both from the social, economic and technological trends external to the market and from how the market itself operates. TfGM's Consultation Report concluded that despite some challenges from incumbent operators, the nature of the challenges as described in the Assessment was accurate.

Challenges for the Bus Network from External Trends

2.2.2 In the Assessment, there were several challenges noted for the bus market in Greater Manchester:

- An overall trend toward fewer trips. Covid-19 and the reaction to it will give this challenge greater impetus. Some of the components of this – greater online shopping and working from home, drive some of the trends in the Scenarios set out in Section 1.4 (Possible future transport scenarios).
- Challenges from technology, the most notable of which is demand-responsive transport (DRT): these challenges remain, and any preference for 'private' transport, as opposed to multi-occupancy vehicles, may see some increase in the use of taxis. As before, it is difficult to predict how the benefits and risks of new technology will affect the bus service in the future. As well as risks from rival modes (e.g. taxi) there could be benefits. For instance, 'Mobility as a Service' (MaaS) offerings, combining different transport modes as part of a personalised offering to passengers, could still strengthen a public transport offering.
- Increases in car ownership reduce bus use. Trends in car ownership are uncertain. Whilst it is correlated with income and therefore might be expected to reduce below the trends assumed in the Assessment, some people may be more motivated to use a car rather than public transport.
- Shifts in competing modes have also had an effect, and the Assessment noted the significant growth in the Metrolink of light rail service. The Consultation Report,

however, rejected the idea that this was responsible for the decline on bus patronage over the past decade. Metrolink is likely to be affected in a similar way to bus services by the Covid-19 pandemic. The figures set out above in Section 1.2 (What has happened in the Greater Manchester bus market), Chart 2, of this report suggest Metrolink has been more affected than bus services, potentially because of its role for commuters in the regional centre, many of whom now work from home. It is unlikely in any of the Scenarios that the effects on Metrolink and other public transport modes would be significantly different.

- Road congestion makes car travel less attractive but also affects bus speeds. Congestion has currently reduced because of reduced traffic. There is the possibility (particularly under Scenarios 1 and 3) that greater car use will exacerbate congestion and hence make bus services less attractive.

2.2.3 Following the Covid-19 pandemic, each of these challenges is still relevant and applies to the Greater Manchester bus network. In some areas, such as taxi travel enabled by technology, these challenges are made more serious by the Covid-19 pandemic, in addition to the direct challenges of Covid-19 itself.

Challenges from the Functioning of the Bus Market

2.2.4 These challenges to the bus market in Greater Manchester come from whether there are features of how the Greater Manchester bus market functions that could be improved. They could be considered 'supply-side' issues that affect how the service is provided, and they affect the nature, quality and price of the service that passengers receive.

Competition in Greater Manchester's bus market

2.2.5 The Assessment set out the reasons why bus services tend to exhibit limited competition and an analysis of competition in Greater Manchester. It acknowledged the potential for increased competition because of the sale of some of First Manchester's operations. Whilst there were challenges to this analysis, TfGM's Consultation Report concluded that the Assessment was right to say that there was limited competition in Greater Manchester.

2.2.6 The Covid-19 pandemic has reduced bus mileage and has potentially reduced the ability of bus operators to engage in active competition for passengers, with a greater proportion of their income coming from either central or local government. Operators are obliged to consult with local transport authorities to help define those parts of their network which they would expect to run. As bus services are supported by Government funding and an agreement over which services should be run, there is little space for active competition between operators. Later in the recovery period, competition may return to the market as Government support reduces. As this happens, there may be some risks of operators competing for the same passengers in a more concentrated market and not maintaining support for the wider network. At the same time, some of the dis-benefits of a lack of coordination may continue.

Limited competition and the cost of travel

2.2.7 The cost of travel has a major impact on bus patronage, and this effect would be expected to continue. As the Assessment acknowledged, the rise in the relative cost of delivering bus services has also driven cost increases over time. Although the Government has supported bus services in the UK, it is expected that profit margins will reduce as operators cannot make a profit whilst being subsidised. Some firms will be loss-making for a period. This is supported by the market intelligence set out above. Under all the Scenarios, it is possible that in the future fares will increase because of the financial position of operators. However, this has not currently happened.

Lack of network integration

2.2.8 Markets, particularly those in industries reliant on networks, can suffer from a lack of coordination. In the bus market, this can occur as a result of competition both within the bus network and between the bus network and other modes.

2.2.9 The Assessment set out how there is potential for inefficiency in network provision from a set of overlapping networks designed to compete with each other, rather than provide the best possible coverage given the potential demand for bus travel. It was noted that the extent of this inefficiency could change over time depending on circumstances, and a reduction in the overall level of service might reduce the levels of duplication and lack of coordination.

2.2.10 The effects of Covid-19 mean that there is currently potentially less inefficiency because the network is publicly supported, in consultation with the local transport authority – GMCA. In the future, there is the potential for this inefficiency to return as demand increases, and Government support becomes less important.

Social and economic externalities

2.2.11 The Assessment notes market failures in terms of externalities applied to bus markets. The providers of the service do not fully capture the benefits of the service. Bus services still provide vitally important travel options for people in Greater Manchester. The Assessment noted that there are benefits to bus as a travel option not captured by the price paid and that there are socially useful services that would not be economical for operators to run. Public authorities support bus services because of this.

2.2.12 The dislocation caused by the Covid-19 pandemic means that this is more the case now than previously. The Government's recognition of this fact underlies the support they have provided for the bus industry. Under all Scenarios, the social and economic need for bus services in Greater Manchester is likely to be greater than can be provided without public support to a larger extent than previously because there are likely to be more people suffering unemployment and the economic effects of Covid-19. In addition, under three of the Scenarios, the pressure on bus services will be greater, leading to the loss or downgrading of services on which people rely.

Complex fares and ticketing

2.2.13 The Assessment concluded that the complexity of the fares and ticketing offer to passengers in Greater Manchester is a barrier to increased bus patronage. The Covid-19 pandemic has not changed the position to an appreciable extent, and the market would not deliver integrated ticketing in a way that it was not before. The underlying legal framework of the market would be the same.

Smart ticketing

2.2.14 Smart ticketing has the potential to make the transport offer easier to navigate for potential passengers and encourage mode shift from car. Greater Manchester does not currently benefit from smart integrated ticketing in the form of a ‘fair price promise’ that would allow passengers access to multi-operator and multi-modal fares without preplanning their travel requirements. The Covid-19 pandemic has not changed this position, and there is little likelihood of any of the Scenarios making a difference to the speed of delivering this. The only exception might be that disruption to the industry under Scenario 3 (an extended downturn in demand) would make this more difficult.

2.2.15 By contrast, electronic means of payment such as EMV or mobile (that are sometimes called ‘smart’) may have become more popular because of the Covid-19 pandemic.

Information

2.2.16 The Assessment concluded that in the Greater Manchester bus market there are a variety of sources of information, and it is often fragmented or incomplete. This partly reflects the lack of integration of fares as rival operators often wish to direct passengers to their own services. The current pandemic and potential future Scenarios are not likely to make an appreciable difference to this.

MaaS and lack of coordination in networks, fares and information

2.2.17 A lack of integration in terms of fares and information can impede efforts to develop MaaS in a positive direction.

2.2.18 This means that as the market is currently configured, new DRT services and other transport innovations are more likely to act in competition with mass transit services such as the bus network. Currently, DRT services have made taxis more attractive and transparent to use, which has provided some level of competition for bus services.

Conclusion: Impact of Covid-19 on the challenges to the bus market

2.2.19 Following the Covid-19 pandemic, each of the challenges set out in the Assessment is still relevant and applies to the Greater Manchester bus network. Several could be exacerbated by Covid-19. Whilst the bus market is currently being subsidised by Government to keep it operational, once this subsidy is reduced and eventually removed, operators may have to impose fare increases as well as reduce less-profitable services to remain viable. The Coronavirus Job Retention Scheme has been extended for a period, but the loss of this may create difficulties for operators if they are not running a full service by the time that finishes, as they may have employees that draw a salary but are not needed to run the service.

2.2.20 The analysis set out in the Assessment and in TfGM’s Consultation Report stands in terms of the challenges facing the market. The internal challenges to the market remain, and in some cases could be exacerbated by dislocation caused to the market. At the same time, it is clear that external challenges to the market are considerable from the effects of the Covid-19 pandemic and the nature of the recovery. Under Scenario 2 there is a potential for an upside for the bus market because of increased patronage, but there are problems in the short term. It is clear that external challenges to the market are exacerbated by the Covid-19 pandemic.

New challenges due to Covid-19

2.2.21 The most immediate and significant challenge in the market is the overall decline in patronage across the bus network, the possible long-term effects of this and whether patronage will ever recover to the level anticipated in the Assessment without the effects of

Covid-19. This represents a challenge for the bus service in Greater Manchester that was not envisaged in the Assessment. Scenario 2 shows an upside for bus patronage where it recovers from an initial drop. Here the challenges noted below remain in the short term, but once an improvement takes hold, this Scenario sees the bus service performing better than envisaged in the Assessment, which forecasts a decline.

2.2.22 Any long-term reduction in patronage due to Covid-19 will have negative impacts across the bus market, including lower revenues from fares and a reduced network to meet less demand. The bus market is currently being heavily subsidised by the Government to fill the funding gap from lower patronage, caused by the reduction in people travelling and also by the social distancing measures in place for those that are still using bus services which limits the capacity of the buses. However, once these subsidies are reduced and eventually removed the overall decline in patronage will become a significant issue for operators to manage. The level of patronage at this point and the timing of this are significant, as there are risks if support is withdrawn early before farebox has recovered fully. Scenario 4 assumes some level of public support for the bus service. The scope of the likely decline in patronage – under Scenario 1 and Scenario 4 – would mean that in the long run, once Government support was withdrawn, operators may need to put up fares or reduce the network on a permanent basis in order to remain viable. The consequences of this would be further losses of patronage. For Scenario 3 the consequences are thought to be worse because of the scale of the loss in patronage, and the fact that under this Scenario public support is withdrawn at a stage that has an impact on the supply side for the bus market and, hence, the recovery.

2.2.23 The reductions in patronage envisaged in three of the Scenarios would mean that the objective for the bus service to provide a share of sustainable transport in Greater Manchester and thus contribute to the target 50% share of non-car modes under the ‘right mix’ would not be met. This would put at risk the social and economic benefits of the transport system in Greater Manchester as increased growth and travel could not be accommodated without increases in congestion and pollution.

2.2.24 There is also now a much more severe lack of certainty in the current market compared with the pre-Covid-19 market. It is not known what the recovery from Covid-19 will look like, both within the local Greater Manchester bus market but also in terms of the wider UK economy and public attitudes. The recovery of the Greater Manchester bus market will heavily depend on what shape the Covid-19 recovery takes. It is entirely plausible that it will return to the levels envisaged in the Assessment in the medium to long-term. However, it is also plausible that there will be a permanent decrease, which could be significant depending on the recovery from Covid-19, not only in bus patronage but also in the use of all local transport due to public health and safety concerns and a long-term shift in public attitudes.

2.2.25 Another significant challenge caused by the economic impact of Covid-19 is that operators are facing a capital renewal challenge. The severe reduction in revenues that accompanied the reduction in patronage meant that many capital programmes were put on hold. Medium to long term reductions in patronage (such as those under Scenarios 1, 3 and 4) would mean that operators may not be in a financial position to renew their capital assets, primarily their buses, but also to improve or replace depots at the same scale and level as previously. This would have knock-on effects in terms of meeting clean-air requirements of a low-emission fleet and would affect how operators can operate within the clean air zone (CAZ) in Greater Manchester once this is implemented. It could also cause a further decline of patronage, as customers value the quality of the buses highly so if the vehicles are not being upgraded or replaced then bus travel will become a less attractive option to passengers, and they may switch to other modes of transport that they deem more comfortable.

The case for change

2.2.26 As the market is still facing the challenges that were facing it pre-Covid-19, the case for change and improvement of the bus service in Greater Manchester remains. The bus market will face great challenges from external factors over the coming months and years. Passengers face the potential under most of the Scenarios of losses to the bus network that will impact their ability to travel, as well as potential for fare increases. This will mean that some people will find it more difficult to access employment, education or essential services.

2.2.27 Some bus services can become unviable when a proportion of passengers cease to use the route or service. If passengers that are able to move onto higher cost modes do so, this means bus services can be reduced. Poorer passengers, who do not have an alternative, would then suffer from a lack of ability to travel.

2.2.28 Under all the Scenarios, the need to intervene in the bus market remains. Under Scenario 2, the most optimistic for bus patronage, including the sustaining of public support for the bus network, the logic of an intervention to address the challenges arising from how the market operates remains. In the less optimistic Scenarios, intervention may be necessary not just to address these challenges but to prevent dislocation and decline and to enable the bus network to play the right sort of role in travel. Whilst Covid-19 does not change some of the key challenges that the bus network faces, the economic dislocation and the need to support a recovery mean it does make more urgent under all scenarios the requirement to ensure that there is a bus network that is able to meet the needs of the people of Greater Manchester.

2.3 GMCA's objectives for the bus network

2.3.1 Given the need for reform remains, changing circumstances may change the conclusions reached in the Assessment and TfGM's Consultation Report on the nature of the appropriate objectives for the bus network. Whilst there are increased threats to the service, it is not necessarily the case that objectives should change. This section considers the continuing validity of the original objectives in light of the impact of Covid-19.

2.3.2 The original set of objectives built upon the overall GMCA objectives for Greater Manchester and the importance of travel for people in Greater Manchester being able to realise those ambitions, as well as the issues faced by the bus service set out above. GMCA's ambition to 'Build Back Better' is relevant because it shows a continuation of GMCA's concerns with the economy, social equality and the environment. There is a particular emphasis on the environment and the need to Build Back Greener.[1]

Network

2.3.3 Under network, the Assessment set out objectives on increasing the reach and accessibility of the network and improving the integration and efficiency of the network. There were also objectives on improving the quality of service provided – such as the reliability and punctuality of services – and the environmental performance in terms of the reduction of harmful emissions and CO2 from the bus fleet in Greater Manchester.

2.3.4 As noted above, the effects of the Covid-19 pandemic are likely to make the achievement of these objectives more difficult but also more important. The reach and accessibility could be

[1] https://www.greatermanchester-ca.gov.uk/news/greater-manchester-gears-up-to-build-back-greener/

further reduced because of Covid-19, and the investment necessary to improve environmental performance could be harder to achieve. Efficiency could be improved by the pandemic, but only because of a reduction in services, and there will be a tipping point where the network becomes too small, and efficiency then begins to decline. Under none of the Scenarios would the objectives for the bus network themselves be different. Whilst the focus on action by GMCA may switch to preserving a bus network from enhancing it and ensuring it is able to achieve the goals to achieve the vision as set out in Greater Manchester's Transport Strategy 2040, the objectives of reach, accessibility and efficiency remain the same.

2.3.5 There is still a need to improve the network across Greater Manchester in line with the objectives laid out in the Assessment, and the emphasis on Build Back Greener gives more importance to the environmental performance of the bus fleet.

Fares and Ticketing

2.3.6 Under fares, objectives including having integrated and simple fares to benefit passengers, fares offering value for money and the speedy introduction of smart ticketing. The context of the Covid-19 pandemic does not change the validity of these objectives. It may change the relative importance of these objectives, as there may be a greater threat to the affordability of the bus service, particularly under Scenario 3, in which broader Government support for the bus service is lessened or withdrawn. The original GMCA objectives for fares and ticketing should still be the objectives of any reform of the bus market.

Customer Service

2.3.7 There were originally three customer service objectives. The first was the ease of understanding of the bus service was improved for its users, which comprised a number of components on the presentation and accuracy of information, branding and coherence of the presentation of the network and contact points for customers. Given the network still presents a fragmented picture, this is still a vitally important objective.

2.3.8 The other two customer service objectives include the improvement of safety of travel, and the on-bus experience, would remain important issues to address under any of the Scenarios of recovery. Whilst Covid-19 has had an effect on the bus experience which will continue whilst the virus is active, the objectives in this area remain valid.

Value for Money

2.3.9 Objectives associated with value for money would not change given the status of the market. The objectives are that any public investment should be value for money (under any market structure), that any intervention is sustainable in the long term and that any intervention is affordable. Clearly, all three of these apply in a post-Covid-19 world, and whatever the direction of the bus market is in the future.

2.4 Options for intervention

Geography of the interventions

2.4.1 The Assessment set out that the geography of the interventions should be Greater Manchester. This was because of the importance of the integration of the transport system in Greater Manchester, both in terms of how the networks and the fares function, in the objectives set out above. Partial reforms would be far less likely to achieve objectives on network and fares important to GMCA. In the response to the consultation, similar points were also made because some proposals were received putting forward ideas for partial partnerships that would apply alongside a smaller franchising scheme. Upon examination, it was felt that these would not work well in terms of network integration, fares, branding or the provision of information. The Covid-19 pandemic has not provided any reason to change these judgements, and it affects all of Greater Manchester, and so the preferred geography of any intervention remains the whole of Greater Manchester. This means that, as set out in Section 7.4.5 (Potential modifications that may be required as a result of Covid-19 – Area) of this report, it remains appropriate for the Proposed Franchising Scheme to apply to the entirety of Greater Manchester.

The Options

2.4.2 The Assessment considered three options as a shortlist – Do Minimum, the Proposed Franchising Scheme and an improved partnership among TfGM and the operators active in Greater Manchester.

Do Minimum

2.4.3 In the Scenarios where the bus network is weakened by lack of patronage following Covid-19, there may be more pressure for GMCA to support more services than is currently the case.

2.4.4 Covid-19 has changed the implications of the Do Minimum for Greater Manchester and the ability of people in Greater Manchester to travel. Under two of the Scenarios, 1 and 4 the bus market fails to recover to previous levels, and there is a further decline in the bus network in Greater Manchester. In Scenario 3 the early withdrawal of Government funding means that patronage and network reductions are so severe as to curtail travel prospects for a large number of people who do not have easy access to other modes of transport such as private cars. Under the Do Minimum, GMCA would continue to support the bus network through subsidised services that are run on a tender basis as is done at present, although funding pressure may lead to some restriction of these services. Subsidised services may also need to shift to gross cost contracts, and TfGM take the revenue risk on those parts of the service as operators would not be willing to take the risk on revenue in a more uncertain world. Under Scenario 3, subsidised services would form a far larger proportion of the total mileage run than currently.

2.4.5 This decline in patronage and associated revenues would lead to difficult choices to be made by operators on routes and frequencies. It is likely that under Scenarios 1 and 4, and more especially under Scenario 3, the viability of a greater number of services would be threatened and thus the choice between filling gaps (e.g. evening and weekend services) and supporting an entire route if that were threatened would be starker. GMCA would also face greater pressure to intervene using current powers and methods to support services that would be regarded as important to people in accessing employment, education and services. Under Scenario 3, the problems caused to the overall transport system by the decline in bus are anticipated to be severe (including increased congestion which would be a constraint on recovery; slower progress on clean air etc.) that would mean that GMCA would need to determine how to respond to this pressure. If GMCA were to make more funding available to support services, this would still be a reactive process that adapted itself around decisions made by private sector operators.

The Proposed Franchising Scheme

2.4.6 Section 8.4 of the Assessment sets out how the Proposed Franchising Scheme would work and what it would deliver. The legislation allows GMCA to specify what bus services it wants to be delivered. Private firms would compete on the basis of price and the quality of their bids to secure a contract to deliver the services. Franchising would thus change the nature of competition in the market from 'on-road' competition, which has resulted in a market characterised by limited competition, to one where there was competition 'for the market' to deliver franchise contracts.

2.4.7 As set out in this report, the Proposed Franchising Scheme would remain substantially the same in terms of how it functions and is implemented. It was always anticipated that there would be a degree of flexibility in terms of how the Proposed Franchising Scheme is run (as was set out in the commercial arrangements described in the Assessment). This report sets out at Section 7.4 (Potential modifications that may be required as a result of Covid-19) how we anticipate that flexibility to work in the light of a potentially faster-changing landscape because of Covid-19. Differences in how the Proposed Franchising Scheme would be able to achieve the objectives of GMCA are set out in Section 2.5 (Intervention performance against the objectives) and compares how the different potential interventions may do so.

Partnership

2.4.8 The Assessment considered two versions of a partnership option. These were referred to as the Operator Proposed Partnership and the Ambitious Partnership in the Assessment. The Ambitious Partnership was considered to illustrate what TfGM believed might be achieved under a partnership, whilst the Operator Proposed Partnership reflected the outcome of operator negotiations over the period autumn 2017 to spring 2019. Following this engagement, it resulted in a 'Consolidated Proposal' being put forward by the operators under the remit of the 'OneBus' organisation, representing various bus operators within Greater Manchester. These discussions led to the drafting of a Voluntary Partnership Agreement (VPA).

2.4.9 As part of their response to the consultation, OneBus, Stagecoach and First all put forward alternative partnership proposals. OneBus submitted their 'Partnership Plus' offer where operators confirmed their preference for a VPA and confirmed they would not want to enter into an Enhanced Partnership Scheme. Stagecoach submitted a 'South Manchester Partnership Proposition' which details their proposal to run a partnership in the South of Manchester alongside franchising in the North of Manchester, should GMCA decide to pursue franchising in the North. First Manchester submitted a letter which set out their proposal to adopt a 'Local Partnership', being a pilot-based approach for both franchising and a partnership in specific but undefined areas of Greater Manchester.

2.4.10 TfGM's Consultation Report found that the Partnership Plus proposal did not represent a significant improvement on the Ambitious Partnership that was considered in the Assessment, offering some measures not considered under the ambitious partnership, but also being less ambitious in other areas. The other partnership proposals from Stagecoach and First were not considered to be superior, especially as they created a set of complex coordination and branding issues associated with having competing franchising and partnership networks.

2.4.11 TfGM have considered the potential impact and effects of Covid-19 on the partnership proposals put forward by operators and whether or not the commitments within these proposals remain valid. Many of the commitments made in the partnership proposals were commitments to undertake further work (e.g. in relation to network reviews). TfGM have no reason to believe that such commitments would not remain in place. However, the outcome of any such work remains uncertain, and this uncertainty is likely to be heightened by the impact that Covid-19 is having on the bus industry as a whole. More specific commitments that were dependent on operator funding or that would likely impact operator margins are considered more uncertain due to the effects on patronage that Covid-19 has had and may continue to have in the medium to long-term.

2.4.12 In order to confirm whether or not the specific commitments within the alternative partnership options put forward by the operators remain valid TfGM wrote to OneBus, Stagecoach and First and invited them to confirm whether, in light of the impact of Covid-19 on the bus market, their proposals remain valid or whether they anticipate any changes being required to the commitments in the proposals, as a result of the impact of Covid-19.

2.4.13 TfGM received replies from OneBus, Stagecoach and First. Rotala also wrote to TfGM to comment on the partnership proposal submitted by OneBus. Those responses are summarised below.

OneBus

2.4.14 OneBus stated that they remain committed to delivering bus reform through partnership and that they still see this as a more viable and faster method than franchising. They also acknowledged that Covid-19 would impact on patronage levels in both the short term and the longer term and that given the current uncertainty, it was "*difficult to appreciate what the new normal will look like and we are keen to continue working with TfGM to rebuild the passenger base once the restrictions and local lockdowns are eased".*

2.4.15 OneBus sent further correspondence on 29 September 2020, following a meeting held between operators. This outlined that their main focus is currently on the short-term issue of CBSSG funding given it is on an eight-week rolling term, and the need to develop a structured plan for when this funding is eventually withdrawn to identify where gaps in the network are likely to occur if patronage has not recovered to pre-Covid-19 levels by this time. They reiterate that they are "*committed to engaging on the development of plans for the improved coordination of commercial and supported services giving the opportunity of better use of the remaining subsidies to maintain the network where it is most needed".*

Rotala

2.4.16 In addition to OneBus' response, Rotala, who are also part of the OneBus Group, sent their own response to TfGM on 7 September 2020. They stated that *"it is currently impossible to say whether the partnership proposal or the Proposed Franchising Scheme, will remain valid as a result of the impact of Covid-19 on the Manchester Bus Market*". They consider it too early in the process of the economic recovery from the lockdown measures and the long-term effects of Covid-19 to be able to decide on intervening in the bus market.

2.4.17 Rotala's overarching message in that letter mirrored that of the OneBus response, being that operators will need more time to see the longer-term effects of Covid-19 on the patronage and the overall economy before being able to make final commitments. On 12 November 2020, Rotala sent a further letter to GMCA which said that *"OneBus intended to undertake a full review of the Partnership Plus proposal once the Country is out of the pandemic (Spring 2021). This will provide opportunity for the bus market to stabilise and will provide operators with an idea of long-term passenger numbers. However, what can be gauged from the very* *low passenger numbers throughout the pandemic is that this proposal has the potential to be radically different"*. However, two responses are contradictory because, as set out above, OneBus believed that their Partnership Plus "still stands". This response shows that there are currently no commitments from operators on a partnership. Some commitments may emerge later in 2021, although whether they will do so and what they will be remains uncertain.

Stagecoach

2.4.18 Stagecoach stated that they are supportive of GMCA's ambition to deliver an improved, more sustainable bus network and that they "*continue to believe that our Partnership Proposal represented a compelling alternative to TfGM's Proposed Franchising Scheme option*".

2.4.19 Stagecoach then go on to confirm that due to the impacts of Covid-19 on the bus network and wider economy, a number of elements of their proposal are unlikely to be economically or commercially viable at this time, but much of their proposal, particularly any elements not directly driven by passenger demand such as the implementation of Network Planning and Performance initiatives and traffic and congestion management, still remain valid. This mirrors the point made by OneBus, where proposals that relied on previous and/or increases to passenger demand are likely to be impacted by Covid-19 and would need to be revised.

2.4.20 Stagecoach also confirmed that they are not in a position to offer a fully developed alternative proposal at the time of writing and reserved their position until they knew more about the '*reassessment process*' that they believed TfGM were now undertaking. It should be noted that at no point has GMCA or TfGM indicated that it is undertaking a new assessment (in the context of the Act) and TfGM responded to Stagecoach on 18 September 2020 to clarify that the purpose of this report was simply to consider the potential impact and effects of Covid-19 on the work already undertaken by TfGM and GMCA. This including looking back at the findings of the Assessment and consultation, and at no stage have TfGM or GMCA indicated that a new assessment, in the context of what is required under the Act, was being prepared at this stage.

First

2.4.21 First stated in their response that they "*still believe that in principle, the local partnership offer for Oldham remains valid"*. First also comment that "*it is yet unknown as to how long it will take for patronage to return to a level which is commensurate with the commercial operation of the business*", which reflects the comments made by the other operators above that it will take more time to assess the long-term impacts on patronage before they can make any firm commitments.

2.4.22 First also note that "the *key challenge is the longer-term commitment to capital funding for fleet renewal – something which is common across the industry*". Whilst this has not been directly expressed by OneBus, TfGM have considered that Covid-19 is likely to impact on any commitments in the Operator Proposed Partnership relating to capital expenditure as the pandemic has affected operator's liquidity and capital position. First go on to state that "*in that context, we would wish to work in partnership with TfGM to secure whatever Government funding is available to kickstart fleet and decarbonisation improvements".*

2.4.23 First conclude by stating that "*we believe that we can continue with the partnership approach and this will expedite improvements to the bus network in what are otherwise very difficult external circumstances, and which will inevitably take much longer if a more* *regulated, and therefore disruptive, approach is adopte*d".

Conclusion

2.4.24 The original Assessment looked at two partnership options – one based on the proposals put forward by operators (the 'Operators Proposed Partnership') and one where a potential more ambitious partnership was set out (the 'Ambitious Partnership'). In the response to the consultation, the various new partnership proposals, whilst representing an improvement on the Operator Proposed Partnership, were not judged to be superior to the Ambitious Partnership. TfGM have considered what impact Covid-19 may have on the partnership offers above, and these responses received from operators have been a helpful addition to this analysis. As outlined throughout this report, TfGM recognises that there are significant challenges in the Greater Manchester bus market due to Covid-19, and that these challenges will inevitably have an effect on what operators are able to commit to in their partnership proposals. The responses received from OneBus, Rotala, Stagecoach and First indicate that any revenue-related commitments made in the partnership proposals cannot now be relied upon in light of Covid-19.

2.4.25 In their recent correspondence, operators did not specifically refer to their commitment to a potential for a freeze in the price of a multi-operator ticket. Given the likely cost of this commitment, it is reasonable to assume that this (along with other commitments involving spending, such as accelerated fleet renewal) might be at greater risk than some of the other commitments. The nature of commitments to asset renewal under Partnership Plus, relating to both their commitment to provide thirty extra vehicles during the period of the partnership and also to transition their fleet to greener vehicles, were not binding on operators and so were not considered to be of great benefit to Greater Manchester. It is likely that one result of the Covid-19 pandemic has been to delay investment plans, and this may affect operators' ability to invest in new vehicles. This is supported by the various public statements on suspending or deferring capital investment in the short and medium term that operators have made in light of the Covid-19 situation.

2.4.26 In conclusion, based on the responses received, it is highly unlikely that operators would still be able to commit to all of the commitments outlined in their partnership proposals received in response to the consultation. This means that for the partnership that can be currently envisaged, it would be likely to achieve less than the ambitious partnership set out in the Assessment, and maybe less than the Operator Proposed Partnership, which included a freeze in the all-operator ticket price. It may be that, at some point in the future, operators might be able to coalesce around a partnership offer with some substantial commitments that could be assessed. It is not clear when that might be and, as the effects of Covid-19 on operators may last longer than the pandemic itself or social distancing restrictions, it may be some time. It would not be appropriate to wait for a renewed partnership proposal as they may never come together to make such a proposal.

2.5 Intervention performance against the objectives

2.5.1 This section sets out how the Covid-19 pandemic may affect the relative performance of the different options considered by TfGM in the Assessment against GMCA's objectives. It does not aim to repeat previous analysis but to set out where the pandemic may change the conclusions that were arrived at. The 13 objectives are summarised, and points made in the context of the Do Minimum, the Proposed Franchising Scheme and the partnership options.

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.

Do Minimum

2.5.2 The reach and stability of the network would suffer reductions in two out of the four Scenarios (Scenarios 1 and 4) and be curtailed to a great extent under Scenario 3. In Scenario 2, it would be negatively affected for a period of time before returning with the bus network playing a strong role in Greater Manchester's future. In particular the objective of a comprehensive network would suffer, and the shift in patronage and reach would mean that stability would also suffer. Under Scenario 3, the network would potential be reduced to a smaller core and become very unstable for a period of time. In Scenario 2, it would be negatively affected for a period of time before returning with the bus network playing a strong role in Greater Manchester's future, and by 2026 would be above the level envisaged in the Do Minimum in the Assessment.

Partnership

2.5.3 In relation to improving the network, OneBus proposed to work with TfGM to perform a systematic review of the network to ensure sufficient deployment of bus resources. A percentage of incremental profits from highway interventions that improve bus services would be used to improve agreed network deficiencies. It is likely that operators and OneBus would still commit to this in order to improve the reach and stability of the bus network. OneBus also proposed that operators would fund the staff needed to operate the refreshed bus network directly from existing revenue and that they would provide 30 extra buses to be used on a mix of 'kickstart' style services and to reinforce the existing network. As set out above, operators cannot now commit to this. These commitments will depend on the financial position of the bus operators and would be dependent on the operators being able to fund these commitments given the reduced revenue as a result in the fall in patronage throughout the Covid-19 outbreak and the dependency of the operators on the Government subsidy currently being provided. This means that a partnership is unlikely to achieve as much as the Ambitious Partnership appraised in the Assessment, and more likely in line with the Operator Proposed Partnership.

Franchising

2.5.4 There would be no changes to the structure of the Proposed Franchising Scheme whereby GMCA specify the network and engage in a network planning process to improve the network gradually. In relation to improving the network, without the constraints of the competitive market on the planning of the network in Greater Manchester as a whole, the network would be planned to maximise the attributes set out in GMCA's objectives, namely to aim for a network that is comprehensive, simple, frequent, direct, stable and responsive.

2.5.5 In the context of the Scenarios for the bus service, some of these trade-offs may become more difficult as the resources available to the service might be reduced. Thus, for Scenarios 1, 3 and 4 the Proposed Franchising Scheme would perform better than a partnership in achieving greater reach and stability of the network because of how the network would be planned and use of resource. This would also be the case in Scenario 2 where the reach and stability of the network could be expanded. In the longer term, franchising would still offer the best opportunity to plan the network so as to achieve these objectives in the best way possible.

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 Greater Manchester network by 2040

Do Minimum

2.5.6 There is unlikely to be any improvement in the efficiency of the bus network under the Do Minimum. It is not clear how the different Scenarios will affect the efficiency of the network. Whilst some reductions in mileage could lead to less 'over-bussing' of some routes, reductions could also lead to a concentration of services on a smaller number of routes, providing less service and opportunities to travel than would be the case if the same resource were distributed differently.

Partnership

2.5.7 Under a partnership, it was noted in the Assessment that the objective of changing the integration of the network and its planning as a single network within a year would not be met. This assumption remains valid for any partnership under the different Scenarios. As noted above, OneBus have proposed working with TfGM to perform a systematic review of the bus network. This has some potential to improve the integration and efficiency of the network, but the limitations discussed within the Assessment remain valid, such that the network would remain composed of multiple networks. Under a partnership, the competing pressures of the different operators within the market and the fact that individual operators will be primarily focused on restoring profitability would make it more difficult to obtain an integrated, efficient single network. Where overall mileage reduces, this can remove some 'over-busing', but there is no guarantee that there would be a more efficient network in the longer term. Operators may still overlap and compete for passengers on key routes whilst other areas lack service. Operators may look to run more services on a smaller number of core routes and abandon other routes.

Franchising

2.5.8 Franchising offers the only opportunity to plan the bus network as a single integrated network rather than competing networks. The current commercial network has reduced because of the impact of Covid-19. This has meant that there has been a reduction in operated mileage and hence less overlap between different networks. It remains to be seen whether in the medium term there will be fewer services run because of reductions in patronage, but this is likely where there are serious reductions in patronage as services could become unviable. Whilst this reduces the current gap in efficiency between the two types of service planning, in the longer term the integrated planning of the bus network will offer greater efficiency than the current market. This means that the best option in terms of integration and efficiency of the network remains the Proposed Franchising Scheme.

3. Quality of service provided
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.

Do Minimum

2.5.9 Under the Do Minimum, reliability and punctuality would be unlikely to see any improvement. The different Scenarios may affect the bus service in different ways – for instance, increased car traffic in Scenarios 1 and 3 would mean potentially less reliable and less punctual services on buses.

Partnership

2.5.10 The context in terms of future Scenarios may well determine congestion levels that affect reliability and punctuality. Such effects – particularly in terms of different amounts of car travel, may well have a greater effect on the quality of the service than the partnership. In terms of those aspects of the service within an operators' control, the commitment in each of the partnerships proposed to introduce a joint process to identify congestion hotspots that could be ameliorated with suitable interventions to increase bus speeds is likely to remain unaffected by the impacts of Covid-19. TfGM would continue to work with operators and find ways to improve congestion, noting that this is dependent upon the funding being available to introduce any identified interventions.

2.5.11 The principles of introducing a performance regime, financial penalties and some form of liquidated damages (set out in OneBus's revised proposals) are likely to remain valid. Though, as set out in the response to the consultation, a positive effect from these measures would depend on how they are calibrated. The impact of such measures on the quality of the service provided will be similar under the different Scenarios.

Franchising

2.5.12 As with partnership, the context for the improvement in reliability and punctuality will be set by the Scenarios and how they affect congestion. As the Proposed Franchising Scheme does not include any further spending on reliability and punctuality, other than as a potential Phase 2 measure, the effects of congestion may have a greater negative effect on individual services (if car travel were to increase in relative popularity, as it does in Scenarios 1 and 3) than the positive effects of the Proposed Franchising Scheme. As before Covid-19, under the Proposed Franchising Scheme operators will need to comply with a compulsory performance regime which would set standards for reliability, punctuality and other aspects of the service. This will help to improve and maintain standards of service and is more likely to lead to continuous improvement than the voluntary arrangements of the partnership.

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 Greater Manchester, with an aim of achieving it by 2024 (the date Greater Manchester 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.

2.5.13 Covid-19 thus puts at risk GMCA's ambitions to improve the environmental performance of Greater Manchester's bus fleet. It also has the effect under most Scenarios of reducing the money available within the bus market to address fleet renewal.

Do Minimum

2.5.14 The Do Minimum would not see any improvement in air quality, whilst some Scenarios may see worse outcomes than currently predicted in the Assessment in this regard. Where patronage and mileage reduce in the Scenarios, fewer new buses are required as a reducing fleet means that older buses reaching the end of their life are not necessarily replaced with new ones, and there is less revenue to support investment. Renewal and improvement of the bus fleet's environmental performance would therefore suffer under Scenarios 1 and 4. Under Scenario 3, which sees extensive reductions in services, there may be very little capacity for fleet renewal, and it is likely firms would have very limited funding for new buses. Under Scenario 2, there would be some interruption in the purchase of vehicles as patronage is likely to dip before rising again. When it picked up, further investment could improve the situation with regard to clean air back toward the Do Minimum trajectory envisaged in the Assessment.

Partnership

2.5.15 Revised OneBus partnership proposals had operators committing to renew their fleets to maintain a seven-year average age with at least 450 new buses over the first three years of the partnership. This is now in more serious doubt than it was at the time of the consultation on the Assessment. The average age was increasing and is now above eight years, so this would represent a change of direction in terms of investment from operators. During Covid-19 the rate of fleet replacement has reduced significantly. This will mean an increase in the number of fleet operators would need to renew as a result of fleet renewal being put on hold in some cases throughout the duration of lockdown. This commitment was considered in the Assessment and analysis performed by TfGM at the time the Assessment was written indicated that to achieve the seven-year average age would require a greater level of new vehicles per year than had been proposed. It would also be down to individual operators, and the detail of how this would be delivered remained unclear. The impact of Covid-19 is, therefore, only likely to increase the need for greater levels of investment in order to reduce the average age.

2.5.16 Operators have been put under substantial financial strain as a result of the fall in patronage from March 2020 and, therefore, any fleet renewal or investment in new buses will be dependent on their financial stability and the amount of funding available. There is a risk that renewal will be more geographically varied as some operators may continue to renew their fleet to some degree, but others may not at all. TfGM’s Consultation Report set out that whilst increased investment would be welcome given reductions in investment in recent years, it was not clear how far this would contribute to GMCA’s objectives given the uncertainty at that time about the commitment. With the further uncertainty created by Covid-19, this remains the case.

Franchising

2.5.17 Whilst GMCA would have the ability under the Proposed Franchising Scheme to specify the vehicles used by operators, acceleration of improvement to environmental performance compared with the current fleet, either through direct procurement of vehicles or through specification and higher franchise payments, would require additional funding. As previously, GMCA would have the ability to drive forward radical changes to the operation of the fleet, such as electrification of the fleet.

2.5.18 As with partnership, the Proposed Franchising Scheme may inherit a situation of having an older, more polluting fleet than might have been the case without the Covid-19 pandemic. This means greater investment would be necessary to improve the performance of the fleet. It remains the case that the Proposed Franchising Scheme offers greater control in improving the bus fleet’s environmental performance, but substantial improvement would require further funding.

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.

Do Minimum

2.5.19 No further simplification of fares could be expected under the Do Minimum. Under the Scenarios that see a reduction in patronage (Scenarios 1, 3 and 4) there could be some instability in the market which would result in changes to fares structures. Under Scenario 3, with a more substantial reduction in patronage, changes to the structure of the market are more likely. This is less likely to happen under Scenario 2.

Partnership

2.5.20 This area is less likely to be affected by the Covid-19 pandemic than other aspects of a partnership. However, whilst operators have committed to looking at some simplification, there are no extensive commitments in this area in the proposals put forward by OneBus. The commitment for 1.5% of operator bus-only Greater Manchester Travelcards Ltd (GMTL) turnover to be pooled and devoted to promoting only ‘all operator’ (bus only) products may be in doubt given the pressure on operator finances.

Franchising

2.5.21 The Covid-19 pandemic does not affect the way in which franchising would implement simple and integrated fares. Should the Proposed Franchising Scheme be introduced, all period fares would be made valid for the whole of the network once the whole of the Greater Manchester network was franchised. This means that there would be a one-day, week, month and annual fare for the whole network for each category of passenger, and one set of passenger categories.

2.5.22 The Proposed Franchising Scheme would clearly deliver this objective in a way that the partnership proposals would not.

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.

Do Minimum

2.5.23 The Do Minimum is unlikely to change the value for money or affordability of fares. As set out above, some Scenarios are likely to see an upward pressure on bus fares. Reductions in patronage as envisaged by three of the Scenarios would make it more challenging to provide a bus network that is value for money. The more extreme reductions under Scenario 3 would mean that it might be difficult under any market situation to keep fares rises low, and the challenges of reducing mileage in a cost-effective way.

Partnership

2.5.24 The previous commitment for operators (subject to agreement through GMTL) to 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), and the previous commitment to freeze the price of the multi-operator tickets for two years from January 2021 (subject to a review), could both be at risk, depending on the Scenario. These commitments require money to be spent by operators which might not be there anymore due to the financial impacts of Covid-19. If these were not able to be put in place, the partnership would achieve less than both the Operator Proposed Partnership and the Ambitious Partnership in set out in the Assessment.

Franchising

2.5.25 The intention remains to reduce the price of an all-network ticket to match the lower-priced single operator ticket. This would improve value for money for a large number of passengers and would do so on a long-term basis. The intention not to make a long-term surplus on the bus market but to reinvest remains. This would ensure the best possible value for money for bus users whatever the Scenario.

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.

Do Minimum

2.5.26 The Do Minimum is unlikely to change the position in the Assessment on the introduction of account-based smart ticketing. Covid-19 will likely cause a delay to plans to introduce smart ticketing, defined as full account-based smart ticketing enabling a fair-price promise across the whole bus network and preferably the public transport network as a whole. In the current market, even absent of the Covid-19 pandemic there is little current activity, and the plans to introduce a back-office system through Transport for the North (TfN) are on hold although they are beginning to revisit how they can take this forward.

Partnership

2.5.27 The Covid-19 pandemic does not necessarily affect the OneBus proposal to commit to a TfGM or TfN-led fair price promise scheme across all operators in Greater Manchester. As noted above, the process to implement such a system is likely to be delayed, but the impacts of Covid-19 are unlikely to change the operators' desire to commit to such a scheme if it were to be introduced.

Franchising

2.5.28 If the Proposed Franchising Scheme were implemented, TfGM would introduce full account-based smart ticketing as soon as possible. Account-based smart ticketing has already been introduced on the Metrolink system, and this could be extended to the bus network. None of the Scenarios would impede these plans to introduce smart ticketing.

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.

Do Minimum

2.5.29 The Do Minimum is unlikely to change the position in terms of these aspects of customer service. Reduction in investment because of the Covid-19 pandemic would delay any improvement in the provision of information that might come without intervention.

Partnership

2.5.30 Some commitments were made in this area, but, given the partial nature of the changes proposed by operators, the Ambitious Partnership and the newer proposals from OneBus were considered to achieve this objective to a great extent. The Covid-19 pandemic has not significantly changed how it is anticipated any partnership would impact the dissemination of information and the coherence and branding of the market.

2.5.31 Under the OneBus proposal, the majority of the customer commitments made in relation to the intention to improve the ease of understanding of the bus service are likely to remain valid. The proposal to provide 14 additional customer-focused staff could be at risk or potentially reduced, depending on the level of funding operators are willing to allocate to this. However, as noted in the Consultation Report, this alone is unlikely to make a noticeable change in itself to the customer experience.

Franchising

2.5.32 None of the Scenarios would change how the Proposed Franchising Scheme would make changes to the ways in which information about the bus network was put forward and how an integrated offer with single branding and a single point of contact would be put in place for customers. The conclusion that the Proposed Franchising Scheme achieves this objective better than any partnership remains unchanged.

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.

Do Minimum

2.5.33 The Do Minimum is unlikely to make any improvement to the safety of passengers.

Partnership

2.5.34 As noted in the Assessment and the Consultation Response, the partnership itself is unlikely to make a material difference to the safety of passengers. Under the Partnership Plus offer, it was proposed 14 additional customer-focused staff would be added to the network. This could contribute to reassuring passengers that the network is safe; however, it is unlikely to have a material impact. As a result of Covid-19, it is questionable as to whether the operators would still be willing to fund the additional staff and whether this commitment to provide additional staff would be seen as a priority or affordable in the current climate. The partnership is likely, therefore, to perform worse than the Ambitious Partnership previously considered in this regard.

Franchising

2.5.35 The actions taken on safety under the Proposed Franchising Scheme would remain unchanged under the different Scenarios. The level of increase in ticket inspection may change in the downside Scenarios where the bus market is smaller, but this would not be likely to affect the conclusions drawn in the Assessment. Their contribution remains as before, giving a small but incremental benefit in economic terms.

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.

Do Minimum

2.5.36 The Do Minimum is unlikely to change these aspects of improving customer service. Overall, the downside risks of Covid-19 impacts would have the effect of making worse the on-bus experience. As set out above, the Scenarios which do not show a return to pre-Covid-19 levels would result in an older fleet than would otherwise be the case and a consequently worse customer experience. There have been enhanced cleaning regimes due to Covid-19 which would benefit passengers in that this aspect of customer service would be improved.

Partnership

2.5.37 Under the Partnership Plus, the operators committed to providing in-service cleaning. The impacts of Covid-19 will require cleanliness across all services to be met to the highest standard, and this would be the case under any option of reform. Daily cleaning regimes already exist, and many operators have been required to improve as a result of Covid-19. For example, Stagecoach have enhanced their cleaning measures and are ensuring more regular cleaning of the main customer touch-points. They are providing additional cleaning materials such as personal hand sanitiser for frontline employees, as well as extra cleaning materials at depots and other work areas. It is unlikely these changes will be long term once the Covid-19 pandemic has receded. As the commitments on partnership are now uncertain, longer-term commitments to greater cleaning cannot be relied upon.

2.5.38 Driver training and the commitments to provide accelerated rollout of Wi-Fi and other onboard equipment are likely to remain valid; however, there may be a delay to providing onboard equipment given the current financial difficulties operators are facing.

Franchising

2.5.39 The proposals on cleaning standards in franchise contracts and the training of drivers would remain the same. This means that the conclusion reached that the Proposed Franchising Scheme would achieve this objective to a greater extent than partnership under the different Scenarios remains valid.

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.

Do Minimum

2.5.40 The Do Minimum is unlikely to change the value for money of the bus service in terms of the travel available to the people of Greater Manchester for the inputs of taxpayer funding and fares. At the time the Assessment was published, approximately 40% of the income in the bus market in Greater Manchester came from taxpayers, channelled through concessions, tendered services and Bus Services Operators Grant (BSOG). The rest comes from fares paid by passengers. The proportion of funding from different sources has changed due to Covid-19, with a decrease in fare-paying passengers and an increase in Government subsidy. During the pandemic, the majority of funding for bus operators has come from taxpayers. In return for this support, bus operators have consulted with transport authorities and others over the network that they operate whilst services are below normal levels. Taxpayer support is expected to revert eventually to approximately pre-Covid-19 levels, as outlined in the Scenarios section above.

2.5.41 Under three of the Scenarios (Scenarios 1, 2 and 4), there would be a sustained period of a much higher level of public support for the bus industry.

2.5.42 Arguably, getting value for money for the public investment in the bus market has become more important because of the Covid-19 pandemic. There is greater pressure on local government finances, and if GMCA were to support more bus services because of a decline in mileage, then it would be important to maximise return.

Partnership

2.5.43 In common with the Proposed Franchising Scheme, the level of value for money of the intervention will be lower because of the smaller size of the market in three out of four Scenarios, without taking any account of a potential reduction in benefits. It is also likely to be lower because the cost of the intervention would be similar in a post-Covid-19 world to previously. By contrast, many of the benefits of partnership are now uncertain and cannot be confirmed. A partnership could therefore be poor value for money under any of the Scenarios, by contrast to the situation described in the Assessment where the ambitious partnership is a value for money option. Partnership would currently perform similarly to the partnerships described in the Assessment in terms of the value for money of any 'Phase 2' measures – which would be worse in some respects to the Proposed Franchising Scheme.

Franchising

2.5.44 The Proposed Franchising Scheme would provide accountability for the value that was gained from this funding, as the Mayor and GMCA would be responsible for the overall performance of the bus market given the funding it received from different sources. The Economic Case section of this report (Section 3) will give an assessment of the value for money of the proposed investment in the bus market to franchise the market. This shows that the overall level of value for money would be lower, given the smaller size of the market, under those Scenarios where the number of passengers reduces (Scenarios 1, 3 and 4).

2.5.45 Franchising offers greater potential to offer value for money for future funding for the bus service (Phase 2 measures), whether that is operational support or in the form of capital support for electrification or other programmes. The shift in market structure and the fact the service will be run without a view to gain a surplus over the long term ensure this. The Proposed Franchising Scheme remains the intervention best placed to meet the objective of greater value for money from public investment in each of the Scenarios that have been set out.

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.

Do Minimum

2.5.46 The sustainability of the bus market overall has been affected by the Covid-19 pandemic, and this will affect all of the options in terms of the strength of the market. Under several of the Scenarios, where patronage reduces, the sustainability of at least some bus services would be in doubt, and there could be reductions in service and increases in fares. Under Scenario 3, which sees a dramatic reduction in patronage, the sustainability of the bus service in Greater Manchester would be lessened, and it is likely to see some changes detrimental to the ability of people in Greater Manchester to travel. The market would be more sustainable after an initial dip in patronage under Scenario 2.

Partnership

2.5.47 As noted in the Assessment and the Consultation Report, the partnership option carries the risk that the partnership would not last beyond the initial period of five years for which it is envisioned. There may also be market instability due to the pandemic as there would be exit/entry to the market by operators if their position is weakened or the market becomes less attractive. The risk of the partnership not lasting for its initial period (and enduring) is therefore increased now compared with the Ambitious Partnership considered in the Assessment.

Franchising

2.5.48 Franchising remains a long-term intervention and market shift. As an intervention, it would be long-term and transfer the running of the bus network to the public authority. A worsening position in terms of patronage may put pressure on GMCA to put more resources into the system to maintain levels of service, and it may or may not be possible to do so. This would not affect the sustainability of the intervention but would affect the quality of the service provided under it.

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.

Do Minimum

2.5.49 The Do Minimum remains affordable in that GMCA retains control of annual budgets and can choose to intervene to support the bus market. There may be circumstances in those Scenarios where patronage falls where there is pressure for GMCA to intervene in the market to support services that have been affected by mileage cuts. This would create financial pressure for GMCA.

Partnership

2.5.50 The Assessment and the Consultation Report concluded that the partnership option would remain affordable to GMCA, given the onus would continue to be on the operators (including TfGM as an operator of tendered services) to implement network interventions. With the impacts of Covid-19, in those Scenarios where patronage falls (Scenarios 1, 3 and 4), and particularly for Scenario 3, there may be increased pressure on the public sector to support the viability of services due to reduced levels of patronage. This would occur in a deregulated market regardless of whether there was a partnership in place or not. The costs of partnership would remain similar to the partnership options considered in the Assessment. It was considered that the extra costs of the Ambitious Partnership would be justified if there were further benefits. Given the likelihood that a partnership in the current context would offer fewer benefits, it is likely that the costs incurred would be similar to the Operator Proposed Partnership. They would remain affordable.

Franchising

2.5.51 The Financial Case sets out the conclusions on the affordability of the Proposed Franchising Scheme. In the shorter term, with reduced patronage under all Scenarios, it is likely that more money will be required from the public sector. In the longer term, depending on the levels of service, this effect will be less pronounced in those Scenarios where there is a moderate decline in patronage. Where patronage increases in Scenario 2, this will make the Proposed Franchising Scheme more affordable. By contrast, under Scenario 3, with a radical reduction in patronage and hence farebox, TfGM would face very difficult choices in terms of fare prices and service levels in running a market of radically reduced size.

Conclusion

2.5.52 Although the different Scenarios would lead to different outcomes for the bus service in Greater Manchester under any of the options considered in the Assessment – such as a deregulated market with a partnership or a franchised market run by GMCA, there remain critical differences in the extent to which the different interventions would achieve GMCA's objectives for the bus service.

2.5.53 For each of the objectives, the conclusions reached in the Assessment in terms of which intervention would best achieve objectives stand. In no cases would the impact of the Covid-19 pandemic mean that a partnership becomes more likely to achieve the objectives. For some, as originally noted, there may be a smaller difference in performance. For others – such the age and environmental performance of the fleet, the immediate impact of the

Covid-19 pandemic may be greater than the impact of either intervention. In the longer term, however, the impact of the interventions will be a key determinant of how effectively these objectives are met, and therefore the differences between them are critical. The Proposed Franchising Scheme remains the best way to meet GMCA's objectives.

2.6 Cross-boundary services/Neighbouring authorities

2.6.1 Greater Manchester borders seven neighbouring transport authorities: Blackburn with Darwen, Lancashire, West Yorkshire, Derbyshire, Cheshire East, Liverpool City Region and Warrington. They each have transport plans and policies for transport in their areas. Some of these are described as 'priorities' or 'goals' rather than objectives or policies, and each authority takes a different approach to how it fills out the detail behind these objectives and the extent to which more detailed objectives exist.

2.6.2 Covid-19 may have an effect on these transport objectives, priorities and goals for neighbouring authorities. Whilst all authorities have responded to the pandemic, their strategies for doing so have not changed their overall transport objectives or the place within that of cross-boundary bus services in and out of Greater Manchester. At present, there are no new transport policies in place. Although this may change, there is no indication that the considerations that would be affected by intervention in the Greater Manchester bus market – cross-boundary services and fares – would alter radically from the point of view of neighbouring authorities.

2.6.3 It is important to consider whether the interventions may have different effects on the policies of neighbouring authorities following the Covid-19 pandemic. As set out in the Assessment, the bulk of the effect on the objectives and policies of neighbouring authorities is associated with the preservation or improvement of cross-boundary services. This was also the focus of the responses of neighbouring authorities to the consultation. In some cases, there is also a desire for the improvement of fares arrangements.

Partnership

2.6.4 Partnership was not expected to have a great deal of effect on the policies and objectives of neighbouring authorities. The partnership was not anticipated to have a great deal of effect on cross-boundary services or fares arrangements, and this has not changed because of the Covid-19 pandemic.

Franchising

2.6.5 The Assessment described in detail the permitting regime and the efforts that would be made by GMCA to ensure that viable cross-boundary services continue.

2.6.6 It is not thought that Covid-19 will have any impact on the proposed service permitting scheme and the arrangements for cross-boundary services outlined in the Assessment and summarised above. Whilst the long-term effects of Covid-19 on the services themselves may be significant, such as reduced frequency of services or some services being removed completely, the permitting arrangements of the Proposed Franchising Scheme would remain the same.

2.6.7 TfGM are not aware of any disproportionate effect of the Covid-19 pandemic on cross-boundary services compared with other bus services in Greater Manchester. They are currently largely supported by Government funding and are exposed to the same uncertainties as there is a shift back to greater reliance on farebox revenue. It will be important for GMCA and neighbouring authorities to consider whether supported services should be considered if any services are withdrawn both before and after the implementation of the Proposed Franchising Scheme. The effects of the Proposed Franchising Scheme on the policies of neighbouring authorities are therefore not expected to change because of Covid-19. The potential for changes to fares arrangements (e.g. new cross-boundary fares areas to facilitate travel) still exist. Given the potential need for greater public support for all services, including cross-boundary services, the Proposed Franchising Scheme may mean greater ability to ensure the continuation of some of these services if they were threatened.

2.7 Effects of Covid-19 on Phase 2 interventions

2.7.1 As outlined in the above section on the potential future Scenarios for the bus market following recovery from Covid-19, there are several different possibilities for how the bus market will recover in the short, medium and long term. Depending on which, if any, of the Scenarios materialises, this would then have an effect on the implementation of the Phase 2 measures for bus reform outlined in the Assessment, which include network expansion, fares reductions across Greater Manchester, integration of fares across different modes of local transport (bus, tram and rail) and further increases to the quality of service provision across the region. Phase 2 measures would aim at the incremental improvement of the bus service if more money were available for support. This would be the aim no matter what the starting point for patronage was and would be followed independently of the market structure in place at the time.

2.7.2 Two of the Scenarios, Scenarios 2 and 4, assume some level of continuing financial support for the bus service in Greater Manchester. Some of this will be the continuation of support for the service because of Covid-19, which is assumed to continue for an appropriate period so that there are no supply-side issues created for the market by its premature withdrawal. In Scenario 2 and 4, where there is support for GMCA's ambition to 'Build Back Better', there is an assumption that some Phase 2 measures may be implemented.

2.7.3 However, the market structure – franchising, a deregulated market or a deregulated market with a partnership in place – would have an effect on Phase 2 measures. In the Assessment, it was outlined how each proposed intervention would then facilitate the proposed Phase 2 interventions, as shown in Chart 7 below:

Chart 7: 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

Source: Chart 20 on page 193 of the Assessment

2.7.4 The conclusions of Chart 7 above are still applicable. The Proposed Franchising Scheme would increase the deliverability of Phase 2 measures compared with the other options. The Covid-19 pandemic has not changed either the deliverability or the value for money considerations set out in the Assessment and summarised in Chart 7 above. The importance of these differences will depend in part on the future pattern of bus transport in Greater Manchester, as illustrated in the different Scenarios.

2.7.5 The difference in applicability and value for money between the options makes more of a difference if it is envisaged that more of this type of spending would be undertaken. Whilst two of the Scenarios explicitly envisage some spending in these areas as a baseline, it would be an option for GMCA under all of the Scenarios were they to find themselves in a situation where intervention would help to achieve social or economic objectives.

2.7.6 The possibility of a decline in the bus market that threatens GMCA's social and economic objectives means that the advantages of the Proposed Franchising Scheme over a partnership in terms of the ability to intervene, the effectiveness, and value for money of that intervention, become more important now than they were previously.

2.8 Conclusion on the Strategic Case

2.8.1 There is likely to be a long-term reduction in both patronage and the scale of the network. Only in one of the three Scenarios does patronage increase and this is after a number of years of growth from a lower base plus support by local and national initiatives to achieve mode shift.

2.8.2 Under two of the Scenarios – a qualified return to normal (pre-Covid-19) and a 'poorer but more local' world, there is a marked decline in patronage from pre-Covid-19 levels. Under the second Scenario there is an eventual increase in bus patronage driven by more permanent social change and a willingness to embrace the need for environmental measures. The third Scenario, which sees the greatest reduction in patronage and, therefore, the scale and reach of the bus network, would present substantial challenges to any party running the bus network, whether operators in a deregulated market or GMCA under the Proposed Franchising Scheme.

2.8.3 Bus as a mode is better off under the second Scenario. Under each of the other three Scenarios, the impact of Covid-19 provides a clear threat to GMCA's specific objectives for bus, outlined above, and also the broader objectives of Greater Manchester's Transport Strategy 2040. They would mean these objectives would be more difficult to achieve than was assumed in the Assessment. There is also a broader threat provided to public wellbeing, health and the economy from the diminution of the ability of people in Greater Manchester to travel. Bus plays an important part as it would allow people to travel to return to work or resume social activities. There is clearly a case for further investment in Greater Manchester to improve the lives of residents and to facilitate the recovery. This is reinforced by the fact that the issues affecting the bus network have not disappeared, and whilst the context is more challenging, the aspects of the bus service that GMCA have the ambition to change remain the same. Their objectives for the bus service are still valid.

2.8.4 It is hard to know what the recovery will look like in Greater Manchester and, therefore, there is greater uncertainty about what the bus network will look like in the future, but the Strategic Case for intervention is still there. The options for intervention are affected by the Scenarios. The Do Minimum option remains similar in that GMCA would continue its current efforts to improve the bus network (for instance through capital investment). However, under this Scenario, the consequences could be worse than previously assumed in terms of GMCA's objectives for Greater Manchester and could also lead to pressure for further spending in order to maintain the ability of people in Greater Manchester to access education, employment and essential services. The Proposed Franchising Scheme remains the same (apart from the changes noted in the response to the consultation). TfGM have written to the operators, and their responses indicate that they cannot now undertake to keep to the commitments made pre-Covid-19 (including the OneBus Partnership). The benefits of the partnership are therefore likely to be lower than the Ambitious Partnership set out in the Assessment, and also the Operator Proposed Partnership, as that included fare reductions that operators are no longer committed to.

2.8.5 In terms of the choice of intervention, the Proposed Franchising Scheme is still likely to perform better in achieving GMCA's objectives for the bus service than a partnership under each of the Scenarios in terms of supporting the bus service in Greater Manchester. As the Economic Case points out, the value for money of the intervention is affected by the Scenarios, and the value for money of franchising would be lower under Scenario 3.

3. Economic Case

3.1 Introduction

3.1.1 The Assessment concluded that the Economic Case for investment and reform was strong, with both partnership and franchising options representing high value for money. The Assessment further concluded that the Proposed Franchising Scheme was preferable because it created more economic value (as defined by a Net Present Value, "NPV") and was likely to result in more durable and lasting economic impacts. It was also concluded that the Proposed Franchising Scheme would create a better platform to deliver further potential economic value.

3.1.2 This section of the Bus Reform Covid-19 Impact Report considers the potential impact and effects of Covid-19 on the context within which the Economic Case of the Assessment has been produced and reviews the extent to which the assumptions underpinning the Proposed Franchising Scheme still hold and hence that the Proposed Franchising Scheme would still represent value for money to GMCA.

3.1.3 This Covid-19 impact work is reported under the following headings:

- Approach to Considering Covid-19 Uncertainty;
- Commentary on the Covid-19 Impact on the Appraisal;
- 'What If?' testing of the potential impacts of Covid-19 on the value for money Statement;
- Discussion of Other Impacts included in the Assessment;
- Key Considerations in Understanding the Covid-19 Impact on the value for money; and
- Conclusions on the Covid-19 Impact on value for money.

3.2 Approach to Considering Covid-19 Uncertainty

3.2.1 This review considers the robustness of the underlying assumptions, that were used to form the economic analysis in the Assessment, in the light of Covid-19 and whether any revisions should be made to how the Proposed Franchising Scheme would be implemented and/or whether changes need to be made to the risk mitigation plans. The analysis presented here regarding value for money uses the Scenarios as described in the introductory chapter to this report to consider the potential impacts of Covid-19 on the Economic Case. It has looked at the demand drivers that form the context within which the Economic Appraisal was developed (defined in the Assessment as the Reference Case), and the potential impact of Covid-19 on the main benefits that the Proposed Franchise Scheme was expected to deliver. This analysis has been conducted by reviewing available evidence qualitatively, and by 'What If?' testing, rather than by developing new central forecasts, as explained below.

3.2.2 The following sections set out:

- Why the existing Analytical Framework has not been used in this analysis; and

- How the Scenarios have been used to consider impacts on value for money, including the definition of value for money.

Why the existing Analytical Framework has not been used

3.2.3 The forecasting framework and appraisal specification for the Assessment were matched to the requirement to estimate a future-year Reference Case in the form of a 'central estimate' for the bus market without intervention. Reform options were then tested against that central estimate in accordance with the statutory guidance.

3.2.4 The information, and analysis of that information in the Assessment, used in considering whether the Proposed Franchising Scheme would represent value for money was considered by the Auditor to be of "sufficient quality", as required by the Act.

3.2.5 Covid-19, however, represents a low-probability but high-impact event of global dimensions, which has introduced a high degree of uncertainty, where uncertainty is defined as situations under which either the outcomes and/or their likelihood of occurrence cannot be quantified and hence will be unknown by the decision-maker.2 This uncertainty means that there is potential for structural, rather than incremental, changes to the bus market and the elasticity-based framework used for the analysis to support the Assessment is not well suited to dealing with structural changes in travel behaviour.

3.2.6 It is only when structural changes have been observed on the ground and analysed that new relationships can be calibrated, and hence new forecasts developed.

3.2.7 It may well be that Covid-19 does not actually introduce long-term structural changes, and hence the underlying relationships are not changed. However, currently, it remains uncertain whether this will be the case and it is not possible to create a robust central estimate forecast of the economy nor of the travel demands that arise as a result of economic activity. It will only be when the Covid-19 impacts stabilise that we may be in a position to rely on central estimate forecasts to demonstrate the Economic Case for transport interventions with the same level of 'certainty' that was previously considered standard practice.

Use of Covid-19 Scenarios to consider Covid-19 Impacts

3.2.8 Given that Covid-19 introduces uncertainty, rather than just risk, standard risk management techniques which develop high and low projections around a central case using the existing analytical framework are unlikely to cover the broad range of possible alternative futures that need to be considered. Demonstrating resilience of an intervention to uncertainty in economic terms, therefore, is about demonstrating that assumptions are still robust, within a reasonably likely set of potential futures, and that the intervention can still be delivered, even though some adaptation may be required to its implementation.

3.2.9 Scenario planning offers a tool to explore the range of possible alternative futures and hence to test the robustness of the assumptions underpinning a proposal. Therefore, the analysis presented in this chapter has used the Scenarios as set out Section 1.4 (Possible future transport scenarios) to:

[2] This in contrast to risk, which refers to decision-making situations under which potential outcomes and estimates of their likelihood of occurrence can be considered and presented to the decision-maker.

- Explore what the implications of the Scenarios could be for the value for money appraisal;
- Apply a 'What If?' factoring approach to the previous appraisal to present the impact the Scenarios may have on the economic metrics, focusing on the potential downsides for value for money;
- Use the above analysis to consider qualitatively the robustness of the Economic Case presented in the Assessment and under what, if any, circumstances the Proposed Franchising Scheme may not offer value for money and how likely this may be;
- Consider how TfGM could review the commercial levers to adapt the implementation of the Proposed Franchising Scheme to deal with any downside issues if they arose
- Reach an overall conclusion of robustness of the Economic case as presented in the Assessment

3.2.10 In applying the Scenarios, consideration has been given to the evolving nature of the evidence base for each Scenario. The latest review of the evidence of how Covid-19 has affected travel in Greater Manchester, as set out in Section 1.4 (Possible future transport scenarios) above, has been used to revise the qualitative statements to be made regarding the likelihood of each Scenario. These likelihoods are then used in Section 3.7 (Conclusion on Covid-19 Impact on Value for Money) below to help draw conclusions for the Scenario analysis.

3.2.11 Formal guidance on scenario planning in transport appraisals is less developed than in other areas. In July 2020, the DfT policy document *Appraisal and Modelling Strategy: A Route Map for Updating TAG During Uncertain Times*[3]*,* indicated that scenario planning is likely to play a greater role in the future of forecasting and economic appraisal:

> "*Recent events have demonstrated the value that the use of scenarios and wider uncertainty analysis can bring. It is too early for us to fully understand the impacts that Covid-19 may have on future travel demand and travel preferences, but tools such as scenarios allow us to explore plausible futures and test how well schemes perform in different future states*."

3.2.12 In the July 2020 document, DfT stated that they were looking to *"provide further detail on the use of scenarios by the end of the year".* TfGM's current understanding is that DfT are still developing guidance and that DfT will be issuing an uncertainty toolkit and providing guidance on the use of scenarios in scheme appraisal as part of the TAG refresh in February 2021. Meanwhile, DfT are encouraging the thorough consideration of uncertainty and its implications within appraisal activity and have issued proposed updates to some elements of the Transport Appraisal Guidance databook of key assumptions, most notably revised estimates for UK macro-economic performance.

[3] *DfT Appraisal and Modelling Strategy: A Route Map for Updating TAG During Uncertain Times (July 2020)*

3.2.13 The consideration of value for money in this report is based upon the classification used in DfT's Value for Money Framework, as set out below:

Taken from DfT (2015) Value for Money Framework

Box 5.1 Standard Categories

(Transport cost outlays exceed revenues or cost savings)

VfM Category	Implied by…*
Very High	BCR greater than or equal to 4
High	BCR between 2 and 4
Medium	BCR between 1.5 and 2
Low	BCR between 1 and 1.5
Poor	BCR between 0 and 1
Very Poor	BCR less than or equal to 0

*Relevant indicative monetised and/or non-monetised impacts must also be considered and may result in a final value for money category different to that which is implied solely by the BCR. This chapter provides guidance on how to select the final value for money category.

3.2.14 The following sections use the Scenarios to:

- Qualitatively consider the impacts of Covid-19 on the Reference Case
- Undertake some 'What If?' on the appraisal
- Discuss how TfGM could mitigate risks via by adapting how the Proposed Franchising Scheme is implemented
- Present conclusions

3.3 Commentary on the Covid-19 Impact on the Reference Case

3.3.1 The economic appraisal in the Assessment is based upon deriving a forecast of the future bus market without intervention, which is known as the Reference Case, that is developed from a known baseline position, and then considering potential options against the Reference Case forecast. Therefore, considering the impact of Covid-19 needs to look at the likely impacts of Covid-19 on the i) baseline position, and ii) the Reference Case forecast.

The Baseline – Patronage, Revenue and Supply

3.3.2 The baseline for the Assessment was established using 2016/17 data, with forecasts then developed from this date. Whilst the actual trend of bus patronage broadly followed the path forecast by the model in 2018 and 2019, the onset of Covid-19 saw patronage drop almost instantaneously to 20%, with similar falls in revenue, and then rise slowly back over the subsequent six months to approximately 60% of previous levels. The situation remains fluid – as shown by the latest national lockdown introduced in early November 2020 – and continued recovery will be a function of the progression of the pandemic, any further restrictions on bus usage and limitations on economic activity and the potential development of vaccines and effective test-and-trace systems.

3.3.3 On 19 August 2020, TfGM wrote to bus operators to ask for their permission to review information which they have been providing to TfGM as part of the CBSSG and CBSSG Restart schemes for the purposes of this report. Rotala was the only operator not to consent to the use of that information, but they subsequently agreed on 12 November 2020. They provided this information despite stating that their view was that the information would be *"irrelevant to, and of no value in any consideration of, the current and ongoing situation".*

3.3.4 TfGM have reviewed the data provided and have concluded that, below the overall network-level statistics, the route-level data that would be required to track the detailed impact of Covid-19 on the various travel markets for bus travel by time of day, ticket type and geography are not currently available to TfGM.

3.3.5 No alternative sources of data are available to TfGM because the Continuous Passenger Sampling (CPS) surveys have been suspended due to Covid-19. It should also be noted that, when seeking the consent to use the CBSSG information referred to above, TfGM also invited bus operators to disclose to TfGM any additional information which they believed would be appropriate in considering the potential impacts of Covid-19 on them. No operators provided any such information until 12 November 2020, when Rotala provided some information on passenger numbers and on-bus revenue covering the period of March to October 2020.

3.3.6 The information available is insufficient, therefore, to rebuild the baseline in the framework system.

3.3.7 As noted in Section 3.8.1 of the Economic Case Supporting Paper to the Assessment, *"(t)here is an iterative relationship between supply and demand over time in this market as in all markets*". Historically, there has been a relatively stable trend of gradually declining supply and demand in the Greater Manchester bus market. This provided confidence that the baseline for 2016/17 would provide suitable and appropriate 'anchor points' upon which to build a future-year Reference Case against which options could be tested. However, the onset of the pandemic and the emergency intervention of the UK government to maintain levels of service far in excess of current demand requirements means that previous relationship between services and the demand for them has been suspended, with no clear indication of when the process will return to this mode of operation.

The Reference Case – Covid-19 Impacts on the Drivers of Bus Demand

3.3.8 The Reference Case, in terms of the future bus market estimate across the appraisal period, is derived from the Demand and Revenue Model (DRM). As noted above in Section 3.2.5 (Why the existing Analytical Framework has not been used), elasticity-based models such as the DRM are designed for (reasonably) steady-state conditions, whereas Covid-19 is likely to entail some form of structural change to demand drivers and behavioural responses. It is only reasonably practicable to reconstruct the Scenarios within the bus reform analytical framework, therefore, via the use of aggregate, top-down, factors rather than detailed adjusted to inputs variables and model parameters.

3.3.9 The input variables to the DRM can be used as a framework to discuss the potential impact of Covid-19 on the drivers of bus demand and hence to make inferences about the likely impact on the Reference Case and to cross-reference these to the Scenarios. The following Table 1 summarises the potential impact of Covid-19 on the drivers of bus demand in relation to the DRM.

Table 1: The potential impact of Covid-19 on the drivers of bus demand in relation to the DRM

Model System Variable	Covid-19 Impact Summary
Population	Population numbers are not expected to alter significantly in Greater Manchester due to Covid-19. However, the distribution of population (where people choose to live) may deviate from previous forecasts, for example with fewer people living in the city centre. In addition, the rate of trips per head of population (both in total and the share to bus) may change, for example, the number of bus trips a commuter makes per week may decline due to increased remote working. Therefore, the elasticity used to explain the relationship between population and bus market volume may require recalibration.
Employment	Employment is primarily a function of the health of the economy. Under almost all the Scenarios, the economy will contract significantly, and this is expected to have an effect over the next few years. Also, the relationship between jobs and travel (in terms of trip production, trip distribution and mode choice) will have altered. Therefore, the elasticity that governs this relationship will also most likely require recalibration to the new normal.
Car Ownership	The macro-economic downturn created by Covid-19 may dampen the propensity to purchase, own and use cars through reduced employment and falling household income levels. On the other hand, Covid-19 may increase the propensity for some individuals (such as the elderly and those with underlying health conditions) to purchase, own and use cars. Covid-19 has highlighted the health risks of mingling with others and has demonstrated practical ways of mitigating those risks (by avoiding social contacts) in a way that was previously not generally considered. These considerations in both directions may reasonably be expected to generate permanent behavioural change amongst some segments in society, such that the pre-existing elasticities may require recalibration.
Income	Household income correlates with the macroeconomic and employment outlook, both of which are potentially impacted by Covid-19. Changes in income levels can alter the volume and mode choice of travel by individuals and affect where people choose to live or locate their business premises. In addition to potential changes to income forecasts, Covid-19 and the associated acceleration of societal changes (the use of technology to hold business meetings; and/or to work from home) may also change the typical 'travel budget-housing budget' trade-off that individuals and companies make. This, in turn, may well alter the established relationship between income and bus demand.
Car Fuel Costs	The start of the Covid-19 pandemic was marked by a crash in the international price of oil. For example, Brent Crude dropped from over \$60/barrel in January 2020 to under \$20/barrel in April 2020. The price has only partially recovered (just \$40/barrel in early November2020), and this volatility has been reflected in the price at the pump, although in a muted fashion with price drops since January of approximately 10% according to the RAC Foundation.[4] This volatility may be relatively short-term, and there are far more impactful changes to fuel price that are likely in the future, not related to Covid-19. The switch to electric vehicles will reduce car fuel costs by approximately 75% at current prices, but only with higher

[4] https://www.racfoundation.org/data/uk-pump-prices-over-time

Model System Variable	Covid-19 Impact Summary
	upfront purchase costs.
Car Journey Times	The overall impact of Covid-19 could be either positive or negative and may differ by time of day. It is likely that, as Covid-19 restrictions continue, peak-period congestion will be reduced as less commuting into town and city centre offices outweighs any mode preference for car over public transport. However, in non-central areas, this may not be the case. Prior to the last lockdown, evidence was emerging from outer areas of Greater Manchester that traffic levels were back at pre-pandemic levels – though spread more over the day. In the interpeak and at weekends, more traffic may also be expected, and as reflected in DfT data from October suggesting that car travel at weekends has already overtaken pre-Covid-19 levels, though this will have been moderated by the second lockdown. The elasticities that explain transport users' relationship with the relative journey time between modes may be affected by Covid-19.
Bus Journey Times	Uncertainty exists as for car journey times. An additional element to consider is the extent to which money is invested in reprioritising road space towards bus and away from car, to allow buses to be resilient to any increase in congestion. This varies between different Scenarios. The impact of changes in congestion is significant as they have a direct impact on operating costs and, therefore, an impact on the level of fares' increases and network changes required to ensure that operators maintain a sustainable level of profit. To counter this, the peak spreading noted above for car Journey Times would help damp this and may help peak service bus and hence average yields.
Competing Public Transport Fares	A significant infusion of public funds is currently ensuring the financial viability of the UK public transport sector. The continuation of a higher level of public funding may be required for the next few years to constrain the need for real increases in fares whilst maintaining supply, but it is not guaranteed.
Bus fares	Under most Scenarios, an increase in bus fares is required to cover costs as government subsidy is removed. However, under Scenario 2, lower congestion, lower fuel costs and increased government investment may result in a decrease in bus fares relative to current forecast.
Bus Network	Under most Scenarios, operated kilometres drop more rapidly than previously expected. Scenario 2, which is optimistic in terms of bus demand, assumes significant and sustained interventions to support both a recovery of public transport demand and a damping of demand for less-sustainable modes to achieve societal and environmental objectives.
Major Schemes	The impact of major schemes was minimal, and Covid-19 will not impact the implementation of those schemes that were previously considered within the Assessment.

3.3.10 The analysis in Table 1 above shows that Covid-19 could have many impacts on the established demand drivers for the bus market. Some of which may be temporary, and others may be more lasting. In some cases, the rate of societal change, for example, rates of working from home for office workers, may have changed pace. This review supports the decision not use to the DRM model to create a revised, with Covid-19, central case economic appraisal.

3.3.11 Table 2 below extends the discussion to include consideration of the structural changes that may impact upon the bus travel market.

Table 2: Consideration of the structural changes that may impact upon the bus travel market

Variables outside DRM	Covid-19 Impact Summary
Bus Vehicles – Acceptable Capacity	Propensity for society to accept crowding on public transport may be permanently altered, and/or the propensity of some individuals to accept crowding may have been permanently altered. This could have a non-trivial impact on the relationship between bus demand and supply, although this would apply to any reform options being explored.
Work from home (WFH)	For many office workers, the trend towards WFH will have been accelerated. This may have fundamental impacts over the typical '10-year churn cycle' ('churn' reflecting the concept of turnover of individual travel patterns over time – and a decade reflecting the average period between major changes to an individual's trip-making patterns), with amenity and space becoming more highly valued in comparison with a shorter/cheaper commute.
Trip Purpose – Shopping, Leisure and Education	There may well be a significant decrease shopping trips to traditional shopping centres, due to the acceleration of the online shopping revolution due to the lockdown, and discretionary leisure trips related to these shopping trips would also therefore decline. On the other hand, there is evidence that working from home increases the number of leisure trips to more local centres, some of which will use bus. The bus network is focused on the traditional centres of work and retail and may not be well suited to pick up the new types of leisure trips that result from Covid-19, particularly those whose specific purpose is health and well-being. It is expected that some education, specifically tertiary, will be provided remotely.
Mode Choice – Health Reasons for mode choice	Covid-19 has created a concern amongst public transport users that did not exist before. For some, it makes public transport extremely unattractive. Depending on how long Covid-19 lasts (and the effectiveness of measures to mitigate and eliminate the health risks of using public transport), this could have a long-lasting impact on the mode choice of users. It is expected that new travel segments will emerge for whom health is a concern and who may be permanently dissuaded from using public transport. As this includes many elderly residents who are a major user of Greater Manchester bus services (c25%), the impacts could be very significant – whilst this would be associated with a reduction in the concessionary payments the transport authority would have to make, it could lead to increased social problems and hence higher social care costs elsewhere in the public sector.
Mode Choice – Environment	Under certain Scenarios, a drive to build back better may positively reinforce the role of bus, not least as part of a flexible solution in response to climate change.
Change in Ticket Mix	It is expected that the distribution of ticket types will change in response to Covid-19 due to the above changes.
Intangibles – Public Perception	It may be that the image of bus and public transport has been permanently damaged as a result of the central government messages to avoid its use, with the perception of the product as 'inferior' reinforced. This links to the direct health concerns that users and potential users may have.

3.3.12 The above review of the factors within the DRM framework, highlighting those new structural factors that to date have not been considered, is consistent with the outcomes developed within the Scenarios as set out above in Section 1.4 (Possible future transport scenarios).

3.4 'What If?' Testing of the Downside Impacts of Covid-19 on the Value for money

3.4.1 A 'What If?' factoring approach has been applied to the Economic Case in the Assessment to explore the impacts that the Scenarios may have on the economic metrics (NPV and BCR) for the Proposed Franchising Scheme and the Operator Proposed Partnership.

3.4.2 As set out above in Section 1.4 (Possible future transport scenarios), there is considerable uncertainty regarding the commitment of operators to deliver many aspects of the previously proposed partnership options. Therefore, considerable uncertainty now surrounds the delivery of partnership benefits when compared with the situation at the time the Assessment was prepared. The 'What If?' analysis of the Operator Proposed Partnership option in this section should, therefore, be treated as illustrative, and is referred to as such below.

3.4.3 The analysis presented here does not rebuild the full economic appraisal, and the results are intended only to highlight the uncertainties that exist and to assist in making inferences about the robustness of the existing Assessment. These inferences would also inform any adaptation of how the Proposed Franchising Scheme would be implemented given any significant change in circumstances. The potential for such adaptations is discussed in the Commercial and Management Case sections of this report.

3.4.4 The 'What If?' tests presented here reflect a simple factoring of the appraisal results from the Assessment and, in turn, look at:

- Rebasing the appraisal to reflect changes to the size of the bus travel demand by:
    - Step 1 – the impact of changes to aggregate benefits due to overall changes in trip-making under the Scenarios
    - Step 2 – the impacts of changes to the implementation costs to scale the options to the revised bus market size
- And then looking at some potential downside tests that consider what level of benefit reduction would be required to mean that the Proposed Franchising Scheme was not value for money by
    - Step 3 – changes to the benefits of individual impacts:
        - Step 3A: Impacts if the bus market size reduced
        - Step 3B: Further analysis of the branding benefit

3.4.5 Steps 1 to 2 are simplified attempts to rebase the appraisals of the Proposed Franchising Scheme and the partnership options from the Assessment to allow for the first-order demand effects of each Scenario. This has been undertaken as it is considered reasonable to assume that overall benefits of the options will be based on market size. This rebasing then creates a new position to test impacts on specific benefits that are less clear and which could increase or decrease benefits.

3.4.6 Step 3A focuses on the downside situation where the bus market consolidates as patronage falls. Section 1.4 (Possible future transport scenarios) argues that the reduction in the size of the bus market could also see a fragmentation of operations that could lead to more inefficiencies and interoperability issues. An upside sensitivity testing has not been undertaken, however, as the aim of the testing has been to consider what level of benefit reduction would be required to show that the Proposed Franchising Scheme was not value for money. It should not be interpreted, therefore, that the result of the test in Step 3A and Step 3B automatically follow on from Step 2.

Steps 1 and 2: Impact due to changing market size and costs

3.4.7 The first step was to investigate the impact on the economic benefits of the reform options considered in the Assessment if the bus trip predictions for the four Scenarios were to be used rather than the Reference Case from the Assessment. For the 'What If?' testing, the factoring of the bus travel demand has been calculated as follows:

i. Each of the Scenarios provides a top-down factoring of bus travel demand over the time period to 2026 using approximate points of 6, 18 and 72 months after the start of the first UK lockdown in March 2020.

ii. From 2026 to the end of the appraisal period, the trend in bus travel demand was then assumed in each Scenario to follow the trend in the Assessment i.e., a 1.2% pa decline.

3.4.8 The use of the same trend for all Scenarios in (ii) is clearly a simplification as the different Scenarios to 2026 would indicate different future projections beyond 2026, given the structural changes postulated in the Scenarios. However, it is not considered robust to stretch the narratives beyond that period. The use of the trend from the Assessment is considered very conservative for Scenario 2, conservative for Scenario 1 and Scenario 4, and not unreasonable for Scenario 3.

3.4.9 In this 'What If?' analysis, it is important to note that factoring the benefits in this manner is simplified purposefully to aid interpretation and in doing so makes implicit assumptions that:

- The interventions associated with the options remain deliverable and provide the same level of benefit per trip as previously forecast, which as noted in Section 3.4.2 ('What If?' Testing of the Downside Impacts of Covid-19 on the Value for money) above is illustrative for the partnership option; hence, the total benefits simply move in proportion to the total market size.
- The relative market share of each sub-market segment (such as commuting, concessions, and leisure travel) remains unchanged.

3.4.10 The BCR for the Proposed Franchising Scheme in the Assessment was 3.1, and the NPV was £234m. Step 1 adjusts aggregate benefits in line with the year-on-year patronage changes to reflect each of the Scenarios. Step 1 assumes, however, that costs are unaffected by the change in patronage.

3.4.11 However, it is unrealistic to assume that there would be no changes in implementation cost. Step 2 considers, therefore, the impact on the appraisal if costs were completely scalable, such that, say, a 10% reduction in market size could allow implementation costs to be reduced by 10% (i.e. 1:1). Whilst the scheme aggregate benefits can be factored, subject to the assumptions set out above, it is less clear whether the costs of implementing the Proposed Franchising Scheme would also be thus completely scalable. For Scenario 2, where the patronage is projected to be higher than in the Reference Case, the implementation costs actually increase in the test. In reality, a proportion of the costs are fixed and so an alternative has been tested to consider for franchising costs varying in a ratio of 1:2 that is probably conservative[5]; that is to say, costs could be reduced at half the rate of patronage reductions, i.e. 5% saving in implementation costs for each 10% reduction in bus market size. It is important to note that this is only for the additional costs associated with implementing the Proposed Franchising Scheme. It does not include the costs of paying franchise payments, which for this 'What If?' test, are assumed to scale in line with patronage and revenue.

3.4.12 Table 3 below shows summary impacts on the BCR and NPV (in £m) for the Proposed Franchising Scheme of Step 1 and Step 2.

Table 3: summary impacts on the BCR and NPV (in £m) for the Proposed Franchising Scheme of Step 1 and Step 2

Sensitivities £m 2010 values and prices	Measure	Franchising			
		Scenario 1: Back to normality	Scenario 2: New travel demand	Scenario 3: Car dominant travel	Scenario 4: Poorer and more local
Step 1: no cost change	NPV	£148	£328	-£63	£190
	BCR	2.1	5.0	0.7	2.6
Step 2: 1:1	NPV	£185	£281	£69	£206
	BCR	3.1	3.0	3.0	3.0
Step 2: 1:2	NPV	£166	£304	£3	£198
	BCR	2.5	3.8	1.0	2.8

3.4.13 The Step 1 factoring of aggregate benefits in line with the year on year patronage changes derived to reflect each of the four Scenarios shows that this first-order impact has wide-ranging impact on the net benefits and hence the NPV and BCRs. For Scenario 1 and Scenario 4, where the patronage change impact is fairly modest, the Step 1 effect is to see the BCRs fall from 3.1 in the Assessment to 2.1 and 2.6 respectively, and between 5 and 0.7 for the less-likely Scenario 2 and Scenario 3.

3.4.14 Step 1 assumes, however, that costs are unaffected by the change in patronage. However, as previously mentioned, that is unrealistic. If the costs were completely scalable (as in the test labelled "Step 2 1:1"), then the BCRs for each Scenario return to the level in the Assessment. Applying the more realistic, but probably conservative, 1:2 adjustment to implementation costs for the Proposed Franchising Scheme sees the BCRs range between 2.5 and 2.8 for Scenario 1 and Scenario 4 respectively and between 3.8 and 1.0 for the more outlier Scenario 2 and Scenario 3. Broadly similar relative effects are seen for the NPV metrics, with these results showing the small NPV for Scenario 3, which is very sensitive to small changes in the net position between net costs and net benefits.

[5] A high review of the impact of the potential market sizes changes in ITS monitoring and depot implementation costs resulted in potential costs changes of -16%, +7%, -52% and -17% compared with market size reduction of -20%, +25%, -72% and -9% by 2026 for the four TfGM Covid-19 Scenarios. These figures would suggest that a saving of 1:2 would be achievable and hence the test is considered conservative.

3.4.15 As stated in Section 3.4.5 ('What If?' Testing of the Downside Impacts of Covid-19 on the Value for money), these appraisals can be considered as approximate rebased appraisals for the Proposed Franchising Scheme for each Scenario.

3.4.16 Notwithstanding that OneBus have not confirmed that a partnership option would still be on offer, the same analysis was run for the Operator Proposed Partnership for illustrative purposes only. The results of the rebasing follow a similar pattern to those for the Proposed Franchising Scheme in that Step 1 produces a wide range of value for money outcomes, with BCRs between 1.4 and 4.3 and NPVs remain below the levels for franchising except for Scenario 3. Whilst the Step 2 cost adjustment was derived from reviewing the costs of implementing the Proposed Franchising Scheme and, hence, would not necessarily apply to the Operator Proposed Partnership in the same way, the same adjustment has been applied for reasons of consistency only. Applying the same 1:2 cost adjustment to TfGM's implementation costs for the Operator Proposed Partnership again moderates the BCR range, though there is uncertainty in how TfGM could deliver these costs savings in practice.

3.4.17 Comparing the rebased results for franchising and an illustrative partnership in Table 4 below shows that:

- In Scenarios 1, 2 and 4 the BCRs for both options show high value for money, though the net economic benefit or NPV is higher for the Proposed Franchising Scheme.
- In the outlier Scenario 3, the illustrative partnership would maintain value for money, though the NPV is small and the BCR falls to low value for money if the costs cannot be scaled; and
- The results for this illustrative analysis are very sensitive to small changes to the factoring assumptions as the net values are low compared with the absolute numbers for the metrics across the appraisal period.

Table 4: Comparing the rebased results for franchising and an illustrative partnership

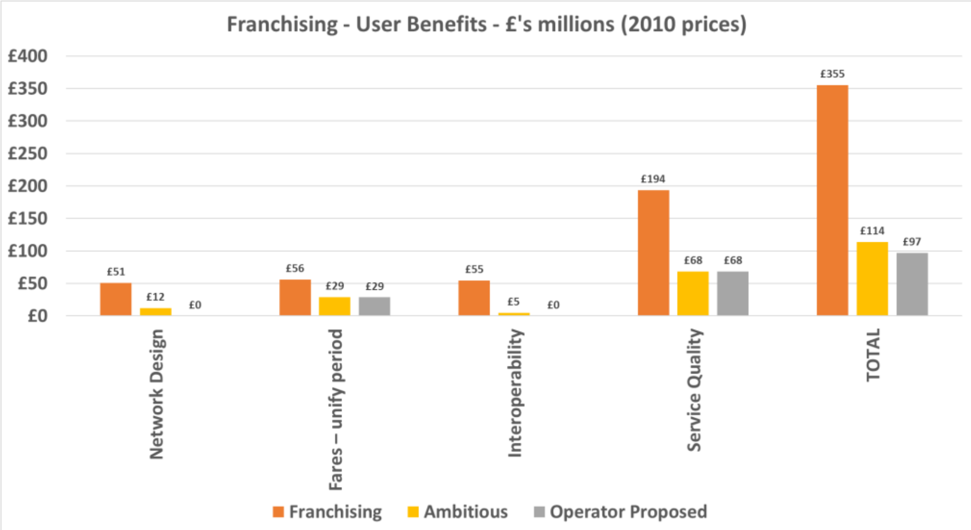
Sensitivities £m 2010 values and prices	Measure	Illustrative Partnership			
		Scenario 1: Back to normality	Scenario 2: New travel demand	Scenario 3: Car dominant travel	Scenario 4: Poorer and more local
Step 1: no cost change	NPV	£60	£106	£10	£70
	BCR	3.0	4.3	1.4	3.2
Step 2: 1:1	NPV	£64	£98	£24	£72
	BCR	3.4	3.4	3.4	3.4
Step 2: 1:2	NPV	£62	£100	£17	£71
	BCR	3.2	3.7	2.0	3.3

Step 3A: Potential downside changes to individual benefits related to bus market size

3.4.18 In the following Steps, the output of Step 2, where the implementation costs have been scaled in a ratio of 1:2, has been used as a rebased position to undertake the 'What If?' tests that consider what reasonable downside assumptions are required to show that the Proposed Franchising Scheme would not offer value for money.

3.4.19 Chart 8 below shows the four types of quantified benefit to users included in the Assessment and their relative size for the three options considered. As discussed in Section 1.4 (Possible future transport scenarios) above, the four Scenarios could impact the bus market and hence these benefits in various ways, both positively and negatively.

Chart 8: the four types of quantified benefit to users included in the Assessment and their relative size for the three options considered



3.4.20 Under Scenarios 1 and 4, where the market size reduces moderately compared with previous estimates, the potential impacts of reduced patronage and resultant reduced operated bus services kilometres on interoperability are not clear. If the industry consolidates (which could happen under Scenario 3 and maybe also Scenario 1), then this would imply fewer operator own-brand tickets (because fewer operators are creating bespoke ticket ranges) and also fewer trips where in-corridor interoperability benefits can be realised.

3.4.21 On the other hand, it may also be argued that network inefficiencies and interoperability challenges could increase in a smaller and hence more dispersed market, with more operators fighting for the remaining prime commercial markets. As the market and profitability decline, the market could fragment in terms of more limited commercial operation during the day and increasing levels of tendered services at other times. In a deregulated market, TfGM are required to accept the lowest tenders (with a limited number of exceptions), and so this could lead to increased levels of fragmentation, and the unit value of interoperability to bus users under a franchise would go up.

3.4.22 The 'What If?' tests are designed, however, to test what might reasonably be considered downside cases for each Scenario such that if the overall market size were to decline significantly. In that case:

- The benefit bus users would receive under a franchised scheme for the greater efficiency in the provision of services from the removal of network inefficiencies such as over bussing across an integrated network would reduce if the decline in the market drove out these inefficiencies.
- A smaller overall bus market could result in a greater concentration of services in a smaller number of operators, and hence the interoperability benefits offered by franchising may be smaller.

3.4.23 To represent this potential downside, the 'What If?' analysis uses the potential reductions in the size of the bus market related to the Scenarios to propose reductions in network and interoperability benefits under the Scenarios set out in Table 5 below. As this is a downside test, no adjustments have been made to any of the costs that may be associated with realising these benefits.

Table 5: Proposed reductions in network and interoperability benefits under the Scenarios

Step 3 Factors	Scenario 1: Back towards normality	Scenario 2: New travel demand	Scenario 3: Car travel dominant	Scenario 4: Poorer and more local
Network benefits	25%	100%	0%	50%
Inter-operability benefits	50%	100%	50%	75%

3.4.24 The impact of these Step 3A impacts on benefits have been tested incrementally off the rebased position from the Step 2 test, which assumed that implementation costs would fall in relation to patronage in a ratio of 1:2. The results are shown in Table 6 below.

3.4.25 For Scenarios 1 and 4, the BCRs reduce but still offers value for money, though the loss of approximate 75% of these benefits in the outlier Scenario 3 (where patronage falls to c. 20% of the patronage in the Assessment) sees the BCR fall below 1.0. This result is driven largely by the relatively low levels of new bus trips generated and hence lack of new income to offset costs.

Table 6: Incremental impact of Step 3A impacts on benefits

Sensitivities £m 2010 values and prices	Measure	Franchising			
		Scenario 1: Back to normality	Scenario 2: New travel demand	Scenario 3: Car dominant travel	Scenario 4: Poorer and more local
Step 2: 1:2	NPV	£166	£304	£3.0	£198
	BCR	2.5	3.8	1.0	2.8
Step 3A: Downside loss of network and interoperability benefits	NPV	£68	£304	-£39	£133
	BCR	1.4	3.8	0.7	2.0

3.4.26 As these tests have focused on the key benefits that franchising would offer over and above the various partnership options, it is not appropriate to apply these particular tests to the Operator Proposed Partnership. Similar tests could be conducted to stress test the potential to realise the benefits of partnership options as set out in the Assessment, but these would require engagement with operators to agree the specification of what the partnership offer would actually comprise under each Scenario. As set out above in Section 1.4 (Possible future transport scenarios), it is not clear that operators would be able to do this at this stage.

3.4.27 Comparing the Step 3A downside results for the Proposed Franchising Scheme, as set out above, with the previous rebased Step 2 results for the illustrative partnership (with no downside reduction on benefits despite concerns about the ability of a partnership to realise the benefits forecast in the Assessment) shows that:

- In Scenario 1, both 'downside franchising' and illustrative partnership options offer value for money and the NPV would be similar, though the BCR to GMCA of an illustrative partnership would be higher due to the low investment required from the authority.
- In the upside outlier Scenario 2, both downside franchising and an illustrative partnership would offer high value for money, whilst a downside franchising option would retain higher NPV.
- In the downside outlier Scenario 3, an illustrative partnership offers value for money, though with a small NPV that may or may not be realisable, whilst the Proposed Franchising Scheme prior to any adaptation would be poor value for money.
- In Scenario 4, both options offer high value for money, with a downside franchising option showing almost twice the NPV.

3.4.28 This comparison shows that the reduced benefit downside appraisal of the Proposed Franchising Scheme performs at least as well in value for money terms to an illustrative partnership.

Step 3B: impact of the loss of branding benefits

3.4.29 Whilst not directly related to the impact of Covid-19, the audit of the Assessment queried the robustness within the economic appraisal of the scale of the benefits accruing from having a unified brand for franchised services.

3.4.30 Since the audit, no further or more appropriate evidence has been found to support the valuation and, due to Covid-19, TfGM have been unable to commission any additional empirical research.

3.4.31 A further 'What If?' test has been undertaken using the factoring framework described above to consider how important this branding benefit is to the Assessment. In this test, half the Journey Quality benefits have been assumed to be derived from the value of the brand and these have been applied to the rebased appraisals from Step 2. As this is a downside test, no adjustments have been made to any costs that may be associated with realising these benefits.

3.4.32 Table 7 below shows that the loss of all the branding benefits from these tests sees the value for money for the Proposed Franchising Scheme remains high value for money in the upside outlier Scenario 2, becomes medium in the more likely Scenarios 1 and 4, and in the downside outlier Scenario 3 the Proposed Franchising Scheme would offer poor value for money. These tests show that in the Scenarios that could be considered more likely, the Assessment is robust to the loss of the branding benefits.

Table 7: The value for money for the Proposed Franchising Scheme after the loss of all the branding benefits

Sensitivities £m 2010 values and prices	Measure	Franchising			
		Scenario 1: Back to normality	Scenario 2: New travel demand	Scenario 3: Car dominant travel	Scenario 4: Poorer and more local
Step 2: 1:2	NPV	£166	£304	£3.0	£198
	BCR	2.5	3.8	1.0	2.8
Step 3B: Downside loss of branding benefits	NPV	£73	£161	-£31	£93
	BCR	1.6	2.3	0.7	1.8

Step 3A + 3B: Impact of downside franchising plus the loss of all branding benefits

3.4.33 Whilst the robustness of the branding benefit is not related to Covid-19, a downside test of reductions in Network and Interoperability benefits combined with the loss of all branding benefits was conducted. It is considered unrealistic that all the branding benefits would be lost alongside the significant reduction in the Network and Interoperability benefits, but the test has been devised to consider how sensitive the Proposed Franchising Scheme economic appraisal is to the loss of these benefits, which is a key dimension to how the Proposed Franchising Scheme addresses the GMCA's objectives.

3.4.34 In this combined test the downside to the Proposed Franchising Scheme would be poor value for money for in Scenario 1 and the outlier Scenario 3 prior to any adaptation to the implementation of the Proposed Franchising Scheme to make it more aligned to the bus market conditions pertaining at the time. Positive value for money is maintained for this combined downside in Scenarios 2 and 4. If only 50% of the branding benefits were lost, then value for money would be maintained in Scenario 1. This is shown in table 8 below.

Table 8: Step 3A + 3B: Downside Franchising plus loss of Branding Benefits

Sensitivities £m 2010 values and prices	Measure	Franchising			
		Scenario 1: Back to normality	Scenario 2: New travel demand	Scenario 3: Car dominant travel	Scenario 4: Poorer and more local
Step 2: 1:2	NPV	£166	£304	£3.0	£198
	BCR	2.5	3.8	1.0	2.8
Step 3A + 3B: Downside loss of branding benefits AND loss of all branding	NPV	-£25	£161	-£73	£28
	BCR	0.8	2.3	0.4	1.2

Implications of 'What If?' Testing and Potential Commercial Levers to Mitigate Uncertainty

3.4.35 There are several inferences that can be drawn for this 'What If?' analysis of the potential impacts of the Scenarios on the Proposed Franchising Scheme.

- The initial simple factoring of benefits due to the projected patronage changes from the uncertainty Scenarios clearly has a significant impact on the net benefits of the Proposed Franchising Scheme, both positive and negative, and hence the appraisal metrics such as the BCR and NPV.
- The factoring in Step 2 to reflect how the implementation costs would also be adjusted in the radically changed circumstances helps to moderate these effects and highlights that it is crucial to get costs in proportion to the market.
- For three of the Scenarios (Scenarios 1, 2 and 4), with the demand rebasing and adjusting the implementation costs so that they vary in a ratio of 1:2, the Proposed Franchising Scheme is still likely to offer high value for money and offer the highest economic value in terms of NPV. Scenario 3 would represent low/poor value for money.
- The Step 3A test, which looks to explore the possible downside of a declining market size affecting the individual network and interoperability benefits, shows that in the case of Scenarios 2 and 4 value for money nonetheless would remain high, but in the case of Scenario 1 it would be low.
- In the Step 3A test for outlier Scenario 3, network inefficiencies may have largely been removed due simply to the contraction of the market itself and value for money would be poor. However, this structural change is unlikely to be without new market failures

in how the bus network supports the Greater Manchester economy in getting bus-dependent people to their places of work, and it is uncertain what if any partnership proposals would be offered to contribute to keep the network running.

- The downside sensitivity on branding shows that in all but the downside outlier Scenario 3 the rebased appraisals for the Proposed Franchising Scheme offer at least medium value for money.

3.4.36 The conclusions to be drawn from this 'What If?' analysis are therefore that:

- Covid-19 has added uncertainty around the central Economic Case presented in the Assessment but the 'What If?' testing shows a level of robustness in the economic appraisal with the rebased appraisals showing that, in all but the outlier Scenario 3, the rebased appraisals for the Proposed Franchising Scheme are likely to offer at least medium value for money, and continue to out-perform the partnership options in terms of net economic benefit.
- The 'What If?' downside tests show that if the bus market consolidates, rather than fragments, in response to the declines in bus market size projected in three of the four Scenarios, then the loss of the key benefits of franchising in terms of addressing network inefficiencies and interoperability would see the Proposed Franchising Scheme offers less value for money. In this downside situation, the Proposed Franchising Scheme (if un-adapted to changing bus market conditions) and partnership options (if deliverable) would offer similar value for money.
- As per standard bus network planning processes, to ensure better value for money in the circumstances discussed above, TfGM would need to adapt to changing contexts by revising the commercial levers within the franchise contracts. These changes to contract specifications would use market intelligence and principles along the lines set out in the Commercial and Management Case chapters to achieve better value for money.

3.5 Discussion of Other Impacts included in the Assessment

Distributional Impacts

3.5.1 The Assessment presented precisely quantified economic impacts from the Analytical Framework for the different stakeholder groups, such as bus users, bus operators, GMCA and HMT, and the wider public in Greater Manchester. As set out earlier in this chapter, it has not been appropriate to re-estimate these values for the Scenarios, but a qualitative narrative has been included in Section 1.4 (Possible future transport scenarios).

Wider Economic Impacts (WEIs)

3.5.2 The Assessment included an analysis of the WEIs of the Proposed Franchising Scheme as per DfT Transport Appraisal Guidance to look at whether impacts were additional at the UK level and then at the local level. The quantified benefits were not included within the core appraisal in the Assessment, and they have not been included in the 'What If?' testing presented above.

3.5.3 There is clearly potential for Covid-19 to have a different impact on the Greater Manchester economy than that seen in other UK locations, and for different impacts within Greater Manchester itself. Impacts will vary between different economic sectors (or types of occupation), and these will subsequently feed into different scales of impacts and different geographical locations within the city region. This will then determine the impact on the bus market and any estimation of WEIs.

3.5.4 Given the data requirements to understand this complexity, and as a major driver in the estimation of WEIs are the user impacts to bus travellers that have been considered in the 'What If?' analysis, it has not been considered relevant to attempt to consider quantitatively the impact on WEIs of the Scenarios.

3.5.5 Where WEIs analysis does offer some qualitative insight into the impact of Covid-19 is in extending the transport appraisal framework, which contains the simplifying assumption that transport schemes do not affect the overall level or location of economic activity (i.e. the economy is fixed). Some of the Scenarios that postulate significant falls in patronage, and hence bus service provision, would result in real economic effects, namely more poorly performing labour markets, that the Proposed Franchise Scheme would seek to address and hence change the overall level of economic activity with resulting benefits to UK plc. Such labour market inefficiencies could take the form of:

- Frictional unemployment – individuals do not instantaneously find jobs upon entering the labour market or leaving previous employers, such that there is a time search element to unemployment which would be exacerbated by reduced bus network coverage.
- Labour supply impacts transport is most likely to be a barrier to employment when an area has poor connections to employment centres and/or high transport costs relative to incomes.

3.6 Key Considerations in Understanding the Covid-19 Impact on the value for money

3.6.1 The analysis in this chapter exploring the uncertainty induced by Covid-19 into the bus market, and hence the value for money for the Proposed Franchising Scheme, point to the following three important considerations:

- How commercial levers in the franchise specification should be developed so that the implementation of the Proposed Franchising Scheme can be adapted to minimise risk and ensure value for money;
- Extending the value for money analysis framework to address the additional impacts that significant falls in bus market size could induce; and
- The impact of an extended period of Covid-19 recovery on the market failures in the bus network provision

3.6.2 Each consideration is discussed further below.

The Role of Bus Reform Implementation Plans in Ensuring Value for Money

3.6.3 The analysis in the section above highlights the importance of TfGM being able to adapt to changing market conditions to ensure the implementation of the Proposed Franchising Scheme offers value for money. Whilst bus services are one of the most flexible and adaptable transport modes, nevertheless, the bus system is far from infinitely divisible. Matching supply and demand on a route-by-route basis, particularly when much of the network operates at low frequency, has inherent challenges.

3.6.4 Bus industry revenues have already been significantly impacted by Covid-19, and these impacts are expected to continue over the next few years. If franchise costs, farebox revenue and funding are all scalable to market size with no friction and if supply and demand are broadly in balance with one another over time, then affordability and value for money will be maintained, almost irrespective of future market conditions. Perfect scalability will not be possible, but the commercial model, as set out in the Commercial Case, has been developed to minimise the levels of friction, both during the implementation phase and in operation. Similarly, the implications of the Scenarios on the affordability of the Proposed Franchising Scheme are presented in the Financial Case section of this report (see from Section 5) and a revised mitigation proposal has been developed for approval by GMCA.

Extending Value for money Analysis for significant falls in patronage

3.6.5 The 'What If?' sensitivity analysis in Section 3.4 ('What If?' Testing of the Downside Impacts of Covid-19 on the Value for money) shows that, where the reductions in patronage are significant, then there can be a detrimental impact on the Economic Case in the Assessment. That assessment followed the standard welfare-based transport economics methods of DfT Transport Appraisal Guidance, which are suited to examine incremental changes to passenger services (fares changes, network improvements, etc.) that are marginal in scale.

3.6.6 However, as demonstrated above, as bus patronage falls, then the underlying economic value of trips made by bus passengers will change, particularly in circumstances where degradation of the network may result in the inability of far greater numbers of Greater Manchester residents to use the bus system to take part in activities that are essential to the functioning of the Greater Manchester economy and hence to their own financial and social welfare. These were the conditions that the initial Covid-19 lockdown in March induced, and which prompted the significant levels of support provided to bus operators by central government to ensure that bus services vital to the economy were kept operating.

3.6.7 The economic analysis of personal hardship and of the performance of the economy as a result of an inadequate transport system is not well understood. However, it can be argued that the benefits associated with improving the bus system under lower patronage levels may be higher by an order of magnitude than those used in the Assessment. These increased benefits would be based upon:

- Introducing income effects into the Assessment[6] (as per the Green Book) so that impacts to low income groups, who are dependent on the bus network, would receive higher weighting
- Extending the economic analysis from a simple transport appraisal, where transport schemes are assumed not to change the overall level of economic activity, to a fuller economic appraisal that allows the transport interventions to have a 'real' economic effect on local economic performance in Greater Manchester in terms of the provision for workers particularly in analysis of labour markets for low income workers.

[6] Welfare economics shows that wellbeing (or utility) is affected by income: whilst wellbeing increases with income, the marginal gain in wellbeing is decreasing with units of additional income. This is the established, diminishing 'marginal utility of money'. The Green Book (Annex 6, HM Treasury, 2018) allows for this to be quantified and included in appraisals. Hence, a policy which increases incomes or reduces travel costs among low-income residents (or workers) is potentially beneficial, even if there is an equivalent negative money impact on high-income groups, all other things being equal. There are potential implications for levelling-up.

The impact of an extended period of Covid-19 recovery on the market failures in the bus network provision

3.6.8 The Covid-19 pandemic has caused several new factors to emerge that suggest that there is additional pressure on the ability of private bus operators to allocate resource efficiently within the bus market.

3.6.9 The uncertainty induced by Covid-19 and the resulting macro-economic instability combined with the need to keep vital bus services operating has seen government introducing short term funding support. With all revenue risk currently sitting with the public sector, and with a far greater proportion of revenue risk likely to reside with the public sector in the next few years at least, it is likely that market failure will increase relative to that considered in the Reference Case due to:

- Information asymmetry/failure as a result of bus operators not being required to release adequate passenger usage and other information to those public sector agencies responsible for providing funding and which limit a transport authority's ability to make informed choices about the use of this subsidy.
- Operators having a lack of incentive to guard against the risks of inefficient use of resources, and hence increased costs, as they will continue to define the routes within the deregulated market[7], with the public sector providing an increasing proportion of the costs.

3.6.10 If both these instances of market failure were to persist, then the aggregate benefits of the Proposed Franchising Scheme, which already is defined to address them, would increase and the likelihood of a partnership model solving them would decrease.

3.7 Conclusion on Covid-19 Impact on Value for Money

3.7.1 User benefits under both reform options are likely to scale to market size, and some benefits are likely to no longer be realisable under both franchising and partnership options, though there are reasonably likely scenarios where unit benefits could increase if the problems identified in the counterfactual worsen. However, given the structural changes that may occur due to Covid-19, it is not possible to reforecast these impacts with the levels of confidence previously included in the Assessment.

3.7.2 Covid-19 has added uncertainty around the central Economic Case presented in the Assessment, but the 'What If?' testing shows a level of robustness in the economic appraisal. The rebased appraisals that allow for demand changes and adjustments to implementation costs show, in all but the outlier Scenario 3, that the rebased appraisals for the Proposed Franchising Scheme are still likely to offer at least medium value for money. The downside 'What If?' testing shows that in instances where a significant proportion of the benefits were not realised then the value for money for the Proposed Franchising Option would fall to low or even poor.

[7] It is noted that the increased subsidy for the franchised rail industry has been combined with a de facto nationalisation of this industry via the introduction of Emergency Recovery Measures Agreements. These agreements see more demanding management agreements than previously were in place, with new performance targets, and management fees set at a maximum of 1.5% of the cost base of the franchise before the pandemic began.

3.7.3 An illustrative partnership option has been tested, though there is considerable uncertainty surrounding the delivery of benefits when compared with the situation at the time the Assessment was prepared, as operators have stated that they can no longer commit to their previous proposals. This illustrative partnership option shows high value for money in most scenarios other than in Scenario 3, though has lower net economic benefit than the franchising option. In practice, the costs of managing the partnership for TfGM are likely to remain similar to the Assessment and, therefore, unlikely deliver the reductions assumed in the tests to the level of implementation costs. As noted above, there is also considerable uncertainty as to whether operators could achieve the assumed benefits realisation.

3.7.4 For the outlier Scenario 3, in a situation where decline is exacerbated by the assumed early withdrawal of significant proportions of Government funding, the test does suggest that the Proposed Franchising Scheme would be poor value for money. If such conditions did happen in reality (and as set out in the Section 1.4 (Possible future transport scenarios), this is now considered unlikely), the problems of market failure in the bus market will be more acute than those defined previously in the Reference Case and so the standard transport consideration of value for money would fail to reflect sufficiently the importance the bus network would play in supporting the economy of Greater Manchester.

3.7.5 In all of the Scenarios considered, the analysis has highlighted the importance of an approach to franchise specification and contracting that includes suitable uncertainty management strategies to address any resilience issues that may arise in respect to value for money. Considerations of the commercial levers available to TfGM to address these issues, therefore, are articulated in both the Commercial and Management Case chapters of this report.

3.7.6 The overall conclusion of this analysis is, therefore, to confirm that, on balance, the value for money of the Proposed Franchising Scheme is likely to be robust to the uncertainty created by Covid-19 in all reasonably likely Scenarios. The Proposed Franchising Scheme also remains preferable to the Operator Proposed Partnership option as, on balance, the overall net benefits are likely to remain higher and more deliverable, particularly given the considerable uncertainty surrounding what, if any, partnership options are on offer.

4. Commercial Case

4.1 Introduction

4.1.1 In the Assessment, the Commercial Case described the proposed commercial model for the franchise and partnership options including, where relevant, the packaging of services, commercial roles and responsibilities, management of key asset groups, and how any procurement would take place.

4.1.2 This section considers the potential implications of Covid-19 on the commercial model for the Proposed Franchising Scheme model and the Partnership model. In order to inform this Assessment, four Scenarios have been developed to help decision-makers be aware of a broad range of potential outcomes as to what the market may look like in the future. These Scenarios are described in Section 1.4 (Possible future transport scenarios) of this report and, as a key factor in the commercial proposition, the operated mileage within each Scenario has been used in this section in order to consider the potential implications of Covid-19 on the proposed commercial models for the options from the perspective of the following:

- A mid-range reduction in operated mileage (e.g. Scenarios 1 and 4)
- A significant reduction in operated mileage (e.g. Scenario 3)
- No change to operated mileage (e.g. Scenario 2). However, as this outcome would not have any impact on the proposed commercial models in either the steady state or during transition, the commercial proposition described in the Assessment would not be impacted, and so this Scenario is not considered further in this section.

4.2 Franchise Model

4.2.1 This section considers the impact of, and TfGM's response to, the potential implications of Covid-19 on the proposed commercial model for the Proposed Franchising Scheme. It sets out:

- Franchise design, encompassing a packaging strategy for how the Greater Manchester market would be broken down into individual franchises, the franchise length, and risk and responsibility allocations
- Commercial strategies in respect of the key asset groups of depots, fleet, and Intelligent Transport Systems ("ITS")
- Approach to the procurement of the new franchises, encompassing the procurement strategy and procurement programme
- Approach to market engagement to test the proposed commercial model for a franchised market in Greater Manchester
- How the proposed commercial model would facilitate strong competition for franchises
- Approach to managing risks around existing operations and services between any decision to implement the Proposed Franchising Scheme and the commencement of franchise operations

- Impact on the key commercial risks identified in the Assessment, and consideration of Covid-19 related commercial risks
- Approach to cross-boundary services
- Commercial levers to mitigate the risk of uncertainty
- Conclusion to the Commercial Case for the Proposed Franchising Scheme

4.2.2 Where appropriate, each of these is considered in the context of:

- Firstly, the steady-state model: the enduring commercial model to deliver the Vision for Bus (see Section 2.3 (GMCA's objectives for the bus network)) which will be in place for the majority, and in some cases all, of the appraisal period.
- Secondly, the transitional arrangements: where the steady-state model cannot be achieved immediately, arrangements would be required to facilitate a transition from the current situation to delivery of the steady-state model.

4.2.3 The Assessment described, where the steady-state model for each component of the franchise model could not be achieved immediately, how arrangements would be required to facilitate a transition from the current situation to delivery of the steady-state model. As such, the transitional arrangements for different aspects of the commercial model may be in place for differing durations. For example:

- The Assessment described how the ITS strategy is only expected to require transitional arrangements for a short period of time whilst new equipment is installed on the fleet.
- This contrasts with the depot strategy, which envisages a period of coordination and rationalisation of the strategic depot estate, potentially also reducing the number of strategic depots. This exercise would likely take several years, particularly in the event that new depots are built to reach the steady-state proposition resulting in a significantly longer transitional phase.

4.2.4 This Commercial Case has also considered the potential implications of Covid-19 on:

- The robustness and the bidding appetite of the operator market. The Scenarios recognise that Covid-19 may result in changes to public travel attitudes. These levels and patterns would directly impact patronage and the strength and viability of the current operator market. The expected impact of this is as follows:
    - There will be a period of volatility during the first round of franchising. This may result in a reorganisation of the breadth and depth of the operator market. This and the uncertainty created by Covid-19 could impact the appetite of operators to bid for franchises during transition, and this is considered in further detail in sections 4.2.51 to 4.2.55 (Procurement – Procurement Strategy – Transitional Arrangements) of this report. On balance, TfGM believes that the commercial opportunity of the franchise contracts, including GMCA taking revenue risk, is likely to outweigh any wider drivers of lower bidding appetite, and the Proposed Franchising Scheme will likely be a more attractive proposition to the operator market during a period of volatility. In the event of a Mayoral decision to introduce the Proposed Franchising Scheme, GMCA would assess any developments in the market, including through pre-procurement market engagement (see Section 4.2.70 (Market Engagement)), from the period of the

Mayoral decision through to procurement of the first round of the Proposed Franchising Scheme to confirm whether the proposed commercial model is still suitable at the time of procurement. Should this indicate that the proposed commercial model requires amendment, this would be considered, and the model adapted where appropriate. The Assessment also described how a negotiated procedure would be used until there was a suitably settled position that would enable a restricted procedure to the applied. This procedure allows for additional flexibility and consultation between GMCA and bidders, including in the event of significant developments in the market during the procurement process.

 - Whilst there may be some consolidation of the operator market during the first round of franchising due to Covid-19, the size and depth of the potential bidding market identified in the Assessment provide confidence that there would be a healthy operator market. As such, although the operator market may be different to that of today, it is expected that its underlying strength, competitiveness and appetite for bidding for franchises will be largely consistent with that at the time of the Assessment.

- The measures described in the Assessment to facilitate the involvement of small and medium-sized (SME) operators. Analysis has not identified any factors indicating that large and SME operators would not be impacted in a broadly comparable manner, but it is accepted that SME operators could be less well-equipped to manage the disruption caused by Covid-19. SME operators continue to play an important role in the Greater Manchester bus market during the Covid-19 pandemic, and no evidence has been identified which would suggest that they would not wish to participate in the Proposed Franchising Scheme. It has, therefore, been concluded that the measures described in the Assessment to facilitate the involvement of SME operators remain appropriate and would not be impacted.
- The proposed key contractual arrangements relating to the transfer of staff under the TUPE Regulations have also been considered. These arrangements, as set out in the Assessment, would not be impacted by any of the Scenarios.
- Consideration has also been given to the proposed minimum period of nine months between awarding a franchise contract and the running of local services under that contract. The Scenarios would not have an impact on the mobilisation period, and it would, therefore, still give operators sufficient time to mobilise. As set out in section 7.4.12 of this report (Potential modifications that may be required as a result of Covid-19 – Dates and Timing), it is proposed that this period of time remains appropriate in the Proposed Franchising Scheme.

Franchise Design

4.2.5 This encompasses how the Greater Manchester bus market would be broken down into individual franchises, how long those franchise contracts would be for, and the respective allocations of risk and responsibility between TfGM and franchise operators.

<u>Packaging Strategy</u>

4.2.6 The Assessment described how the Greater Manchester bus network would be split into:

- Five to ten large franchise contracts involving a total peak vehicle requirement (PVR), i.e. the number of vehicles required to operate the highest-frequency service of circa 1,250 (excluding spare fleet).
- Around 25 small franchise contracts involving a total PVR of circa 140 (excluding spare fleet), ranging from 2 to 14 per franchise, depending on geographical and operational factors.
- Contracts for school services not included in large or small franchises (total PVR of circa 300, excluding spare fleet), which would be franchised on a resource basis similar to how they are currently secured by TfGM on behalf of GMCA.

4.2.7 The likely implications of Covid-19, and its impact on the commercial model for the Proposed Franchising Scheme are as follows:

Steady-state model

4.2.8 A reduction in operated mileage (e.g. Scenarios 1, 3 and 4) would reduce the overall Greater Manchester fleet requirement and consequently the PVR of individual franchises. Any such reduction in operated mileage could be managed by GMCA in two ways:

- Firstly, by a reduction in the number of franchises both to maintain franchise economies of scale (e.g. by minimising spare capacity at depots) and preserve the range of franchise sizes previously indicated by the operator market as being attractive. It is unlikely that any reduction in the number of franchises would lead to any changes to the Proposed Franchising Scheme because it is not proposed that the Proposed Franchising Scheme would specify how many franchises there would be. However, it should be noted that:
    - The rationale behind the definition of a large franchise in the Proposed Franchising Scheme (which provides that large franchises would have a PVR of at least 34) and also the balance between large and small franchises would not be impacted by Covid-19, with any reduction in operated mileage being managed within these definitions. This would mean that the size of any small franchises and resource contracts would be proportionate to any reduced network and there would therefore be sufficient opportunity for smaller operators to participate in the Proposed Franchising Scheme.
    - Under Scenario 3, if there is a significant reduction in operated mileage, there may be a need to reduce both the frequency and coverage of franchised services. If this were the case, the list of services in the Proposed Franchising Scheme (being those services GMCA intends to franchise) may need to be modified as described in Section 7.4.9 (Potential modifications that may be required as a result of Covid-19 – Local Services).
    - Greater distances between depots and some routes, particularly routes that have been reallocated to other franchises as the number of franchises are reduced, suggest that this approach alone may lead to inefficiencies caused by increased dead mileage.

- To mitigate this, the second way in which a reduction in operated mileage could be managed would be through a reduction in individual franchise sizes where inefficiencies caused by dead mileage and/or other factors exceed the benefit of franchise economies of scale.

4.2.9 Therefore, if a mid-range reduction in operated mileage is experienced by the steady state (e.g. Scenarios 1 and 4), the number of franchises may be reduced such that there are between 4 and 8 large franchises (compared with between 5 and 10 in the Assessment) and between 15 and 20 small franchises (reduced from around 25 in the Assessment).

4.2.10 In the event of a significant reduction in operated mileage (e.g. Scenario 3), TfGM have considered whether it would be appropriate to revise the packaging strategy more significantly. In doing so, they have assessed two alternative models:

- A model consisting of more small franchises, or small franchises only.
- A route-by-route franchise model (similar to the model used in London).

4.2.11 However, both of these models are considered suboptimal on the basis that they would:

- Likely reduce attractiveness to new entrants, with a number of large non-incumbent operators previously indicating that they would only be in interested in bidding for small franchises once they had won a large franchise.
- Not allow GMCA to benefit from the economies of scale associated with larger franchises.
- Make network improvement more challenging as smaller franchises would reduce the scope of what could be achieved within a single franchise. Network improvements would increasingly need to be agreed and implemented across franchises.
- Increase the number and cost of contractual and operational interfaces to be managed by TfGM.

4.2.12 Therefore, TfGM have discounted these alternative approaches. The preferred approach of having a reduced number of franchises and a reduced size of some franchises is equally scalable to both mid-range and larger reductions in operated mileage. Therefore, if a significant reduction in operated mileage is experienced in the steady state (e.g. Scenario 3), the number of franchises may be reduced such that there are between 1 and 4 large franchises and between 5 and 10 small franchises. This approach would enable GMCA to retain economies of scale at the franchise level whilst appropriately reflecting the smaller bus network.

4.2.13 However, no changes are anticipated to the depot strategy, including the proposal that GMCA would seek to secure control of the 10 strategic depots identified in the Assessment, with the number of strategic depots potentially being consolidated over time (see Section 4.2.27 - 4.2.32 (Asset Strategy – Depots) of this report).

Transitional arrangements

4.2.14 Where, at the point of procurement of an individual sub-area, forecasting anticipates that operated mileage in the steady-state for that sub-area will be at or above the figure required at the commencement of transition (e.g. Scenarios 1 and 4), the number and size of packages in that sub-area would be set at the upper end of the expected steady-state range. For example, if between four and eight large franchises are cumulatively anticipated across all sub-areas in the steady state (as may be appropriate under either Scenarios 1 or 4), the packaging strategy at transition would include eight large franchises. This approach is consistent with that described in the Assessment (with between 5 and 10 large franchises in the steady state, and 10 large franchises at transition). Where, at the point of procurement of an individual sub-area, forecasting anticipates that operated mileage will reduce between the commencement of transition and the steady state, (e.g. Scenario 3), the steady-state model principles would be applied such that the number of packages let at transition would be based on the operated mileage at transition. As operated mileage subsequently reduces towards the steady state, the number and size of franchises would be rationalised further as appropriate, again following the steady-state principles.

4.2.15 Notwithstanding the above, it is recognised that there may not be sufficient clarity at transition to forecast steady-state operated mileage confidently. If so, the number of franchises in transition would be determined based on the greater of operated mileage at transition and maximum operated mileage anticipated in the steady state. This would enable the number and size of franchises at transition to be rationalised by the steady state where necessary, whilst mitigating the risk that the number of transitional franchises (and in the case of large franchises with strategic depots, the capacity of depot facilities) would be inadequate to deliver the future-steady-state operated mileage.

<u>Franchise Length</u>

4.2.16 The Assessment described how large franchise contacts would be let for five years with an optional two-year extension at GMCA's discretion, with shorter terms of three to five years proposed for small franchise contracts and school contracts.

4.2.17 The likely implications of Covid-19, and its impact on the commercial model, are as follows:

Steady-state model

4.2.18 It is expected that, by the steady state, the underlying strength and appetite of the operator market will be largely consistent with that pre-Covid-19. Consequently, the rationale for the steady-state franchise lengths proposed in the Assessment – providing sufficient period for operators to mitigate risk pricing whilst allowing GMCA the flexibility to make changes to franchise design – remains unchanged. Therefore, no implications have been identified that would suggest an impact on the steady-state model, and it has been concluded that franchise length would remain unchanged from that described in the Assessment.

Transitional arrangements

4.2.19 The Assessment described how, during transition, varying franchise lengths would be let to ensure that, by the steady state, a similar number of large franchises are let each year. This flexibility in franchise length may also be used by GMCA, where appropriate, to let shorter-term franchises during transition to mitigate against Covid-19 impacts, such as:

- A short-term reduction in operator robustness; in such circumstances, it may be prudent to let shorter franchise lengths to reduce the exposure of operators to risks caused by uncertainty around long-term cost forecasting.
- An increased need for GMCA to adapt franchises as the Greater Manchester bus network stabilises as the future steady-state bus market is reached. If the franchised bus network requires significant reorganisation and reprioritisation of resource, it may

be more efficient for GMCA to do so at the end of franchises rather than as a formal contract variation.

4.2.20 These impacts are more likely in the event of a significant reduction in operated mileage at transition (e.g. Scenario 3). Although there is insufficient evidence at present to warrant a change to the Assessment proposition, this will continue to be monitored by TfGM (see Section 4.2.68 (Market Analysis and Engagement - Potential Bidders - Transitional arrangements) of this report) and the model adapted where appropriate. Any case for shorter franchise lengths would also need to consider the likely impact on GMCA procurement costs and operator bidding costs to avoid the risk that the benefits of shorter franchise lengths are outweighed by the resulting increase in the cost of letting franchises. No changes are proposed in the event of a mid-range reduction in operated mileage at transition (e.g. Scenarios 1 and 4) as this level of change is not considered sufficiently significant to require further intervention in franchise lengths.

<u>Risk and Responsibility Allocation</u>

4.2.21 The Assessment described the allocation of risks and responsibilities:

- To those best able to manage them. This supports value for money and ensures that risks are most efficiently managed on an ongoing basis.
- To best facilitate GMCA gaining greater control of the passenger offer in order to achieve its strategic objectives.

4.2.22 The likely implications of Covid-19, and its impact on the commercial model are as follows:

Steady-state model

4.2.23 It is expected that, by the steady state, the underlying strength and appetite of the operator market will be largely consistent with that of pre-Covid-19. Consequently, the rationale for the risk and responsibility allocation proposed in the Assessment (i.e. based on the party best able to manage them) remains unchanged. Therefore, no implications have been identified that would suggest an impact on the steady-state model, and it has been concluded that risk and responsibility allocation would remain unchanged from that described in the Assessment.

Transitional arrangements

4.2.24 In the event of a weakened operator market during transition, it is possible that the market's appetite to risk may be lower. Although there are potential areas of risk transfer that could be modified to mitigate operators' exposure, it is not anticipated that these would materially change the overall risk-and-reward model.

4.2.25 Conversely, and as described in Section 4.2.52 of this report (Procurement Strategy), it is feasible that GMCA taking revenue risk may actually increase bidding appetite during transition. This is particularly relevant in the event of a weakened operator market and ongoing patronage volatility, given operators have relied heavily on Government subsidy in the form of the Covid-19 Bus Services Support Grant to offset the revenue shortfall created by reduced patronage.

Asset Strategy

4.2.26 The commercial structure is in part determined by the ownership and control of the key assets that are used in running the bus service. These assets are the bus depots, the fleet of buses themselves, and the Intelligent Transport Systems (“ITS”) that support ticketing and other aspects of the service.

Depots

4.2.27 The Assessment described how GMCA would seek to take control of strategic depots and provide these to operators of large franchises for the delivery of franchise operations in order to remove a key barrier to entry for bidders for large bus franchises. With control over the depot estate, GMCA would also be able to coordinate and consolidate depot capacity across Greater Manchester, managing the specification and quality of the depot assets better. This is anticipated to become increasingly relevant, given the likely need for infrastructure investment in emerging fuel technologies. Provision of depot facilities for small franchise contracts and school contracts would remain the responsibility of operators, given that the rationale in the Assessment remains unchanged that the smaller scale of these facilities means that they are not considered strategic in nature and do not present a material barrier to entry.

4.2.28 The likely implications of Covid-19, and its impact on the commercial model are as follows:

Steady-state model

4.2.29 Irrespective of a reduction in operated mileage in the steady state, the barrier to entry of a new entrant being able to submit a credible bid for a large bus franchise without depot access arrangements being established at the outset remains significant. Therefore, no implications have been identified that would suggest an impact on the steady-state model. In particular, the rationale of a steady-state depot strategy of one strategic depot per large franchise is unchanged.

Transitional arrangements

4.2.30 As described in Section 4.2.14 (Packaging strategy – Transitional Arrangements), the number of large franchises let during transition may be less than the 10 proposed in the Assessment. However, no changes are anticipated to the depot strategy in transition, including that GMCA would seek to secure control of the 10 strategic depots identified in the Assessment, which would otherwise:

- Increase the impact on operators in the event of otherwise stranded assets.
- Increase transition risk, from the perspective of both operational continuity and depot capacity.

4.2.31 In the event that the number of large franchises let at transition in a sub-area is less than the number of strategic depots controlled by GMCA in that sub-area, this may result in more than one strategic depot being allocated to a single large franchise. The transitional phase would then be used to rationalise individual franchise depot facilities where appropriate, such as where a franchise operated mileage no longer warrants more than one depot. This would be delivered as part of the depot strategy described in the Assessment whereby the number of strategic depots may be consolidated over time, with a mix of existing and new depots.

4.2.32 Any decision to consolidate the number of strategic depots would also consider any evidence of future upwards pressure on capacity, including infrastructure requirements of emerging fuel technologies and forecast modal switch (e.g. from car to public transport), as part of the future coordination and consolidation of depot capacity described in the Assessment.

Fleet

4.2.33 The Assessment described how operators would continue to own or lease buses to take advantage of the relationships, experience and buying power of operators. GMCA would introduce a residual value ("RV") mechanism that would guarantee the future value of franchisees' bus fleets at franchise end.

4.2.34 The likely implications of Covid-19, and its impact on the commercial model are as follows:

Steady-state model

4.2.35 It is expected that, by the steady state, the underlying strength and appetite of the operator market will be largely consistent with that of pre-Covid-19, and therefore the benefits of operator responsibility for provision of fleet remain unchanged. Similarly, the principles of the RV mechanism facilitating transfer of fleet at franchise expiry remain valid regardless of the size of the Greater Manchester network. Therefore, no implications have been identified that would suggest an impact on the steady-state model, and it has been concluded that the fleet strategy would remain unchanged from that described in the Assessment.

Transitional arrangements

4.2.36 Fleet data analysed by TfGM indicates that the average age of the Greater Manchester fleet has increased since the date of the data used in the Assessment from 8.6 years (September 2018) to 9.1 years (September 2020). The current market disruption caused by Covid-19 is likely to continue to deter operator investment in fleet replacement programmes which could otherwise maintain or reduce this average age. Many of the large Greater Manchester operators have announced restrictions on non-essential capital expenditure for their existing businesses, including investment in fleet. First, Go-Ahead and Stagecoach have publicly announced reductions in capital expenditure, whilst Rotala have stated that, following delivery of replacement vehicles for Bolton, they do not expect to purchase any further new vehicles for two years. Therefore, there is a risk across all Scenarios that the average age of the Greater Manchester fleet continues to increase prior to the commencement of the Proposed Franchising Scheme. TfGM have also considered the risk that the underlying financial robustness of operators during a period of volatility may impact their ability to raise the capital required to invest in franchise fleet. However, on balance, it is considered that the committed revenues receivable under a franchise contract, combined with the RV mechanism's compensating payment at the end of a franchise term, would be sufficient to secure finance for the required investment in franchise fleet.

4.2.37 The Assessment did not assume the availability of funding to reduce the average age of the Greater Manchester fleet. Therefore, without further intervention, it is anticipated that the average fleet age at the commencement of franchising would be maintained, but not reduced, by the Proposed Franchising Scheme and would remain consistent with that of the Reference Case.

4.2.38 Although there may be future investment by GMCA to reduce the average fleet age, this would be through the Clean Air Plan business case funding for investment in low-emissions fleet and/or through a separate fleet investment business case.

4.2.39 Separately, a reduction in the overall Greater Manchester fleet requirement caused by any reduction in operated mileage (e.g. Scenarios 1, 3 and 4) would be likely to provide GMCA with the ability to reduce the average fleet age by withdrawing older fleet. The RV mechanism would also give GMCA greater ability to manage and maintain average fleet age across Greater Manchester, particularly in the event of franchise and/or geographical differences. For example, if the withdrawal of services in two different franchises resulted in disproportionate average fleet ages by franchise, this could be mitigated by transferring fleet between franchises via the RV mechanism to realign average fleet ages by franchise.

Intelligent Transport Systems (“ITS”)

4.2.40 The Assessment described how common ITS, such as ticketing, vehicle location and driver communications systems, across Greater Manchester would be necessary to secure efficiencies and a consistent customer experience. There is currently a mix of ITS suppliers and functionality across the Greater Manchester network. Therefore, GMCA would undertake one or more procurements to select a single preferred supplier for the majority of ITS equipment, which would then be made available to franchise operators who would be required to utilise this equipment.

4.2.41 Other aspects of ITS, such as CCTV, where there is limited benefit from uniformity and straightforward interfaces, would be provided by operators’ subject to minimum standards set by GMCA.

4.2.42 The likely implications of Covid-19, and its impact on the commercial model are as follows.

Steady-state model

4.2.43 In the event of a mid-range reduction in operated mileage in the steady state (e.g. Scenarios 1 and 4), the complexity and risk associated with managing multiple ITS interfaces across a range of equipment and back-offices remains significant. Therefore, no implications have been identified that would suggest an impact on the steady-state model. It has been concluded that the ITS strategy would remain unchanged from that described in the Assessment.

4.2.44 Even in the event of a significant reduction in operated mileage (e.g. Scenario 3), it is considered most likely that the rationale for a common solution in respect of key ITS remains unchanged. In the event of a significantly smaller bus network, it is feasible that the smaller number of interfaces required, with a corresponding reduction in the number of operators active in the Greater Manchester franchised market, may reduce the risk and complexity to such an extent that the relative benefits of a common solution are reduced or eroded when compared with individual operator solutions. TfGM will continue to explore the feasibility of individual operator solutions within a franchised bus market. A market sounding exercise currently taking place is due to be finalised in the last quarter of 2020.

Transitional arrangements

4.2.45 No implications have been identified that would suggest an impact on transitional arrangements, and it has been concluded that the ITS strategy would remain unchanged from that described in the Assessment.

Procurement

Procurement Strategy

4.2.46 The Assessment described how franchises would be initially let under a negotiated procedure to enable some degree of negotiation and change as the procurement process progresses. A two-stage process would be used if there was a large number of bidders, whereby initial bidders would be reduced in number through evaluation and scoring of a first stage submission. This would be followed by detailed dialogue and final bid submissions. For later procurements, the process may be streamlined, for instance, doing without detailed negotiation.

4.2.47 The likely implications of Covid-19, and its impact on the commercial model are as follows:

Steady-state model

4.2.48 Section 4.2.4 (Franchise Model) of this report describes how, although there may be a period of volatility in the bus market during transition, it is expected that by the steady state, the underlying strength and appetite of the operator market will be largely consistent with that of pre-Covid-19.

4.2.49 As such, any reduction in operated mileage would likely result in a similar reduction in the size of the Greater Manchester bus market. Therefore, the size of the operator market relative to the size of bidding opportunity (which is intrinsically linked to the operated mileage of the Greater Manchester bus network) would be expected to remain broadly constant to that assumed in the Assessment.

4.2.50 Therefore, no implications have been identified that would suggest an impact on the steady-state model, and it has been concluded that the procurement strategy would remain unchanged. This proposition would be further informed by ongoing monitoring and evaluation of the operator market and through pre-procurement market engagement (see Section 4.2.70 of this report (Market Analysis and Engagement - Market Engagement)).

Transitional arrangements

4.2.51 As described above, there may be a period of volatility in the operator market as it realigns itself with changes in patronage. This may result in the loss of operators from the Greater Manchester bus market specifically and/or from the bus market more generally. The uncertainty created by Covid-19 could impact the appetite of operators to bid for franchises in the first round of franchising. This could manifest itself as either:

- Increased bidding appetite from the operator market as a result of GMCA taking revenue risk compared with commercial services where patronage volatility and uncertainty is likely to increase operator exposure; or
- Reduced bidding appetite from the operator market due to:
    - Operator focus on existing operations.
    - Resource and cost implications associated with bidding, particularly in the event of a short-term reduction in operator robustness.

4.2.52 On balance, TfGM believes that the reduced operator uncertainty due to GMCA taking revenue risk is likely to outweigh any wider drivers of lower bidding appetite, and the Proposed Franchising Scheme will likely be a more attractive proposition to the operator market.

4.2.53 The appetite of operators to bid for franchises during the first round of franchising is considered more likely to be affected (either negatively or positively) in the event of a significant reduction in operated mileage (e.g. Scenario 3) than a mid-range reduction (e.g. Scenarios 1 and 4). The latter would less materially impact the operator market. A significant reduction is more likely to affect appetite because there would be a greater probability that several bus operators would exit the market and there would be reduced certainty and financial robustness for bus operators still active in the market.

4.2.54 In the event of reduced bidder appetite that GMCA considers would likely reduce the strength of competition for franchises, changes could be introduced to the procurement strategy to strengthen competition. These would focus predominantly on streamlining the bidding process to reduce bidder resource and cost implications, and may include:

- Delaying the introduction of the Passport System and Bus Services Framework Agreement, reverting to a less-onerous and more-typical pre-qualification process.
- Reverting to a single-stage Invitation to Negotiate for large franchises, thereby reducing bid submission requirements.
- Making bid requirements less onerous, such as by reducing the number and/or detail of bid submission requirements.
- Using the restricted procedure for the procurement of small franchises, saving the cost associated with negotiating aspects of contractual and bid requirements.

4.2.55 The introduction of any of these, or similar, measures needs to be balanced against the risk that the procurement process is weakened as a consequence. This would increase the risk either of GMCA failing to appoint the most economically advantageous tender or obtaining poor value for money. The strength, depth and appetite of the operator market at the time of procurement of the first round of franchises will determine the extent to which Covid-19 implications may impact on transitional arrangements. This would be informed by ongoing monitoring and assessment of the operator market and through pre-procurement market engagement (see Section 4.2.70 of this report (Market Analysis and Engagement - Market Engagement)).

<u>Procurement Programme</u>

4.2.56 The Assessment described how, in the first round of franchising, 10 large franchise contracts would be let in three tranches, with around 25 small franchise contracts and the resource-based contracts for schools (c. 300 buses) let alongside these large franchise contracts. Tranches would be procured sequentially, with the small number of tranches enabling the benefits of franchising to be achieved quicker than a more gradual rollout, whilst also enabling GMCA to manage transition risk and provide an opportunity for lessons to be learned between tranches.

4.2.57 The likely implications of Covid-19, and its impact on the commercial model are as follows:

Steady-state model

4.2.58 The Assessment described how varying franchise lengths would be let during transition to ensure that a similar number of large franchises are let each year by steady state. This would create a rolling procurement programme for GMCA to manage and for the industry to respond to.

4.2.59 No implications have been identified that would suggest an impact on the steady-state model. It has been concluded that the procurement strategy would remain unchanged in the steady state from that described in the Assessment.

Transitional arrangements

4.2.60 The Assessment described how a broad range of factors was considered when assessing how many franchises would be appropriate across which geographical areas, and in what order they would be introduced. The factors were:

- Minimising customer confusion.
- Managing implementation risk for GMCA and operators.
- Attractiveness to the market (both new entrants and incumbents).
- Achieving best value for money.

4.2.61 As a result, in the first round of the Proposed Franchising Scheme it was anticipated that the 10 large franchises would be let in three consecutive tranches, with each tranche containing between two and five franchises. The c. 25 small franchise packages, plus resource-based contracts for schools, would be let alongside these large franchises.

4.2.62 Section 4.2.8 of this report (Packaging Strategy – Steady-State Model) describes how, in the event of a mid-range reduction in operated mileage in the steady state (e.g. Scenarios 1 and 4), the number of franchises may be reduced such that there are between 4 and 8 large franchises (compared with between 5 and 10 in the Assessment) and between 15 and 20 small franchises (reduced from around 25 in the Assessment). The number let in the first round of the Proposed Franchising Scheme would most likely be at the upper end of these ranges. Since this is likely to represent a relatively minor change to the number of packages, it is not considered that there is any justification for changing the number or the geography of the tranches in the Proposed Franchising Scheme. Instead, Covid-19 has reinforced the need to transition carefully due to the change this would have on the market and the proposal to split Greater Manchester into three sub-areas. The use of temporary exceptions in the Proposed Franchising Scheme, which would allow services to continue to operate between sub-areas whilst franchising is rolled out, is still appropriate as it would help to reduce any potential disruption during transition.

4.2.63 Section 4.2.12 of this report (Packaging Strategy – Steady-State Model) also describes how, in the event of a significant reduction in operated mileage in the steady state (e.g. Scenario 3), it is likely that the number of franchises let may be reduced to between 1 and 4 large franchises and 5 and 10 small franchises. The number let in the first round of the Proposed Franchising Scheme would most likely be at the upper end of these ranges. Although this may result in a significantly smaller number of franchises being procured than described in the Assessment, the implementation of the Proposed Franchising Scheme via three tranches would also still be appropriate for the following reasons:

- The time needed to procure and mobilise franchise tranches means that it would be difficult for GMCA to forecast the future network size prior to the commencement of a procurement in order to simplify the roll-out of Sub-Areas B and C.

- The fact that GMCA would need to formally vary the Proposed Franchising Scheme before any changes could take effect would eradicate much of the time which GMCA were hoping to save by speeding up the rollout of those areas.

Market Analysis and Engagement

Potential Bidders

4.2.64 The Assessment described the market analysis performed to identify potential bidders for franchises in Greater Manchester. This concluded that a number of large operators would have the capacity to bid for multiple bus franchises in Greater Manchester.

Steady-state model

4.2.65 The operator market may experience a level of volatility in the short term, particularly in the event of a significant reduction in operated mileage (e.g. Scenario 3). However, by the steady state it is expected that the underlying strength and appetite of the operator market will be largely consistent with that pre-Covid-19 due to the size and depth of the potential bidding market identified in the Assessment.

4.2.66 A large number of potential bidders was identified at the time of the Assessment. Although there may be some consolidation of the operator market in the short to medium-term, there is no evidence to suggest that there would not be a healthy operator market in the steady state.

4.2.67 Therefore, no implications have been identified that would suggest an impact on the steady-state model, and it has been concluded that the procurement strategy would remain unchanged.

Transitional arrangements

4.2.68 Section 4.2.51 of this report (Procurement - Procurement Strategy – Transitional Arrangements) recognises that there may be a period of volatility in the operator market as it realigns itself to changes in patronage and resulting operated mileage and that this could either increase or decrease bidder appetite. Section 4.2.54 of this report (Procurement - Procurement Strategy – Transitional Arrangements) also describes some changes to the procurement strategy that could be introduced to strengthen competition, if necessary, but that a final decision on the introduction of any of these measures would be informed by:

- Ongoing monitoring and assessment of the operator market.
- Pre-procurement market engagement (see Section 4.2.70 of this report (Market Analysis and Engagement - Market Engagement)).

Market Engagement

4.2.69 The Assessment described how TfGM undertook initial market engagement in early 2018, and that operators gave a generally positive response to the key features of the commercial proposition.

4.2.70 The Assessment also summarised how TfGM would undertake pre-procurement market engagement on behalf of GMCA following any decision to implement the Proposed Franchising Scheme. This process would be used to invite comments from the operator market on the commercial proposition, including any implications of Covid-19, to test commercial principles and contractual mechanisms before the start of procurement procedures and to ensure a proposition that attracts a suitable number of bidders. The intention is that this would give GMCA further assurance that the proposed commercial strategy was appropriate and that, by doing it at the point immediately prior to procurement, there would be a greater degree of certainty in terms of any potential impacts of Covid-19.

Facilitation of Strong Competition

4.2.71 The facilitation of strong competition is a core feature throughout the development of the commercial proposition. The Assessment described how this was to be achieved and the indicators that provide confidence that the commercial proposition would successfully drive competition.

4.2.72 The main implications of Covid-19 to the facilitation of strong competition is an increased risk of bus operator volatility described in Section 4.2.65 of this report (Market Analysis and Engagement - Potential Bidders) due to heightened uncertainty and reduced financial stability which may impact bidder appetite. The potential implications, and associated impact on the commercial model, are considered earlier in that section.

Managing risks around existing operations and services between any decision to implement franchising and the commencement of franchise operations

4.2.73 The Assessment set out how GMCA would manage the risk that services provided by operators across Greater Manchester do not continue in line with forecasts up to the commencement of franchise operations. It described how limited marginal service reduction is considered probable as operators seek to maximise margins, but that large scale service reduction is considered less likely, whether through a prolonged phase of marginal service reduction, a large-scale deregistration, or cessation of services.

4.2.74 The Assessment also described the following ways in which it is anticipated that GMCA and/or the market would manage such a service reduction:

- Step-in by one or more operators on a commercial basis;
- The emergency letting of short-term contracts by GMCA; and/or
- Through no action, with withdrawn services not being replaced.

4.2.75 Although Greater Manchester bus patronage levels have partially recovered since the initial reduction experienced at the onset of Covid-19, they remain significantly below pre-Covid-19 levels (c. 60% of pre-Covid-19 levels before the introduction of the second national lockdown on 4 November 2020). Operated mileage is less-significantly below pre-Covid-19 levels (c. 95% of pre-Covid-19 levels as at week ending 8 November 2020).

4.2.76 The current ability of the operator market to maintain operated mileage at a proportionally higher level than patronage is primarily due to ongoing national and local Government subsidy. It is considered most likely that this variance would dissipate if subsidy were withdrawn – operated mileage would be most likely to reduce in proportion to patronage levels so as to remain commercially viable.

4.2.77 In the event of a future reduction or cessation in Government subsidy for Greater Manchester (e.g. Scenarios 1 and 3, which assume the withdrawal of subsidy within 18 and 12 months respectively), the likelihood of service withdrawal by bus operators is expected to increase compared with the Assessment. However, the commercial responses to managing this eventuality remain unchanged from those summarised above and described further in the Assessment.

4.2.78 In the event of continuing Government subsidy (e.g. Scenario 4, which assumes the long-term Government subsidisation of public transport), although it is anticipated that services may be reduced or deregistered by operators, this should be largely limited to the natural trajectory towards steady-state operated mileage. Ongoing subsidy would make further service withdrawal potentially less likely than anticipated in the Assessment. The commercial responses to managing such service withdrawal remain unchanged from those summarised above and described further in the Assessment.

Key Commercial Risks

4.2.79 The Assessment identified the key commercial strategy risks associated with the Proposed Franchising Scheme, as well as an estimate of their likelihood and impact, and any actions that could be taken to mitigate and manage each risk.

4.2.80 The key commercial strategy risks have been reviewed to assess whether the effects of Covid-19 would have a significant effect on their likelihood of occurring and/or their impact should they occur. The key commercial strategy risks are predominantly related to the transition period and can be managed and mitigated to an acceptable level because TfGM would be controlling the procurement process and franchise contracts. Therefore, it is not considered that Covid-19 significantly changes either the likelihood or impact of the key commercial strategy risks identified in the Assessment, even after the effects of Covid-19. This is because TfGM can take the appropriate mitigating actions to minimise these risks during the procurement process.

4.2.81 Most of the Covid-19 related commercial strategy risks outlined in the Commercial Case above are sub-sets of the key commercial strategy risks identified in the Assessment, as opposed to entirely new risks due to Covid-19 that were not considered at the time of the Assessment. Therefore, it is not thought that they will have a material impact on the overall risk quantification exercise performed during the Assessment.

Cross-Boundary Services and Permit Regime

4.2.82 The Assessment described the proposed service permit regime and the efforts that would be made by GMCA to ensure viable cross-boundary services to continue into the future.

4.2.83 As described in Section 2.6.6 (Cross Boundary Services/Neighbouring Authorities – Franchising) of this report, it is not thought that Covid-19 will have any impact on the proposed permitting scheme or the arrangements for cross-boundary services outlined in the Assessment. Whilst TfGM are not aware of any disproportionate effect of Covid-19 on cross-boundary services as opposed to other bus services in Greater Manchester, it will be important for GMCA and neighbouring authorities to consider how the Proposed Franchising Scheme may impact on individual cross-boundary services if franchising is implemented. As set out in the Assessment, there are tests that must be met before a service permit could be granted and it is still considered appropriate that a pre-application process would be useful to reduce the risk of any services not being able to obtain a service permit.

Commercial levers to mitigate the risk of uncertainty

4.2.84 As noted in Section 3.2.7 (Why the existing Analytical Framework has not been used) of this report, it is not possible at present to accurately create central estimate forecasts of travel demands. Whilst this report has considered what the market may look like through the use of the four TfGM Covid-19 Scenarios, it is unlikely that the future Greater Manchester bus network will precisely match any one of the Scenarios. Therefore, appropriate flexibility for GMCA in its implementation, procurement and management of franchise contracts to enable the franchise model to deal with uncertainty is important. This will ensure that GMCA have a robust franchise model and programme of implementation which they can adapt and do so in a manner that continues to manage costs whilst achieving value for money for GMCA.

4.2.85 The franchise model includes a number of tools through which GMCA can mitigate this uncertainty, and allows GMCA to adapt to future network requirements, each of which is described below in further detail:

- Franchise implementation: flexibility as to how franchising is rolled out across Greater Manchester.
- Franchise specification: flexibility as to what is procured.
- Franchise management: ability to respond to change once franchises are operational.

<u>Franchise implementation</u>

Implementation by sub-area

4.2.86 The Assessment describes how the Proposed Franchising Scheme would be introduced by way of three sub-areas, designed to facilitate a more gradual implementation of franchising initially, with an increased rate of implementation for later sub-areas. The procurement programme also allowed a period of approximately 12 months between the commencement of the procurement of contracts for each of the three sub-areas. This approach mitigates the uncertainty as follows:

- The smaller proportion of the Greater Manchester network being franchised initially reduces the impacts of potential network uncertainty associated with Covid-19 which may not have fully crystallised at the point of sub-area A being franchised.
- The time between the procurement of local services in each sub-area will enable incremental network analysis and forecasting to take place for sub-areas B and C as Covid-19 impacts stabilise.

Sub-area implementation dates

4.2.87 The Assessment references provisional dates which demonstrate how the Proposed Franchising Scheme could be implemented (i.e. when local service contracts would become operational in each of the sub-areas). Whilst provisional dates were indicated, and as set out in Section 7.4.11 (Potential modifications that may be required as a result of Covid-19 - Dates and timing) of this report, no specific dates are currently included in the Proposed Franchising Scheme, as the timing would reflect when the Proposed Franchising Scheme was made.

4.2.88 As such, the Proposed Franchising Scheme provides flexibility to amend and adapt the dates of implementation of franchising by sub-area, both by:

- Determining the dates when the Proposed Franchising Scheme is made. This will enable GMCA, at the time the Proposed Franchising Scheme is made, to reflect the impact of

Covid-19 when determining the dates on which local services may be introduced in each sub-area.

- Postponing the date for letting a franchise contract and the date on which franchise services would first be operational under those contracts if, for example, TfGM are unable to forecast with sufficient confidence each service's required frequency and hours of operation for that franchise of that sub-area. This postponement would require consultation, including with the operators.

<u>Franchise specification</u>

Franchise length

4.2.89 The Assessment describes how varying franchise lengths will be let during transition to ensure that, once a steady state has been reached in the franchising process, a similar number of large franchises are let each year. This flexibility could also be used by GMCA to let shorter franchises to manage adaptation of the network as it stabilises, but any such decision would need to be balanced with impacts on bidder pricing as a result of the shorter contract term.

Specification of the services and their frequency

4.2.90 Each franchise contract will specify the services, including frequency, to be operated as part of its specification. This provides GMCA with the following flexibility:

- Service frequency. The Proposed Franchising Scheme defines each service that GMCA intends to franchise. However, GMCA would retain flexibility to specify each service's frequency as part of the specification for each franchise contract it lets. As such, GMCA would be able to tender a package of contracts that included all the services that were defined in the Proposed Franchising Scheme, but with the timings and frequencies of those routes specified initially to appropriately reflect operations at the time of procurement.
- GMCA will use the franchise agreements to specify each service's frequency and hours of operation on either a singular basis (i.e. the same frequency and hours of operation in each contract year) or varying basis (i.e. frequencies and hours of operation which change over time e.g. annually).
- In the event that pre-procurement network forecasting indicates that the uncertainty associated with the impacts of Covid-19 may not have fully crystallised, such that it does not provide GMCA with sufficient confidence to reflect future network change in the franchise network specification of the local service contract, it may be appropriate to include potential changes such as service frequency and/or hours of operation as a priced option.

<u>Franchise management</u>

4.2.91 The Assessment describes how GMCA will require the flexibility to implement changes, typically in relation to the network, during the franchise terms. To ensure value for money, the process of contract variation within the franchise agreements would contain a robust formal change mechanism which would utilise a range of pricing points, based on bid submissions and specified in the contract.

4.2.92 The use of available contracted pricing points would also reduce the scope for negotiation around the pricing of contract change by the franchise operator, whilst also protecting the operator in respect of cost recovery and profitability.

4.2.93 The formal change mechanism in the franchise agreements would be applied in the event that there are changes in the life of the franchise to the network requirements specified in the local service contracts. It would also be applied in addition to the above-mentioned priced option if the network specification of the priced option does not fully reflect actual future network requirements.

4.3 Partnership Model

4.3.1 The Assessment described how the key routes to delivering a comprehensive partnership over an area could include the use of a multi-lateral Voluntary Partnership Agreement ("VPA"), and the use of a new arrangement under the Act, known as an Enhanced Partnership Scheme ("EPS").

4.3.2 Although the Assessment explained that if an Ambitious Partnership (which represented what TfGM considered could be achieved under a partnership) was to be delivered, it would likely require an EPS to be put in place, the Operator Proposed Partnership (the option proposed by OneBus) was proposed to be delivered through a VPA. The Operators had rejected the use of an EPS.

4.3.3 The partnerships proposed during the consultation process (the Stagecoach and First proposals) also proposed the use of a VPA (albeit, in the case of Stagecoach, with the additional protections of an Advanced Quality Partnership Scheme ("AQPS") on certain bus corridors to maintain standards).

4.3.4 Although it is clear that Covid-19 is likely to have an impact on the commitments provided under the various partnership offers (as set out in the Strategic Case), there is no reason to consider that it would impact the choice of commercial model to deliver a partnership.

4.3.5 Similarly, in the recent correspondence from the operators who provided partnership offers, there is no indication that the commercial arrangements in terms of length of partnership, performance management and others would change due to Covid-19. It is not considered that Covid-19 should impact GMCA's commercial arrangements that would support partnership.

4.4 Conclusion

4.4.1 Sections 4.2.1 to 4.2.83 of this report have described the impact of, and TfGM's response to, the potential implications of Covid-19 on the proposed commercial model for the Proposed Franchising Scheme.

4.4.2 This has considered franchise design, asset strategy, procurement, contractual arrangements, market engagement, the facilitation of competition, arrangements to protect passengers during transition, key commercial risks, and the proposed approach to cross-boundary services.

4.4.3 Sections 4.2.84 to 4.2.93 have described the commercial levers available to GMCA to mitigate the risk of uncertainty on the proposed commercial model for the Proposed Franchising Scheme presented by Covid-19.

4.4.4 This has concluded that the franchising commercial proposition would remain largely consistent with that as set out in Sections 25 to 27 of the Assessment, and therefore meet the commercial aims as set out in Section 24.2 of the Assessment, and that the flexibility provided in the commercial model would enable GMCA to adapt the model as appropriate to the changing requirements that Covid-19 has presented. In the event of:

- No change to operated mileage (e.g. Scenario 2), there would be no impact on the commercial model in either the steady state or during transition and, therefore, the commercial proposition described in the Assessment would not be impacted.
- A mid-range reduction in operated mileage (e.g. Scenarios 1 and 4), the commercial model may be adapted as follows:
    - Packaging: a reduction in the number of franchises and a reduction in the size of some franchises to reflect a reduced bus network.
    - Risk allocation: in the event that the market's appetite for risk is lower during transition than it was at the time of the Assessment, areas of risk transfer could be modified to mitigate operator exposure and ensure the franchises remained attractive to potential bidders. However, this would only apply during transition, and it is not anticipated that these would materially change the overall risk-and-reward model.
    - Depot strategy: if the number of large franchises let at transition is less than the number of strategic depots controlled by GMCA, it may result in more than one strategic depot being allocated to a single large franchise during transition.
    - Procurement strategy: Given the number of potential bidders in the market, and the likely attractiveness of lower risk/more certain contracting, it is considered that there would still be sufficient market appetite to bid for franchised contracts. However, in the event of reduced bidder appetite, there are changes that could be introduced to the procurement strategy to strengthen competition by streamlining the bidding process. The ultimate introduction of any of these, or similar, measures would need to be balanced against the risk that the procurement process is weakened as a consequence.
- A significant reduction in operated mileage (e.g. Scenario 3), the commercial model may be adapted in the manner described above in respect of a mid-range reduction in operated mileage, and also as follows:
    - Franchise length: letting of shorter-term franchises during transition to mitigate against Covid-19 impacts.
    - ITS strategy: the smaller number of interfaces required in the event of a significantly smaller bus network, with a corresponding reduction in the number of operators active in the Greater Manchester franchised market, may reduce the risk and complexity such that the relative benefits of common GMCA ITS solutions are reduced or eroded when compared with individual operator solutions.

4.4.5 Following the consideration of the potential commercial implications of Covid-19 on the proposed franchise model, it has been concluded that the commercial model would continue to:

- Allow the network to operate under franchised contracts, whilst at the same time allowing operators to run excepted services and to apply to run cross-boundary and other non-franchised services under service permits.
- Achieve the key commercial aims of delivering franchised bus operations that offer high quality of service and value for money, whilst allowing access to the market for small and medium-sized operators.
- Be accepted by the operator market, and that there is an appetite from the operator market for franchising.
- Be deliverable by GMCA, including during the transition period.

4.4.6 Sections 4.3.1 to 4.3.5 of this report have described that the partnership commercial proposition concerned the means by which GMCA’s commercial arrangements that would support the partnership would be introduced and run. It has not been proposed that this would materially change because of Covid-19.

5. Financial Case

5.1 Introduction

5.1.1 This section of the report considers the impact of Covid-19 upon the Financial Case of the Assessment.

5.1.2 The Assessment concluded that GMCA could afford to make and operate the Proposed Franchising Scheme. The assessed value of credible funding sources identified in the Assessment over the transition period (£213m to £233m, excluding the value of any precept or specific Government funding for bus reform) exceeded the net forecast transition requirement of £122m. Following transition to the end of the appraisal period, there was a forecast net cumulative surplus of £94m. The Proposed Franchising Scheme was, therefore, considered feasible and affordable.

5.1.3 After completion of the Assessment, the GMCA meeting of 7 October 2019 approved a preferred funding strategy both to fund the forecast transition requirement and to provide an additional source of ongoing revenue funding post transition through the proposed precept. The preferred funding strategy reflected a subset of the credible sources identified in the Assessment that could be locally prioritised, for the purposes of consultation.

5.1.4 The report to that meeting also fully recognised the role of Government funding and the Government at that time had indicated it would support Greater Manchester to *"deliver a London style bus system in the area"*.

5.1.5 The outcome of GMCA's previous consultation, and TfGM's consideration of the issues raised during this process, was reported to the 26 June 2020 meeting of GMCA. At that time, it was considered in light of consultation feedback that the Proposed Franchising Scheme was affordable and the balance of risks remained appropriate. It was noted that a further report would be submitted to members in due course that would consider the potential impact and effects of Covid-19 on the bus market and make recommendations about appropriate next steps.

5.1.6 The effects of Covid-19 in this report are considered with reference to the uncertainties that currently exist, and a range of potential outcomes identified in the Scenarios. The effects upon the options contained in the Assessment are considered with reference to:

- The previously forecast net transition costs of the Proposed Franchising Scheme
- The ongoing balance of financial risks and lines of defence in the event GMCA assumed revenue risk under the Proposed Franchising Scheme and potential additional mitigations in the event a downside scenario materialised
- The value and availability of the funding sources set out in GMCA's preferred funding approach for consultation: these effects could relate to both the Proposed Franchising Scheme and the partnership options
- The commitments by operators, costs and risk of the previously forecast Operator Proposed Partnership

5.1.7 The effects discussed are necessarily possible, rather than forecast, implications of Covid-19 given the uncertainties that currently exist. These effects are a high-level description, informed by impact analysis where possible and relevant, and do not constitute a specific reforecast of the income, cost and risks of the Proposed Franchising Scheme. Instead, the effects upon income, costs and risks are considered against a range of possible scenarios.

5.1.8 Similarly, these possible effects do not consider any different options relating to the scope, or commercial principles and risk allocation of franchising compared with the principles set out in the Assessment.

5.2 Covid-19 effects on forecast net transition costs

5.2.1 The previously forecast transition costs were £122m over the period to 2024/25. This position was the costs net of a forecast operating surplus of £11.8m, reflecting that GMCA would progressively assume revenue risks during the transition period under the Proposed Franchising Scheme.

5.2.2 The overall transitions costs comprised 'base costs' in relation to assets, systems, transition and franchise management costs, and also a quantified risk assessment. A summary of the previously forecast net transition costs is set out in Table 9 below.

Table 9: Transition costs

FRANCHISING - NOMINAL NET INCOME AND COSTS:	FY 19/20	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25	TOTAL
	£ms	£ms	£ms	£ms	£ms	£ms	£ms
Operating Account							
Operating surplus / (deficit)	**-**	**(0.0)**	**(2.8)**	**(5.6)**	**5.0**	**15.2**	**11.8**
Quantified Risk							
P80 Quantified Risk Allowance	**(0.9)**	**(5.5)**	**(7.4)**	**(5.5)**	**(8.4)**	**(8.5)**	**(36.2)**
Assets							
Depot repayment and financing costs net of rental income	**-**	**(0.0)**	**(0.4)**	**(1.1)**	**(3.3)**	**(4.4)**	**(9.2)**
Implementation and technology							
Transition resource costs	(2.0)	(8.0)	(5.9)	(4.1)	(0.6)	-	(20.6)
Incremental resources (Staff, IS and other)	-	(1.5)	(4.8)	(6.7)	(6.9)	(5.7)	(25.6)
Information systems	(0.7)	(8.0)	(7.3)	(1.2)	(1.1)	(1.3)	(19.6)
On bus equipment and branding- Wi-Fi, driver radio, telematics, CCTV	-	-	(2.3)	(2.1)	(3.4)	0.1	(7.7)
Electronic Ticket Machines and AVL (ITS)	-	-	(5.2)	(4.4)	(6.3)	1.0	(14.9)
Subtotal: Implementation costs	**(2.7)**	**(17.5)**	**(25.5)**	**(18.5)**	**(18.3)**	**(5.9)**	**(88.4)**
NET FUNDING REQUIREMENT	**(3.6)**	**(23.0)**	**(36.1)**	**(30.7)**	**(25.0)**	**(3.6)**	**(122.0)**

Source: Table 45 from the Assessment

5.2.2 In addition to the franchise-specific net transition costs, a further £12.5m, related to an escalation in concessionary budgets forecast under all bus reform options, was provided in the approved funding strategy resulting in a total funding envelope of £134.5m up to 2024/25.

5.2.3 Under all the four Scenarios considered in this report, the profile of transition costs, risk and operating revenue and costs would be deferred, depending upon the implementation date for the Proposed Franchising Scheme. The earliest possible implementation date would reflect a deferral of approximately one year compared with the previously assumed implementation timeline. Based on this assumption, GMCA would begin to assume revenue risks with effect from financial year 2022/23 and, other factors remaining equal, a deferral of costs may result in an increase in the nominal cash costs through additional inflation, although the funding requirement would also similarly defer.

5.2.4 As noted above, the aggregate transition costs included different components including base costs, quantified risk, a revenue surplus and escalation in concessionary reimbursements. The effects on individual components are not expected to be uniform as they are influenced by different variables.

Operating surplus and concessionary reimbursements

5.2.5 An operating surplus was previously forecast to provide a contribution of £11.8m in aggregate over the transition period. Under a number of the Scenarios, bus demand is lower than forecast in the Assessment over the transition period.

5.2.6 The effects of Covid-19 on revenue risks on an ongoing basis are considered further in the subsequent section. However, the 'downside' to the operating position in the event of lower demand compared with the Assessment forecast would not be limited to the non-availability of the previously forecast operating surplus (i.e. operating costs could exceed income resulting in a deficit) as GMCA would progressively assume revenue risk as franchising tranches roll out over the transition period. Financial support measures are being provided at present to the bus industry in Greater Manchester by central Government and GMCA which are intended to allow a 'break-even' position to be achieved. However, the duration of such financial support measures is currently uncertain. The revised CBSSG Restart scheme provided by central Government is on a rolling basis with eight weeks' notice of any termination, but it is still unclear upon what basis Government would determine how any such termination would be triggered.

5.2.7 As a result of these factors, it is considered likely that the availability and value of the previously forecast operating surplus would be negatively impacted under most Scenarios (Scenarios 1, 3 and 4 reflect lower demand compared with the Assessment forecast), although the extent of such an impact would be likely to depend on the future path of bus demand and the value and duration of Government's support measures.

5.2.8 As noted, £12.5m for forecast growth in concessionary liabilities was also provided in the approved funding proposal in relation to the previously forecast escalation in concessionary reimbursements. This forecast growth in concessionary liabilities was not specific to the Proposed Franchising Scheme but was prudently provided in the overall proposed funding strategy. Currently, local authorities are being directed by central Government to pay concessionary reimbursements and tendered services payments at pre-Covid-19 levels in conjunction with additional financial support from central Government. Whilst reduced demand compared with the Assessment forecast would be likely to impact the availability of any operating surplus negatively, it would also be likely to limit any previously assumed growth in concessionary liabilities.

Transition costs

5.2.9 An exercise has been undertaken in relation to base costs (which include depots, on-bus equipment costs, management and systems costs) and the quantified risk provision (QRA), to consider the effects of Covid-19 against each Scenario. These costs represent approximately £133.8m in total of the previously forecast total transition costs (the balance being the provision for concessionary liabilities and the previously forecast operating surplus considered above).

5.2.10 In relation to depots, the Assessment concluded that the preferred approach was for GMCA to provide existing depots during the transition and that these would be acquired or controlled through a commercial negotiation with incumbent operators. The effects of Covid-19 upon depot strategy are set out further in Section 4.2.30 of the Commercial Case (Asset Strategy – Depots – Transitional Arrangements). In summary, this concludes that irrespective of any reduction in operated mileage compared with the Assessment, non-provision of depots by GMCA would limit competition for large bus franchises and the transition strategy would still seek to acquire or control the 10 existing strategic depot sites in the first instance. As a result, this element of transition cost would remain materially similar to costs set out in the Assessment.

5.2.11 In relation to on-bus equipment costs (including Wi-Fi provision costs, CCTV costs, driver radio costs and telematic equipment costs) and ETM/AVL costs, it is considered that these costs would broadly vary in line with demand and fleet volumes. Consequently, under three of the Scenarios, which reflect reduced demand compared with the Assessment, there would be some cost reduction reflecting the reduced demand and fleet volumes.

5.2.12 In relation to management and systems costs, it is considered that in principle these costs are influenced by the level of passenger demand, fleet and operational requirement to some degree, and consequently could change under different demand assumptions. However, under Scenarios 1, 2 and 4 the scale of demand changes is such that it is considered these costs would remain materially similar to the position set out in the Assessment. Under Scenario 3, which envisages the largest change (reduction) in demand and associated operational requirements compared with the Assessment, there would be a reduction in these costs reflecting the different scale of management and transition resources and systems capabilities required to manage a smaller market.

Risk contingency

5.2.13 The Assessment identified risks associated with each of the short-listed options for bus reform. Where appropriate, these risks were also quantified to develop a quantified risk assessment. The QRA estimates the cost of specific uncertain events which may occur during the options – "*they are specific to an intervention and may be quantified and managed*" (HM Treasury, 2018). The cost of the risk occurring was matched with the probability of it occurring. The output of that analysis was a 'risk provision' which was applied to each option to assist in the options appraisal. The QRA element of transition costs was £36.2m and was the largest element of resource cost over this period.

5.2.14 TfGM have re-reviewed the risks identified in the Assessment. The exercise considered the extent to which (under the four Scenarios) Covid-19 would have an impact on the probability of the risk occurring, or if Covid-19 would increase the impact of the risks should they occur. It also considered if there were any new risks created by Covid-19.

5.2.15 This review concluded that Covid-19 would generally have limited impact on the overall probability and impact of many of the specific risks previously identified in the Assessment for Scenarios 1, 2 and 4, due to the fact that the risks are largely related to practical implementation and operational matters that are directly under the control of TfGM. Covid-19 is thought to have a more significant effect on the overall probability and impact of these risks in Scenario 3, due to the increased uncertainty and significant reduced network in that Scenario. It should be noted that rather than introducing new transitional or operational risks it was considered that Covid-19 was actually an additional factor in the causes of existing risks.

5.2.16 There are also a number of transitional and operational risks that are likely to be influenced by factors outside the direct control of TfGM and where Covid-19 could have an impact. These risks have been deemed to increase marginally due to Covid-19 under Scenarios 1, 2 and 4, and to a greater extent under Scenario 3.

5.2.17 To illustrate the approach taken, set out below are some examples of these transitional and operational risks that, following the review of the risks as outlined above, are considered likely to be influenced by factors outside the direct control of TfGM and where Covid-19 could have an impact are:

- The risk that implementation of the first packages is delayed due to mobilisation and complexity issues was deemed to have a higher probability under each of the four Scenarios. Whilst TfGM can mitigate much of the risk, it will be reliant partly on incumbent operators during the transition who might be impacted by the uncertainty due to Covid-19.
- The risk that depots will require additional expenditure than currently anticipated (such as refurbishment costs) once they are acquired, due to their current owners' resources being diverted from maintenance to more essential operational needs in response to the effects of Covid-19.
- The risk that TfGM will need to rely more heavily on contracted staff or advisors to deliver the transition phase, due to the uncertainty Covid-19 has caused to the public transport network meaning current TfGM employees will not have the capacity to also fulfil transition-related roles.

5.2.18 The effects of Covid-19 on patronage, and therefore revenue, would have an effect on the overall impact of risks and the risk contingency due to the fact that many of the risks are a proportion of revenues and associated costs. So, as the size of the market increases or decreases in each of the Scenarios, the overall risk contingency will increase or decrease as well, before taking into account any specific changes to impact or probability of individual risks.

5.2.19 Based on the balance of these effects outlined and particularly the overall size of the market, the review concluded the QRA provision over the transition period would reduce under all the Scenarios (even though under Scenario 2 there is eventually a higher level of demand and market size compared with the Assessment, in the immediate recovery period the level of assumed demand and revenue at risk remains below the Assessment position).

Net transition costs and risk contingency summary

5.2.20 The previously forecast transition costs comprised different elements and were net of a forecast operating surplus reflecting the fact that, under franchising, GMCA would progressively assume revenue risk from franchised services over the transition period.

5.2.21 The base costs and quantified risk provision elements of the forecast transition costs would be expected to be influenced by the overall level of demand and market size to varying degrees for differing types of costs. For Scenarios 1 and 4, at a package level it is considered transition cost savings in the order of £5m to £10m net of inflation could be achieved (based on the reduced volume of ITS and on-bus equipment costs compared with the Assessment assumptions and reduction in QRA, management and other costs). Under Scenario 3, greater savings could be achieved, reflecting the more significant reduction in the overall size of the market envisaged. Scenario 2, as the most optimistic Scenario in demand terms, could result in marginally higher transition costs due to these same effects which could be accommodated within the further mitigations and funding options subsequently set out.

5.2.22 However, as noted, the overall net forecast transition costs in the Assessment also included an operating surplus reflecting the net forecast of revenue and operating costs of franchised services. At present, the balance of revenue and operating costs is more fundamentally uncertain, and these risks are considered further in the subsequent section.

5.3 Covid-19 effects on financial risks and lines of defence

5.3.1 The Financial Case of the Assessment reported an overall net deficit, and an associated funding requirement, over the appraisal period to 2050/51, of approximately £28m. However, there were two distinct phases within this overall modelled requirement: (i) a transition phase up to 2024/25 with a net funding requirement of approximately £122m; and (ii) the subsequent ongoing phase, following transition to the end of the appraisal period, where there was a forecast net cumulative surplus of £94m, with a mix of surpluses or deficits modelled for particular years. The position described was before allocation of the additional funding identified in the Assessment and the subsequent funding strategy approved by GMCA for the purposes of consultation which would fully fund the net transition requirement of £122m.

5.3.2 Under the Proposed Franchising Scheme, the Mayor and GMCA would assume risk in relation to passenger demand and the farebox. The Assessment noted (Section 42.4.7) that the majority of ongoing income and funding to meet the franchised network operating costs would be from passenger farebox revenues and that these revenues are inherently variable. Similarly, the Assessment also noted that forecasting uncertainty would be expected to increase over longer time horizons and, therefore, for prudence, the preferred funding strategy did not place any reliance on the future modelled surpluses.

5.3.3 The Assessment also considered that in the event that forecast estimates of demand and revenue were different to those envisaged or cost pressures were to arise in the bus market, GMCA would need to determine how to respond as part of its accountability and control under the Proposed Franchising Scheme.

5.3.4 The Assessment therefore recognised that uncertainty existed and that GMCA would need to be responsive to future trends in the bus market. The uncertainties that currently exist and potential range of outcomes for the bus market as a result of Covid-19 are considered to be materially greater than at the time of preparing the Assessment. Specific material uncertainties relate to variables such as:

- The duration of social distancing requirements on public transport
- Future macroeconomic recovery and effects on employment and disposable incomes

- The extent of structural shifts in travel demand, including factors such as increased working from home and increased online shopping
- Government policy and the level and duration of financial support provided for bus services

5.3.5 In general, the uncertainties within the Scenarios are considered likely to affect all bus reform options, as well as the Do Minimum. However, whilst GMCA would still face risks under the Do Minimum (such as how outcomes in the bus market support the Greater Manchester Transport Strategy 2040), the level of direct financial risk assumed by GMCA would be greater under the Proposed Franchising Scheme. The level of uncertainty across these variables manifests in a wide range of potential outcomes for bus demand and farebox revenues.

5.3.6 As a result of the uncertainties caused by Covid-19, particularly with respect to future bus demand and the variables influencing demand, it is not considered possible at the present time to provide a different central forecast of bus demand and a precise funding requirement for the Proposed Franchising Scheme. The Scenarios, therefore, represent possible rather than forecast changes compared with the Assessment more generally.

5.3.7 Estimates of the potential unmitigated change in farebox revenues accruing to GMCA compared with the Assessment under each Scenario over a transition period up to 2025/26, which assumes a one-year implementation deferral, are set out in the following Table 10:

Table 10: Estimates of the potential unmitigated change in farebox revenues

GMCA's Potential (unmitigated) change in farebox compared with the Assessment	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	Total over the period £m
Scenario 1	(4)	(16)	(33)	(43)	(96)
Scenario 2	(3)	(4)	7	31	31
Scenario 3	(10)	(43)	(97)	(141)	(292)
Scenario 4	(5)	(17)	(29)	(30)	(82)
Note: Proportion of farebox accruing to GMCA	9%	35%	74%	100%	

5.3.8 These are high-level estimates informed by changes in bus demand assumed in each Scenario relative to the previous Assessment forecast, but they nonetheless provide a wide range of potential outcomes in order to consider the implications of Covid-19 upon the affordability of the Proposed Franchising Scheme.

5.3.9 The change in farebox revenue ramps up over the transition period reflecting the increasing proportion of farebox revenue that would accrue to GMCA over this period if the Proposed Franchising Scheme were implemented. Three of the four Scenarios (Scenarios 1, 3 and 4) imply a loss of farebox revenue to varying degrees (£82m to £292m over the period) compared with the Assessment forecast. Scenario 2 is the most similar in farebox revenue terms to the Assessment, but this Scenario also reflects ongoing and additional government funding as one factor supporting bus demand.

'Lines of defence' – financial contingencies and funding

5.3.10 In considering the effects of uncertainty and potential changes in farebox revenue on the affordability and financial risks for GMCA of the Proposed Franchising Scheme, it is relevant to consider the purpose, value and availability of the various lines of defence included in the Assessment and the subsequent funding strategy, against the uncertainties and range of potential outcomes identified in the Scenarios. The lines of defence were:

- The financial contingencies and funding included in the Assessment
- The levers and mitigations available to GMCA to balance its policy objectives and financial resources

5.3.11 The specific financial contingencies included in the Assessment and subsequent preferred funding strategy were:

- A modelled net cumulative surplus (the net position of total sources of income, including farebox, fewer costs of operating, financing and quantified risk) from 2025/26 to the end of the appraisal period, of £94m in nominal terms
- A specific quantified risk contingency of £272m in nominal terms over the full appraisal period
- The mayoral precept requirement included in the preferred funding strategy that would result in a precept of approximately £18.20 by the end of transition and provide an ongoing revenue stream for the Proposed Franchising Scheme

5.3.12 As noted, the modelled surplus was not relied upon to inform the preferred funding strategy in the transition period and the forecast value of £94m nominal over an approximately 30-year appraisal period represented a position that was marginally above break-even. The likelihood and extent of any surplus would also be influenced by market conditions and the extent of demand benefits from the introduction of the Proposed Franchising Scheme. As such, the modelled surplus could provide very limited headroom over the appraisal period to cater for any adverse impacts as a result of Covid-19.

5.3.13 The quantified risk provision reflected the valuation of specific risks under the Proposed Franchising Scheme and the nominal value of £272m over the appraisal period was reflected within the overall forecast. The Assessment explains (at Section 42.4.4) the value of the quantified risk provision represents approximately 2.4% as a proportion of total transition, operating, management and capital costs over the appraisal period. This is a relatively low percentage of overall costs (and lower as a proportion of total cash flows, including revenues) compared with, for example, a capital infrastructure scheme and reflects the fact that franchising is predominantly an ongoing revenue scheme where the majority of income and expenditure cash flows are existing and would be transferred to the franchising authority.

5.3.14 Whilst the risk provision was not ring-fenced to a specific purpose, its quantification reflects franchising's specific risks rather than exogenous or transferred risks that would likely impact all bus reform options, as well as the Do Minimum. Consequently, the availability of the risk provision in general as a financial contingency over the appraisal period for the type of general uncertainties explored in the Scenarios could not be assumed at this stage (other than the 'scaling' of the risk provision required under different market sizes previously described in Section 5.2.21 (Net transition costs and risk contingency summary)). If the risk provision was utilised for this purpose, it would not be available to mitigate any specific subsequent risks.

5.3.15 The mayoral precept requirement envisaged as part of the preferred funding strategy would provide an ongoing source of revenue funding for bus services. Under the preferred funding strategy, the precept would be raised progressively during the transition period to both fund transition costs and provide an ongoing source of additional revenue funding post-transition.

5.3.16 A precept of £18.20 would equate to a revenue stream of approximately £13.5m per annum, based on Greater Manchester's 2019/20 tax base. The report to the October 2019 meeting of GMCA states in regard to the proposed precept: *"After the transition period, the Assessment notes there is a mixture of forecast annual deficits and surpluses in the central scenario and the proposed precept required during transition for this purpose would provide an ongoing source of revenue funding to manage any annual deficits and provide a level of base funding for forecast future escalation in bus services budgets".*

5.3.17 If the proposed precept were made available for any franchise deficits, the value of this revenue stream would provide GMCA financial headroom to manage adverse impacts compared with the forecast in the Assessment. This headroom, based on the estimated value of £13.5m per annum, would equate to approximately 7%–8% of pre-Covid-19 farebox revenues. However, it should be noted this would only be available after the transition period as, during transition, the proposed precept would be progressively increased to fund transition costs.

Lines of defence – adapting the network and cost mitigation

5.3.18 In the event the contingencies and funding set out above were inadequate, the Assessment set out the levers and mitigations available to GMCA to balance its policy objectives and financial resources. These were:

- Fares policy
- Network specification and cost both at franchising renewal and through a contractual change mechanism during franchise terms
- Further funding prioritised for bus services

5.3.19 In considering the balance of financial risks for GMCA, it should be noted that it is the impact on net revenues from bus services that is relevant: an absolute reduction in farebox revenues is not in itself problematic from a purely financial perspective if this is offset by equivalent reductions in network operating or other costs. Thus, under Scenario 3, which may be considered the most adverse of the four Scenarios, if this level of demand was at a steady state (i.e. after the reduction from the pre-Covid-19 level) and in balance with operating costs, the scale of cash flows and associated financial risk under this Scenario would be significantly less than envisaged in the Assessment.

5.3.20 However, Covid-19 effects on demand to date have been unprecedented in terms of both the scale and pace of reduction. The onset of Covid-19 in March 2020 resulted in a dramatic fall in bus patronage, falling to below 10% of pre-Covid-19 levels in April 2020 and present demand has returned to approximately 60% of pre-Covid-19 levels before the second national lockdown was introduced. The pace (and scale) of any demand reduction is relevant to considering the effects of Covid-19 upon affordability given the cost structure of operating bus services and the limitations at present to achieving a balance between demand and effective service capacity due to social distancing requirements, which was not a factor envisaged at the time of preparing the Assessment.

5.3.21 In this regard, analysis of the cost structure of typical bus operations indicates a high proportion of operating costs, such as employment costs, fleet and asset depreciation, are fixed. Whilst all costs can vary in principle (for example, through staff turnover and by not investing in fleet renewal), the fixed nature of costs in the short term may limit the extent to which costs can be reduced in the event of a material and unforeseen shock to demand and farebox revenue. The pace and extent of Covid-19 effects on demand and social distancing requirements were not factors envisaged at the time of preparing the Assessment and, therefore, further mitigations are subsequently considered. Nonetheless, adapting the cost of the network remains a mitigation option for GMCA both during transition and thereafter.

Mitigating farebox risk

5.3.22 The 'lines of defence' analysis set out above concludes that in the event potential downside changes in farebox materialised then the risk and contingency allowances included in the Assessment and subsequent preferred funding strategy may not be sufficient to cover the net costs of implementing and operating the Proposed Franchising Scheme and, consequently, GMCA would need to consider further mitigations and/or funding to varying degrees in order for the Proposed Franchising Scheme to be affordable under those circumstances.

5.3.23 These mitigations and funding options, which predominantly focus on the transition period in the first instance, could include the following steps:

Government funding

5.3.24 At the time of preparing the Assessment, CBSSG/CBSSG Restart was not in existence or envisaged, albeit the desirability of Government funding more generally was recognised by GMCA and by a number of consultees. The value of CBSSG grant (subsequently replaced with CBSSG Restart) received for Greater Manchester was approximately £3.5m per month from the start of the grant in March to June 2020. The unmitigated farebox revenue loss values set out in Table 10 do not include any offsetting value of Government funding were this to be available, and so these values are conservative from this perspective. The continuing availability of the Government's CBSSG Restart funding, or an equivalent, until such point as patronage recovers would be likely to provide a significant mitigation to a loss of farebox income.

5.3.25 It should be noted that, even with continued availability, a proportion of CBSSG Restart would continue to fund bus services that have not been franchised in the transition period and that, whilst GMCA have sought to influence and make the case for continued Government funding through its Comprehensive Spending Review submission, the availability of this funding is not in the control of local decision-makers. It is considered that for CBSSG Restart specifically, given its purpose is as a response to the effects of Covid-19, it is more likely to be a potential mitigation in the transition period to some extent rather than continuing on an ongoing basis over the full appraisal period.

5.3.26 Besides CBSSG/CBSSG Restart, the Assessment and reports to GMCA also recognised that opportunities would be sought to secure additional Government funding for bus services on an ongoing basis, including for example any allocation to GMCA of the £5bn that Government has pledged to improve bus and cycling services in England.

Concessionary reimbursements

5.3.27 Local authorities/travel concession authorities are at present being directed to pay concessionary reimbursements (and tendered services payments) at pre-Covid-19 levels resulting in an estimated ‘overpayment’, compared with actual levels of demand and service provision, of £20–£25m during 2020/21. This possibility was not envisaged in the Assessment. In the event the current position changed, and concessionary reimbursement payments, in particular, were made in line with a lower, actual, level of demand, a reduction in payments could provide additional resources under lower-demand Scenarios and release funding during the transition period. The extent of any saving would depend on prevailing factors, particularly concessionary demand: for Scenario 1 and Scenario 4 this could be at least £30m in total up to 2025/26, including the £12.5m for forecast growth in concessionary and other liabilities provided as part of GMCA’s preferred funding strategy set out in Section 5.2.8 (Operating surplus and concessionary reimbursements). Any additional resources as a result of reduced concessionary liabilities would likely be limited to the transition period: under the Proposed Franchising Scheme, when services are fully franchised post transition, the local funding which currently pays concessionary reimbursements would be ‘internalised’ as an ongoing source of income to fund the cost of franchised services.

Operating Costs

5.3.28 The Assessment recognised GMCA could adapt the cost of the network as a key mitigation in the event trends were different from those envisaged and the report to GMCA in October 2019 further noted that a downside risk scenario would necessitate prioritisation decisions to be made by GMCA and/or the Mayor, in line with its public accountability and control of key policy decisions under the Proposed Franchising Scheme, around the level of services, fares and funding in order to achieve a balanced budget.

5.3.29 This remains the case. The level of network and service provision is considered likely to be a significant mitigation option in the event that a lower-demand scenario materialised. However, as noted above, it is acknowledged that some elements of operating costs would be fixed in the short term. Consequently, there would be a time lag associated with implementing this mitigation in the event of an unforeseen or material reduction in demand. This option, therefore, may not immediately or fully mitigate any lost farebox revenue.

5.3.30 However, the unmitigated potential changes in farebox revenue set out in Table 10 demonstrate that the immediate farebox revenue risk is relatively low in the initial years of transition and that the risk would increase progressively over this period. In the event of any decision to implement the Proposed Franchising Scheme, GMCA would assume this revenue risk during 2022/23 at the earliest. The procurement, mobilisation and implementation period, therefore, would provide a period of time to operationalise this mitigation which could partly mitigate any time lag in optimising the balance of demand, revenue and operating costs. The Commercial Case, in Section 4.2.84 (Commercial levers to mitigate the risk of uncertainty), considers the practical options and levers as to how the network specification could be adapted during various phases of the transition period to demonstrate GMCA could have confidence in its ability to adapt the network if required.

5.3.31 Pre-Covid-19, network operating costs in Greater Manchester were in the order of £250m per annum. Using the operating cost principles included in the Assessment, a 1% reduction (by way of illustration) in fleet volumes, operating kilometres and operating hours from 2022/23 would result in a saving in the order of £4.5m over the period to 2025/26. Assuming GMCA prioritised this mitigation, a precise quantification of the value of this mitigation and the associated cost reduction which could be achieved over the transition period would depend upon a number of detailed factors, including the timing and scale of any change.

Transition Costs

5.3.32 The transition costs section considers that a reduction in transition costs, net of any inflationary impact, could be achieved under lower demand Scenarios to varying degrees, broadly as a result of the reduced market size and associated requirement. For Scenarios 1 and 4, at a package level it is considered transition cost savings in the order of £5m to £10m net of inflation could be achieved, and further additional savings could be realised under Scenario 3 reflecting the smaller market.

Local funding sources

5.3.33 In addition to the local funding previously proposed in GMCA's preferred funding strategy, there remain other credible, locally prioritised funding sources included in the Assessment which GMCA/the Mayor could prioritise in the transition period, in particular the value of Integrated Transport Block (ITB) from 2021/22 that, based on previous years' allocations, would be up to £16m per annum and uncommitted 'earn-back' funding of approximately £15m per annum from 2025/26, subject to confirmation through future gateway reviews. These sources of funds could be prioritised with appropriate approvals in the event an adverse impact materialised that could not be mitigated through other options.[8]

Conclusion in respect of the transition phase

5.3.34 The proposed local contribution of £134.5m set out in the previously approved funding strategy and the further mitigations and funding options set out, which include other credible, locally prioritised funding sources, could offset a loss of farebox revenue in the transition period compared with the Assessment and would provide significant resources and resilience if the Proposed Franchising Scheme were implemented. Government funding remains vital to avoid the more adverse potential outcomes for the bus market in general. However, a package of the prioritisation and mitigation options which are within GMCA's control, including the ability to adapt the network and prioritise other sources of local funding, could credibly offset the potential farebox revenue losses during the transition period and the Proposed Franchising Scheme would remain affordable under Scenarios 1, 2 and 4.

5.3.35 It remains possible that under a more extreme downside scenario (such as Scenario 3) these resources would still leave a residual funding gap during and post transition and, in the event that the Mayor subsequently implemented the Proposed Franchising Scheme and such a scenario materialised, GMCA would need to accept this residual risk and, in the absence of sufficient levels of government funding, underwrite this risk through incremental local funding.

5.3.36 It is important to note that although the Proposed Franchising Scheme exposes GMCA to an increased level of risk if demand and farebox revenue does not return to the forecast levels set out in the Assessment, as set out in the Strategic Case in Section 2.4.4 (Options for intervention – Do Minimum), under the Do Minimum GMCA would continue to support the bus network through subsidised services that are run on a tender basis, as is done at present. Under all Scenarios, but particularly Scenario 3, the problems caused to the overall transport

[8] It should be noted that if additional earn-back funding was prioritised for this purpose, it would mean that it would not be available for other (as yet unidentified) projects. However, the funding was originally provided for projects that are now complete or substantially complete.

system by the decline in bus would mean that GMCA would need to determine how to respond to this pressure. If GMCA were to make more funding available to support services, this would still be a reactive process that adapted itself around decisions made by private sector operators.

Mitigating farebox risk – ongoing phase

5.3.37 The Scenarios do not specifically include any assumptions about the position beyond 2025/26 (i.e. beyond a revised transition period). It is reasonable to assume, however, that if a downside scenario materialised, demand and associated revenue would not simply revert to a pre-Covid-19 level or the level previously forecast in the Assessment but there would be some continuation of trends and potential ongoing reduction in revenues compared with the Assessment forecast.

5.3.38 Notwithstanding this, it is considered in general that GMCA could have greater surety over its ability to mitigate any shortfall in farebox revenue and its ability to afford the Proposed Franchising Scheme beyond any transition period as:

- Over time, uncertainty as to the effects of Covid-19 is considered likely to lessen and prevailing trends would become established giving greater certainty over the level of any mitigation required to achieve a balanced budget.
- A limitation to operating-cost savings offsetting a reduction in farebox revenue in full or in part may be the fixed nature of some operating costs in the short term and associated time lags; however, over the full appraisal period, operating costs could vary to a greater degree and thus realise a greater degree of operating cost savings.
- GMCA's preferred funding strategy includes a progressive mayoral precept requirement over the transition period, which would provide an ongoing source of revenue funding of approximately £13.5m per annum from 2025/26.
- Subject to GMCA's consideration of the further mitigations set out above, GMCA could prioritise uncommitted funds in the event risks materialised and could not be accommodated through other mitigations, including specifically uncommitted earn back funding of £15m per annum which could be available up to 2045/46.

5.4 Funding Availability

Assessment Funding Proposal

5.4.1 Based on the information contained in the Assessment, GMCA members agreed in June 2019 that the Proposed Franchising Scheme (including, in particular, the transition costs required for the Proposed Franchising Scheme) was affordable on the basis of the range of credible funding sources set out in the Assessment.

5.4.2 The previously forecast net costs over the transition period up to 2024/25 were approximately £134.5m (which included approximately £12.5m of forecast cost escalation in current budgets over the period relating primarily to concessions and supported services).

5.4.3 Subsequent to completion of the Assessment, GMCA approved a specific sub-set of the credible funding sources identified in the Assessment for the purposes of identifying a preferred funding scenario for consultation. The preferred funding scenario to fund the transitional costs of the Proposed Franchising Scheme was:

- £78.0m, in total, of Mayoral earn-back funds provided by central Government as part of Greater Manchester's Devolution Agreement
- £11.0m, in total, of existing precept raised as part of the Mayor's 2019/20 budget for bus reform purposes (equating to £2.2m per annum applied each year from 2020/21)
- £17.8m, in total, of contributions by local authorities as a proposed one-off increase in the statutory contribution in 2020/21
- £5m, in total, of existing and forecast business rates pooling receipts held by GMCA
- £22.7m, in total, of mayoral precept required from future years' budgets

5.4.4 The future years' precept requirement reflected progressive requirements of a precept per Band D property up to approximately £18.20 in total, phased over a four-year period commencing in 2021/22.

5.4.5 The funding proposal reflects locally controlled sources of funding. However, the Assessment, and subsequent meetings of GMCA, also recognised the desirability of Government funding to support bus reform.

Covid-19 effects on approved funding proposal

5.4.6 This section considers potential Covid-19 effects on the previously approved preferred funding proposal. An overarching effect is the profile of funding required would be deferred compared with the assumed implementation timeline in the Assessment if the Proposed Franchising Scheme were now implemented. The extent of this deferral would depend upon any implementation date: as an assumption, an approximately one-year deferral would reflect the earliest possible implementation date for the Proposed Franchising Scheme and the consequent deferral of transition costs.

5.4.7 Since the Assessment was completed the next five-year tranche of earn-back (£30m per annum), covering financial years 2020/21 to 2024/25, from central Government has been confirmed and therefore mitigated the risk of non-availability of this funding.

5.4.8 Existing commitments against earn-back funding are principally capital financing costs for the Metrolink Trafford Park extension and SEMMMS highway scheme. These capital financing costs are fixed to a large extent, and not impacted by Covid-19. Therefore, as earn-back funding has been confirmed, and other commitments against this funding are fixed to a large extent, the residual funding previously assumed of £78m should remain available in principle for the Mayor to prioritise for bus reform or other as yet unidentified projects.

5.4.9 The local authorities of Greater Manchester, in common with other Greater Manchester partners, have experienced significant financial pressures (both increased costs and reduced commercial income) as a result of Covid-19. The financial implications related to Covid-19 for local authorities, GMCA and TfGM, were reported to a special meeting of GMCA in June 2020 and reported additional costs and lost income, before Government support, in the region of £732m by the end of financial year 2020/21.

5.4.10 Whilst GMCA returned resources to local authorities in financial year 2019/20 of greater value than the proposed funding contribution, in the event the Proposed Franchising Scheme were introduced, it is proposed in recognition of Covid-19 pressures to defer the local authorities' contribution to the end of any transition period (to approximately 2025/26). Other factors remaining equal, it is considered the deferral of this contribution could be accommodated through 2020/21 earn-back funding, which is of similar quantum.

5.4.11 The business rates pooling receipts (from GMCA's pooling with Cheshire East), at the time of preparing the preferred funding strategy for consultation in 2019, were included at a forecast value of £5m. Pooling receipts of this value remain available in principle for GMCA to prioritise for bus reform.

5.4.12 Approximately £33.7m of funding in total over the transition period was proposed as a requirement from the mayoral precept. £11.0m of this requirement was from existing precept which was previously raised in 2019/20 for the purposes of bus reform and remains existing, available funding. £22.7m of this requirement was from future years' budgets over the transition period. At the time of preparing the Assessment and the subsequent preferred funding strategy, the revenue raised from a given precept was based on Greater Manchester's 2019/20 tax base, meaning a £5 precept would raise approximately £3.75m per annum.

5.4.13 This assumption was considered prudent as the precept funding required was relative to the forecast future years' cash funding requirement over the transition period. Basing the precept requirement on Greater Manchester's 2019/20 tax base, therefore, did not assume any year-on-year growth in the tax base after 2019/20. Future economic recovery and growth (which in turn would impact Greater Manchester's tax base) are key uncertainties identified in the Scenarios.

5.4.14 It is possible that under weaker economic recovery scenarios (such as Scenario 3 and Scenario 4) that an adverse impact on the tax base would result in a higher headline precept requirement, other factors remaining the same. On balance, the precept valuation assumptions are considered to remain appropriate, albeit potentially less prudent than envisaged at the time of preparing the Assessment, given the length of the transition period and that in the intervening period some tax base growth has already occurred in 2020/21.

Conclusion on the approved funding availability

5.4.15 The preferred sources of funding included in the preferred funding strategy remain available in principle for the Mayor, GMCA and local authorities to prioritise to bus reform, as they reflect existing and available mechanisms. Nonetheless, specific considerations or effects relate to:

- The financial pressures across Greater Manchester as set out in the report to the June 2020 GMCA and, consequently, there are other potential competing uses of funds compared with when the Assessment was prepared
- The proposal to defer the local authorities' contribution of £17.8m to the end of any transition period (to approximately 2025/26) in the event the Proposed Franchising Scheme were to be introduced. It is considered the deferral of this contribution could be accommodated through 2020/21 earn-back funding, which is of similar quantum.
- The risk that under weaker economic recovery scenarios, Greater Manchester's tax base would be adversely affected with a consequent impact on the funding raised from a given precept level. The precept valuation, however, is considered to remain appropriate as the approved funding strategy adopted a prudent approach which did not factor in any future population growth due or growth in the tax base in the intervening period.

5.5 Overall Conclusion

5.5.1 As noted above, the preferred sources of funding included in the preferred funding strategy remain available in principle for the Mayor, GMCA and local authorities to prioritise to bus reform, as they reflect existing and available mechanisms.

5.5.2 The Assessment included a number of lines of defence which were both financial contingencies and funding. Based on the analysis considered in this section, it is possible that under some scenarios (such as Scenarios 1, 3 and 4) these lines of defence could not accommodate the potential impacts upon farebox revenues and net revenues in the transition period without further mitigations described above.

5.5.3 A potential mismatch between income and costs in that period could affect all bus reform options, as well as the Do Minimum. This is the case at present. As a result, operators have been financially supported by i) Government emergency funding through various iterations of the CBSSG, ii) utilisation of the Coronavirus Job Retention Scheme and iii) payment of concessionary reimbursement, tendered service payments and BSOG at pre-Covid-19 levels. However, the ongoing availability of additional financial support to sustain the bus industry is uncertain: at the time of writing the Coronavirus Job Retention Scheme has been extended up to the end of March 2021, and the Government have not committed the CBSSG beyond an assurance that an eight-week notice period would be provided before its withdrawal.

5.5.4 The proposed local contribution of £134.5m set out in the previously approved funding strategy and the further mitigations and funding options set out, which include other credible, locally prioritised funding sources, could offset a loss of farebox revenue in the transition period compared with the Assessment forecasts and would provide significant resources and resilience if the Proposed Franchising Scheme were implemented. Government funding remains vital to avoid the more adverse potential outcomes for the bus market in general. However, a package of the prioritisation and mitigation options which are within GMCA's control, including the ability to adapt the network and prioritise other sources of local funding, could credibly offset the potential farebox revenue losses during the transition period and the Proposed Franchising Scheme would remain affordable under Scenarios 1, 2 and 4.

5.5.5 It remains possible that, under a more significant downside scenario (such as Scenario 3) these resources would still leave a residual funding gap, during and post transition, and in the event that the Mayor subsequently implemented the Proposed Franchising Scheme and such a scenario materialised, GMCA would need to accept this residual risk and, in the absence of sufficient levels of government funding, underwrite this risk through incremental local funding.

5.5.6 After transition, the proposed precept included as part of GMCA's funding strategy would provide a further ongoing source of revenue funding and greater confidence in prevailing trends along with the ability to fully adapt the network and associated operating costs, if required, would provide further confidence that the Proposed Franchising Scheme would be affordable over the appraisal period under the Scenarios.

5.5.7 It is important to note that although the Proposed Franchising Scheme exposes GMCA to an increased level of risk if patronage does not return to pre-Covid-19 levels, as set out in the Strategic Case in Section 2.4.4 (Options for intervention – Do Minimum), under the Do Minimum, GMCA would continue to support the bus network through subsidised services that are run on a tender basis, as is done at present. Under all the Scenarios, but particularly

Scenario 3, the problems caused to the overall transport system by the decline in bus would mean that GMCA would need to determine how to respond to this pressure. If GMCA were to make more funding available to support services, this would still be a reactive process that adapted itself around decisions made by private sector operators.

5.6 Do Minimum and Partnerships

5.6.1 The Assessment described the structure of cashflows under the Do Minimum related to various public sector funding streams supporting bus services in Greater Manchester, including GMCA's responsibilities as the travel concession authority. This funding supports:

i. Reimbursement to operators for statutory concession schemes ("ENCTS")

ii. Reimbursement to operators for local discretionary concession schemes

iii. Funding for non-commercial supported services

iv. Fuel subsidy for operators

5.6.2 This funding is provided mainly through the local Statutory Charge of up to £86m per annum and devolved BSOG of £15.9m per annum. In addition, central Government are currently providing emergency funding through various iterations of CBSSG.

5.6.3 At the time of preparing the Assessment, the basis of concessionary reimbursements was considered to be 'demand variable', and similarly, BSOG would be reimbursed on the basis of mileage. In that sense, GMCA was considered to retain both upside and downside risks from a financial perspective under the Do Minimum, and in the event of budgetary pressure, GMCA could make policy choices around, for example, the extent of local concessions and supported services.

5.6.4 At present the financial risks under the Do Minimum are greater than the basis described in the Assessment, reflecting the onset of the Covid-19 pandemic, and directions that local authorities should reimburse operators at pre-Covid-19 levels for concessionary reimbursements and BSOG. This limits GMCA to downside financial risks at present, and it is uncertain when and how this position may evolve.

5.6.5 The Assessment considered the Financial Case for both an Operator Proposed Partnership and an Ambitious Partnership, however following the conclusion of the Assessment and the consultation, the Ambitious Partnership was not considered a valid option based on the outputs from engagement with operators and the additional partnership proposal submitted by OneBus (titled the 'Partnership Plus') as part of their consultation response is now considered to be the Operator Proposed Partnership, which is considered here.

5.6.6 In the Assessment, the Financial Case reported that the forecast net deficit over the full modelled period would be £97.4m for the central Operator Proposed Partnership. The Assessment also explained the distribution of the partnership funding requirement and risk profile was different compared with franchising. The partnership funding requirement is a more consistent steady-state annual requirement reflecting incremental ongoing costs and risks, compared with franchising which has higher short-term transitional costs and funding requirement. The partnership options considered in the Assessment also did not involve a transfer of revenue risks, and therefore from that perspective, partnership options were considered to result in lower financial risks for GMCA compared with franchising.

5.6.7 Given the nature of the funding requirement, the ongoing revenues sources identified in the

Assessment, such as the mayoral precept and revenue earn-back, were considered credible funding sources for the partnership options. The Assessment concluded that the value of these funding sources meant the partnership options could be considered feasible and affordable provided that funding of the required value from these sources could be allocated to fund partnership.

5.6.8 As outlined in Section 2.4.12 (Options for intervention – Partnership) of this report, TfGM wrote to OneBus and asked them to confirm whether the effects of Covid-19 have had, or are expected to have, any impact on the commitments within their partnership offer. In their response, OneBus stated that given the Covid-19 situation is still ongoing and the medium and long-term effects on the bus market are not fully known at the time of writing in August 2020. As a result, OneBus was unable to explicitly state which of their commitments would be impacted. OneBus did, however, comment that it is likely any commitments that relied upon ongoing patronage growth would likely need to be reassessed and updated in light of the effects of Covid-19 on the bus market. This seems to have been confirmed by Rotala in their letter of 12 November 2020 as they stated that *"OneBus intend to undertake a full review of the Partnership Plus proposal once the Country is out of the pandemic (Spring 2021) … However, what can be gauged from the very low passenger numbers throughout the pandemic is that this proposal has the potential to be radically different"*.

5.6.9 As explained in the Assessment, the funding requirement for partnership reflects incremental costs associated with the transition to, and ongoing management of, the partnership. GMCA would have extended responsibilities, to ensure that the benefits of partnership are realised. For GMCA to successfully fulfil its obligations, it would need to expand both its capability and capacity. This would still be the case and could be exacerbated by the effects of Covid-19 on the bus market and the operators within Greater Manchester. The network may be smaller and more fragmented than assumed in the Assessment and operators may be under more financial strain as they recover from Covid-19, so GMCA may need to invest more resource into ensuring the benefits of a partnership are realised.

5.6.10 An element of the partnership funding requirement and costs related to additional concessionary reimbursement, reflecting that any partnership benefits which increased concessionary patronage relative to the Do Minimum, would need to be reimbursed on a 'no better, no worse' basis. As OneBus acknowledge that previous commitments relating to patronage growth would need to be reassessed, it is possible the concessionary reimbursement element of additional cost would reduce under some of the Scenarios, commensurate with a reduction in benefits. This effect would likely be more pronounced under the lower demand Scenarios (e.g. Scenario 3).

Conclusion

5.6.11 The partnership option is considered to remain a lower-risk option for GMCA compared with franchising, on the assumption there remains no transfer of revenue risk. The nature of the funding requirement is considered likely to remain an ongoing revenue requirement with a lower transition requirement compared with the Proposed Franchising Scheme. However, the partnership option is also considered likely to deliver less benefits than outlined in the Assessment due to the effects of Covid-19 on operators and their ability to carry out the commitments made in the Operator Proposed Partnership as outlined above.

6. Management Case

6.1 Introduction

6.1.1 The objective of this section is to review the potential impact of Covid-19 upon the Management Case for the Proposed Franchising Scheme and the partnership options. Previously, the Assessment concluded that TfGM, on behalf of GMCA, would be able to manage the transition, implementation and delivery of the Proposed Franchising Scheme or the partnership options of bus reform. These conclusions were also supported by the majority of consultees who responded to the consultation.

6.1.2 This chapter seeks to consider whether TfGM on behalf of GMCA would still be able to effectively and efficiently manage the implementation and ongoing management of operations of both options despite the impact and instability caused by Covid-19.

6.1.3 The Management Case covers two sections:

- Section 1 – Proposed Franchising Scheme
- Section 2 – Partnership options

6.2 Section 1: Proposed Franchising Scheme

6.2.1 The Management Case has been reviewed against each of the four Scenarios as defined in Section 1.4 (Possible future transport scenarios). This chapter considers the impact of Covid-19 upon:

- The future operating model
- Risk
- GMCA's plan for consulting on the Proposed Franchising Scheme
- Network change

The future operating model

6.2.2 There are a number of potential impacts due to Covid-19 that may affect the future operating model. These include:

- The scale of risk to the public sector and the balance between public sector subsidy and farebox
- The change in traffic levels and the impact upon the sizes of the franchises and the workload that this generates for TfGM
- Patronage levels and the resources needed to manage the customer, e.g. customer contact
- The future stability and size of the network and contract changes that are required during the life of the franchises, particularly during transition and the early years after implementation
- The level of public sector financial support and the additional levels of oversight that might be required

- The availability of revenues generated by bus operations and the public sector support to fund the operating model

6.2.3 This section considers the points above and the potential impact of Covid-19 against the Scenarios, with a more detailed focus on:

- The implementation of the future operating model
- Organisational change
- The future operating model costs – People
- Other ongoing future operating model costs
- Transition resource

6.2.4 In the Assessment, the future operating model was developed to meet the operational requirements for managing the Proposed Franchising Scheme. Detailed development of the operating model focused on the requirements needed around three particular areas: people, operating costs and systems, and all the capabilities and processes that would be needed to deliver these components.

6.2.5 To understand the potential impact that Covid-19 may have on the original design of the future operating model, the Management Case content has been reviewed against the four Scenarios to consider the possible impact on future delivery.

6.2.6 The future operating model underpins and articulates the framework for delivery of the Proposed Franchising Scheme. Reviewing the key components of the operating model against the Scenarios has shown that, despite Covid-19, the form, function and organisational design described in the Assessment fundamentally remains appropriate across three of the four Scenarios (Scenarios 1, 2 and 4). Whilst Covid-19 has altered where people work (flexible working from different locations rather than a central office base), the roles and required accountabilities designed in the Assessment are still required to deliver the Proposed Franchising Scheme. What changes are the potential resourcing numbers and type of contract they may have.

6.2.7 Analysis of the design of the essential components of the future operating model against Scenarios 1, 2 and 4 shows that, even with any potential Covid-19 impacts, the service delivery model for delivering customer value and experience would still be appropriate. Across these Scenarios, the framework and fundamentals that were designed are still relevant, as are the supporting technology requirements, governance and controls. The design of the roles, the accountabilities and outputs that would be required and the behaviours that would need to be demonstrated through the way people work are all still required. The assumptions in the Assessment were that there would be a significant investment in systems to support the management of franchising, and that would not change following the impact of Covid-19. What may need to change is the workforce planning assumptions, be that a smaller number of roles to manage less demand or increasing resource in a particular set of skills, depending on the need at the point of transition. For example, across all Scenarios, a greater focus on a market analysis skillset will support TfGM to navigate a pathway to better and more appropriate outcomes compared with more traditional network planning roles.

6.2.8 The identified capabilities and processes that form the foundation of the operating model are still the right ones to deliver the required outputs, against the majority of the Scenarios

(Scenarios 1, 2 and 4). There may be a requirement for a review of these processes to take account of the emerging trends in workplace engagement and delivery (flexible working versus office-based).

6.2.9 The timing of when and how these processes and capabilities are integrated into TfGM in all Scenarios (rather than a complete review) will need to be reviewed depending on the decision.

6.2.10 If Scenario 3 comes to fruition, then there would need to be a redesign of the operating model as the economic impacts will mean the network is much smaller and there would be wider implications on TfGM's ability to deliver the outcomes of any decision. The redesign of the operating model would seek to align the size of the team and resources to the requirements of managing a significantly reduced bus network. In the short term, resources may need to increase to manage the decline in the network. The processes and required capabilities would be modified where appropriate.

The implementation of the future operating model

6.2.11 A key challenge for implementing any future operating model is the time between making a decision on the future of the Proposed Franchising Scheme, recruiting the resources required to manage and deliver franchising (in the event of a Mayoral decision in favour of franchising) and the availability of data that will inform the scale and nature of the operating model (i.e. what variant of the four Scenarios is likely to emerge). The Assessment recognised the importance of increased insight during transition with a significant increase in data collection and surveys during this period. The market instability and uncertainty caused by Covid-19 may require that more analysis to support decision making, and additional survey and data collection costs may be required. This would support decision making beyond the implementation of the future operating model.

6.2.12 TfGM would, therefore, need to plan to deliver a future operating model in a way that embraces an agile way of working (allowing it to respond to a wide variety of unexpected external surprises and change the overall system completely in response to an external force) to respond to what the market may look like in the future (which the Scenarios attempt to envisage) without incurring significant costs employing people who subsequently may no longer be required for franchising.

6.2.13 The Assessment set out a planned timetable of 21 months to deliver and implement the first tranche of franchises in the event of a Mayoral decision in favour of franchising. When forecasting resource requirements beyond those required for the first tranche, consideration should also be given to the macro and micro factors that underpin the above recovery forecasts. For example:

- State of the economy recovery
- Government commitment to supporting public transport
- Changes in Government policy and strategy in transport
- Behavioural change trends from the public
- Public attitudes to climate change, etc.

6.2.14 To meet the proposed timelines for the implementation of all tranches and to make sure that TfGM does not burden itself with permanent unnecessary resource costs if there is ongoing uncertainty of the eventual size of the franchise operation TfGM would have to follow the principles of the operating model design but be agile to adjust people (e.g. using fixed-term contracts ("FTCs") instead of permanent resources), processes and policies to match the economic situation and the emerging size of the bus network and passenger demand during transition.

6.2.15 Resource risk can be mitigated by an appropriate phasing strategy that embraces the concepts of strategic workforce planning and aligns resources to demand and potential workload, where possible. For a lot of resources, the workload is driven by:

- The size of the network being procured and number of franchise contracts (e.g. contract management)
- Patronage (e.g. customer contact)
- Forecast patronage revenues (e.g. sales and marketing)
- Market stability (e.g. Network Planning)

6.2.16 Several approaches would be considered to minimise the risk of recruiting resources that may not be required in the future as the traffic forecast starts to emerge. Options include:

- Effective reprioritisation of existing resources in the short term (this was also assumed in the Assessment)
- Increased use of contractors/advisors and/or FTCs to fulfil some of the roles
- A combination of the two approaches above

6.2.17 The above approaches would be considered for all the additional roles within the proposed future operating model and not just the core franchise management positions.

6.2.18 **Reprioritisation**: The first approach considers the reprioritisation of existing TfGM resources to fill some of the new roles across the organisation either permanently or temporarily. This would have to be done in conjunction with a wider organisational change programme. This approach would be supported with a capability development plan ensuring that people have the right skills and behaviours to fulfil the requirements of the role effectively.

6.2.19 **FTCs/Contractors:** The second approach proposes the use of FTCs or contractors/advisors to fill some of the roles until there is greater clarity on the future longer-term requirements. This gives TfGM the flexibility to reduce or increase the size of the organisation required depending upon the emerging recovery Scenario. The preferred approach would be the use of FTC because:

- This would incur less cost
- It may be possible to offer them a permanent position as the future position emerges avoiding future recruitment costs and ensuring no loss of corporate knowledge.

6.2.20 **Combination of approaches**: To enable the organisation to upskill existing talent and provide some extra capacity to support a sizeable organisational change, the appropriate strategy would be to employ a combination of reprioritisation and external support. This would provide the additional capacity and capability of skills that are often needed during large scale transformation programmes whilst providing space for the reprioritised TfGM staff to engage and embed into their new roles.

6.2.21 This approach would be particularly relevant for the second tranche. It is envisaged that there would be greater clarity on what the market looked like for the recruitment of resource for the final phase, the third tranche.

6.2.22 In summary, there are a number of options that TfGM would deploy to flex the operating model to respond to changes in the size of the network and patronage ensuring associated changes in the resource requirements can be accommodated effectively and efficiently.

Organisational change

6.2.23 Pre Covid-19 and post implementation of the Proposed Franchising Scheme, TfGM would have been accountable for circa 85% (Bus and Metrolink) of all Greater Manchester public transport trips and would have been responsible for managing significant commercial revenue risk (if the Proposed Franchising Scheme had been introduced). Therefore, the Assessment assumed that to manage this level of change TfGM would implement a significant organisational change in order to manage the risk and opportunities associated with managing franchised bus operations and deliver the future operating model. Some of the drivers for an organisational change may have altered, but the need for a change programme has not changed despite the potential impacts of Covid-19.

6.2.24 The impact of Covid-19 has forced organisations to rapidly adapt how and where their people work in the short term, and this may be sustained for the longer-term. TfGM have not been shielded from this and have had to adapt their working practices quickly to continue to facilitate transport provision across Greater Manchester. Whilst there will be impacts of Covid-19 on the transition from the current operating model to the future one, the change required will need to be underpinned by a programme that delivers the shift in culture and behaviours (commercial, continuous improvement and customer) required to meet the challenges below:

- The balance between revenue risk and public sector subsidy changes under Scenarios 1, 2 and 4, with increased public sector subsidy and greater scrutiny. The public sector subsidy would be phased out more quickly in Scenario 3.
- The bus sector will go through an increased period of instability that TfGM will need to manage. This will impact the core franchising team and the wider organisation.
- Rapid decision-making

6.2.25 Although the need for change was outlined in the Assessment, as a result of Covid-19 TfGM have started a transformation journey. The new ‘Future TfGM’ organisational strategy is quickly reviewing how TfGM operates and assessing how to develop and embed the organisational culture with new, agile ways of working, which have been implemented since March 2020.

6.2.26 The requirement for organisational change to support future franchising operations has not reduced, yet the level of uncertainty and risk that needs to be managed has increased. The organisation has started on a journey through the ‘Future TfGM’ initiative. Any proposed organisational change that would be needed to provide TfGM with the capability to manage bus franchises effectively and efficiently would be aligned with the wider organisational change. TfGM have recognised that this is an important part of delivering and implementing the future operating model for franchising and have budgeted for this in the transition costs.

The impact on future operating model costs – People

6.2.27 The use of the Scenarios allows the Management Case to test the initial assumptions made in the Assessment and provides a constructive review of the potential impact of each Scenario and what this would mean for the operating model. This chapter summarises the analysis that has been undertaken.

6.2.28 The analysis shows the likelihood of there being a change and to what perceived extent. The analysis explores whether more or less resource will be needed as a percentage (the resourcing plan in the Assessment is considered to be 100%), and the reasons why this assumption has been made.

Scenario 1 and Scenario 4 – Less people resource required

6.2.29 The resourcing profiles of Scenarios 1 and 4 are both considered to reduce if either of these become a reality. Scenario 1 is estimated to require approximately 20%–30% less people resource, and Scenario 4 is estimated to require approximately 10%–20% less people resource.

6.2.30 The three areas below (contract and network management, customer contact and sales and marketing) are identified as the areas that would experience staff reductions. Corporate support would be redesigned to meet the required capacity.

Contract and Network management

6.2.31 It is envisaged that there would be some reduction in resources required to manage franchising contracts due to the reduction of the required network. If, as a result of the decline in traffic, there was a consolidation of the 25 small and 10 large franchises into fewer contracts, there would be a slight reduction in the Contract Management team. It is not envisaged that there would be a reduction in the Network Planning team, however, refocusing some capacity to market analysis to be more responsive to socio-economic trends in home versus office working may be appropriate. However, with the level of market volatility in the short term, this team may need to be larger than was included in the Assessment.

Customer Contact

6.2.32 The Customer Contact requirements are driven by customer volumes and numbers of customer complaints/contact. With reduced traffic volumes, it is estimated that, in Scenarios 1 and 4, the number of customer contact staff that would reduce. Initially, in the short-term, the number of resources identified in the Assessment would still be required to accommodate the volume of customer contact during transition and to respond to any Covid-19 queries. However, as the operating model is implemented and the programme moves to a business-as-usual delivery, the numbers in customer contact would be reduced to align with patronage.

Sales and marketing

6.2.33 The sales and marketing budget is directly aligned to the farebox, with circa 0.5%–1% of farebox allocated to sales and marketing campaigns. In the short term, sales and marketing spend could, subject to available funding, increase to promote bus and attempt to reverse the patronage decline post the pandemic. In the longer term, if patronage and farebox reduce, the funds available for sales and marketing activity reduce, unless additional funds are found to support the campaigns. With a reduction in farebox revenue, it is likely that there would be a need to reduce the size of the sales and marketing team.

Scenario 2 – Small increase in people resources required

6.2.34 The resourcing profile aligned to Scenario 2 is likely to increase the staff requirements. It is estimated that up to 10% more capacity would be required to deliver the future operating model. Scenario 2 forecasts an increase in patronage but with operated mileage being largely the same as that pre-Covid-19.

6.2.35 It is envisaged that there would be no increase in the size of the Contract Management teams as the number and size of contracts would be similar to those in the Assessment. Again, refocusing some capacity to market analysis to be more responsive to socio-economic trends in home versus office working may be appropriate.

6.2.36 In the short term, there may be an increase in the size of the Network Planning team due to the volatility of the market. There may also be a small increase in the size of the Customer Contact team due to the increase in patronage. It is envisaged all other teams would largely be unaffected.

Scenario 3 – Significant reduction in additional people resource required

6.2.37 Scenario 3 forecasts a significant decline in the size of the network and patronage. Should this Scenario emerge, then there would be a significant reduction in the required resources in all areas of the operating model to align to both the future management requirements and affordability. However, in the short term, there may be an increase in the size of the Network Planning Team due to the volatility of the market. The collapse of the market would mean that the Bus Services team would have the most work – to firefight and retrench, and so additional capacity would be required until the economy stabilises.

Conclusion

6.2.38 Although there is much uncertainty around how and when the bus market recovery will emerge, the approaches described above demonstrates a flexible and agile approach that would allow TfGM to flex the operating model to respond to changes in the size of the network and patronage ensuring and associated changes in the resource requirements can be accommodated effectively and efficiently.

Other Ongoing Operating Model Costs

6.2.39 Alongside the people costs, the future operating model has a number of additional components that will carry a cost as TfGM transitions to implementation and business as usual delivery. There are three areas which have a significant value attached to them. These are:

- Sales and marketing (costs currently form part of the operator costs and are not explicitly shown in the Assessment as they are embedded in Operator base costs. These costs would transfer to TfGM under franchising).
- Ongoing systems operating costs (£645k + per annum)
- Driver training (£500k per annum)

Sales and Marketing Expenditure

6.2.40 The sales and marketing expenditure budget and the size of the associated delivery function will be determined by the performance of the farebox. In Scenarios 1, 3 and 4, it is envisaged that there would be a substantial reduction in commercial revenues, even if there were an increase in fares to offset any revenue losses through patronage decline. If this were to happen, this would result in a reduction in the sales and marketing budget unless there is increased public subsidy to fund sales and marketing campaigns. In the short term, however, TfGM could choose to increase sales and marketing spend, subject to available funding, to promote bus and attempt to reverse the patronage decline post the pandemic.

6.2.41 In Scenario 2, depending to what extent the additional demand is driven by fare reductions, the sales and marketing expenditure, should increase in line with forecast passenger growth.

Ongoing Systems Operating Costs

6.2.42 A decision on the proposed approach to future delivery would likely have to be made shortly after any decision to introduce the Proposed Franchising Scheme. Although this is dependent upon the timing, it is possible that there will still be little clarity on what the market will look like and the long-term impact of Covid-19 on the economy.

6.2.43 Sections 6.2.47 – 6.2.49 (Transition – systems) of this report discuss the proposed approaches to Intelligent Transport Systems ("ITS") and systems implementation. Subject to the timing of any decision to introduce the Proposed Franchising Scheme, the current assumption would propose to proceed with the approach to systems implementation as defined in the Assessment. This would ensure the systems framework is in place and should allow the future operating model to be efficient, effective and more agile in responding to change. Therefore, the ongoing systems operating costs would not change if any of the Scenarios were to materialise.

Driver Training

6.2.44 Fewer drivers would be required in Scenarios 1 (approximately -30%), Scenario 3 (approximately -75%) and Scenario 4 (approximately -20%) as the network reduces broadly in line with the demand. Driver training costs would reduce by corresponding amounts. In Scenario 2, it is assumed that the growth comes through increased patronage, and the mileage remains fairly constant. It is not envisaged that there would be a significant increase in the number of drivers, but there may be a small increase in driver training costs.

Transition Resource

6.2.45 These sections consider the potential impact of Covid-19 on TfGM's approach to managing the transition requirements to implement the Proposed Franchising Scheme. Whilst it is expected that TfGM would be able to manage the transition despite the level of uncertainty, consideration has to be given to the impact upon the following areas:

- Transition team; and
- Transition to new systems.

Transition Team

6.2.46 When planning the implementation of the Proposed Franchising Scheme, a key challenge is the timing of any decision. Depending on when (and indeed if) there is a Mayoral decision to introduce the Proposed Franchising Scheme, it is likely there will still be considerable impacts of Covid-19 on resident's everyday lives, the economy and the bus market. It is currently assumed the mobilisation of the Transition Programme team would be on the basis outlined in the Assessment. Analysis shows that there are not many areas where the transition costs could be significantly reduced even if the transition plan is aligned with one of the lower forecast Scenarios. TfGM will continue to explore opportunities to reduce costs if appropriate.

Transition – Systems

6.2.47 TfGM will need to make a commitment to its approach to systems and Intelligent Transport Systems ("ITS") after any Mayoral decision. Although the ITS and systems solution proposed in the Assessment will meet the future needs irrespective of whether any of the Scenarios materialise, a commitment to this expenditure is required.

6.2.48 An alternative approach could be to develop a 'temporary Day 1+' solution for the first few years of franchising operations. This would require more manual intervention, reuse of operator equipment and a possible deferral of some elements of the performance regime during the early years of franchising. This approach would incur more cost in the long term but could reduce the short-term transition costs.

6.2.49 The recommendation would be to pursue the long-term option as defined in the Assessment. This approach would meet the requirements of all the Scenarios and what the market may look like in the future. Therefore, at this stage, it should be assumed that there are no changes in the systems costs and risk provision.

Future Operating Model Conclusion

6.2.50 With the level of instability in the bus market, it is essential that TfGM adopts an agile approach to flex the operating model to meet the future requirements, no matter what happens in the market (higher or lower usage).

6.2.51 Despite the level of uncertainty, the proposed approach outlined in the Assessment and the people, processes and system designs that underpin it, provide the correct organisational foundations for enabling TfGM, on behalf of GMCA, to manage the Proposed Franchising Scheme whilst mitigating potential cost risks. Embracing a more agile approach to the transition and implementation, including using different contracting options for resource depending on need, means the future operating model design is in a strong position to manage risk and achieve the objectives outlined in the Assessment.

6.2.52 The fundamentals of the future operating model are still relevant for Scenarios 1, 2 and 4 and this framework can still be used to provide the foundations for implementation and business as usual, with redesign happening at specific targeted areas and to manage cost, so that is aligned with the economic forecasts at that time. Scenario 3 would have the greatest impact on the future operating model and the transition and implementation. If Scenario 3 were to come to fruition, there would need to be a fundamental redesign of the operating model, as discussed in Section 6.2.6 (The future operating model) above.

6.2.53 Following the review of the potential impact of Covid-19 on the transitional arrangements, it can be concluded that there could be a marginal level of savings that could be realised when reviewing transition costs. This is complicated by the fact that there are currently no certainties about the timing of a decision, the need to commit to expenditure and the understanding of how Covid-19 could still be impacting the economy. Therefore, it would be prudent to assume that there would be no savings realised through the transitional arrangements.

6.2.54 However, TfGM will continue to explore innovative approaches for the implementation of the Proposed Franchising Scheme as it seeks to identify cost efficiencies whilst not jeopardising implementation timescales.

6.2.55 Scenarios 1, 2 and 4 would continue to use the design of the future operating model and transition arrangements with focused interventions as required. There would be potential reductions in both headcount and ongoing operating costs in Scenarios 1 and 4, and Scenario 2 may see a modest increase. Scenario 3 would require a redesign of the proposed future operating model.

Risk

6.2.56 This Section describes the impact of Covid-19 on risk management and covers two areas:

- Ongoing risk management during the Proposed Franchising Scheme; and
- Managing transition and mobilisation risk

Ongoing Risk Management During Franchising

6.2.57 Under the Proposed Franchising Scheme, GMCA would take on revenue risk associated with the running of the bus services. Broadly, there are two main categories of risks that will impact on revenue:

- Exogenous risks, such as adverse changes in population growth; and
- 'Influence-able' or endogenous-type risks that GMCA could reasonably control and mitigate (such as poorly executed network design)

6.2.58 An exogenous risk has already occurred in the form of the Covid-19 pandemic. This has resulted in a rapid decline in bus patronage and revenues, with significant shrinkage in the commercial network. The commercial network is now operating at 100% of the pre-Covid-19 levels and patronage at circa 60% only with a significant public sector subsidy.

6.2.59 The Scenarios indicate that it is likely that there will be a period of instability in the bus market. However, despite the level of uncertainty the current corporate risk management strategy and approach, which is principally based on guidance and standards in the International Standard in Risk Management – ISO: 31000 (International Organisation for Standardisation, 2018), The Orange Book: Management of Risk and Management of Risk: Guidance for Practitioners issued by HM Treasury (HM Treasury, 2013), remains appropriate. However, TfGM would consider any changes in approach which emerge from any review of the ISO:31000.

6.2.60 During transition and post implementation of the Proposed Franchising Scheme, it is expected that GMCA would have to consult before making changes in the services which it intended on franchising. As set out in Sections 4.2.84 – 4.2.92 (Commercial levers to mitigate the risk of uncertainty) and 7.3 (Modifications proposed after the consultation) of this report, this may only be necessary under Scenario 3 as there is sufficient flexibility in how services are defined in the Proposed Franchising Scheme already that means that under any of the other Scenarios, any changes to the network could be captured within the specification of the franchise contracts instead. The market has been impacted by Covid-19, and uncertainty may continue for several years. Therefore, it is important the approach to consultation is balanced with the need to make appropriate changes in the network in a timely manner reducing potential additional cost risks.

Managing Transition and Mobilisation Risk

6.2.61 The risk register, which was prepared for the Assessment to highlight the potential risks to the various options, has been reviewed as part of this report. There are some changes to the level of risk because of Covid-19.

6.2.62 The risk register has been reviewed, and the potential impact upon the risks and mitigation plans have been assessed. There are two areas where Covid-19 has a cost impact:

- Risk around the operators' ability to support transition and mobilisation activities
- Risk around operators withdrawing services at an accelerated rate

6.2.63 The risk around operators' ability to support transition has been addressed by recognising an increased likelihood of the risk occurring after mitigation actions. This slightly increases the risk provision to support the mobilisation process.

6.2.64 The risk around operators withdrawing services is a much more significant risk if it were to materialise. Whilst the Government continues to support bus operations, operators are not allowed to withdraw services without notice. However, if the support is withdrawn prior to recovery, then the risk of services being deregistered increases significantly. This is a risk both in the current commercial market and under any option of bus reform and it is an issue that needs to be addressed more widely by GMCA. As set out in Section 7.2.3 (Description and background to the Proposed Franchising Scheme) of this report, at the time of any Mayoral decision to introduce the Proposed Franchising Scheme, GMCA would also have to consider whether to extend the amount of notice that operators would have to provide before being able to deregister a service during the transitional period.

6.2.65 In summary, the updated risk registers and mitigation plans indicate TfGM would be able to manage transition mobilisation despite the high level of uncertainty driven by the impact of Covid-19. The majority of approaches defined in the Assessment to mitigate the risks are unchanged.

Plan for Consulting on the Proposed Franchising Scheme

6.2.66 As part of its previous consultation on the Proposed Franchising Scheme, GMCA consulted on its plans for how it would consult on how well the Proposed Franchising Scheme is working. The Act requires a description of those plans to be included in a franchising scheme itself and many consultees suggested that GMCA should consult sooner than originally proposed. As a result of this and as set out in Section 7.3 (Modifications proposed after the consultation) below, it was proposed that GMCA's plans for consulting on how well the Proposed Franchising Scheme was working would be modified so that GMCA would first consult within 12 months of franchising being operational in all sub-areas.

6.2.67 The impact of Covid-19 will not require any changes in GMCA's plans for consulting on the Proposed Franchising Scheme. It is uncertain how the market may look in the future and so irrespective of how much the market may develop it would still be appropriate for GMCA to consult on how well that scheme is working. This would need to be done shortly after 12 months of the Proposed Franchising Scheme operating. It is not thought that there would be much benefit in GMCA consulting sooner. This is because it is still the case that it would be preferable for GMCA to consult once the Proposed Franchising Scheme is operational across all areas so that passengers can provide their views on how well the Proposed Franchising Scheme may or may not be working once they have become used to it for a period of time.

Network Change

6.2.68 Despite the ongoing uncertainty and level of change in the network, the approach defined in the Assessment for Network Change will not require any change in approach as a result of Covid-19.

Overall Conclusion

6.2.69 Covid-19 has undoubtedly introduced new challenges for the implementation and operation of the Proposed Franchising Scheme option. The lack of certainty around the nature, extent and timing of any recovery makes planning for the future more challenging. Implementation of the future operating model after any Mayoral decision may start whilst Covid-19 is still in circulation. However, the flexible and agile approach proposed in this document demonstrates that TfGM could still implement the future operating model. The design and framework provide the flexibility and agility required to increase or reduce the resources in line with the economic predictions at the point of a decision. This enables effective and efficient management of franchising whilst minimising the risk of incurring significant unnecessary costs. However, if Scenario 3 emerges as the likely Scenario whilst the capabilities and processes remain appropriate, how they are delivered and the size of the future team will need to be reviewed.

6.3 Section 2 Partnership options

Introduction

6.3.1 This section considers the potential impact of Covid-19 upon the Operator Proposed Partnership and Ambitious Partnership options which were considered in the Assessment. The Management Case impacts of the OneBus Partnership Plus, First Proposal and Stagecoach South Manchester Partnership Proposition have not been developed further as part of this Covid-19 -Impact report. However, it should be noted that the TfGM resources for the OneBus proposal are the same as that of the Operator Proposed Partnership Option (6 people). This note covers the following sections:

- Future operating model and ongoing operating cost
- Managing transition and implementation
- Managing transition risk
- Conclusion

Future Operating Model People and Ongoing Operating costs

6.3.2 The level of resource in the operating model was relatively small for both options of partnership (six in the Operator Proposed Partnership and eight in the Ambitious Partnership). There are modest headcount savings opportunities in Scenarios 1 and 4. In

Scenario 3, despite the significant reduction in the scale of opportunity and likely size of the partnership due to the low number of resources, there would still only be modest savings. It is envisaged that there would be no changes in Scenario 2.

6.3.3 It would be prudent at the start of partnerships that all resources were appointed upon an FTC basis as this would provide flexibility to alter the size of TfGM Partnership team in line with the size of the partnership options and to mitigate the potential of risk of the demise of the partnership. These roles would either be turned into permanent positions or removed depending upon the scale of the opportunities and workload with the emerging size of the partnership network.

6.3.4 The majority of the operating cost savings would be in driver training as there is likely to be a reduced number of drivers due to a reduction in patronage due to the size of the network in all Scenarios (30% Scenario 1, 75% Scenario 3 and 20% Scenario 4) except Scenario 2. In Scenario 2 there may be a small increase in driver training cost of circa up to 10%.

6.3.5 In summary, it is envisaged that TfGM would be able to manage the partnership options without incurring significant costs in the event that not all the resources are where required.

Managing Transition and Implementation

6.3.6 In the event that a partnership is introduced, the timing and circumstances will impact upon the ability to make savings. If the partnership is introduced before there is clarity on what the market will look like in the future, then there will be little opportunity to make efficiencies. It is unclear, however, whether a partnership, in a form previously proposed by operators, would be introduced before the market has fully recovered. This was made clear by Rotala, and in their letter of 12 November 2020 where they said "*OneBus intend to undertake a full review of the Partnership Plus proposal once the country is out of the pandemic (Spring 2021)".*

Managing Transition Risk

6.3.7 The main partnership transition risks in the Assessment are reputational from a poor transition and not managing stakeholder expectations and implementation risks with TfGM not being ready to support partnership operations. Covid-19 should not impact upon the transition risk register as detailed in the Assessment, and the existing Reputational and Implementation risk and mitigation plans remain appropriate.

Conclusion

6.3.8 TfGM on behalf of GMCA would be able to manage the transition and implementation of the partnership operating models and work with the operators to effectively manage the partnership despite the impact Covid-19.

7. Legal and Other Considerations

7.1 Introduction

7.1.1 The purpose of this section is to give consideration to the potential impact and effects of Covid-19 on the Proposed Franchising Scheme. To do this, this section will:

- Section 7.2: provide a description of the Proposed Franchising Scheme which was consulted upon by GMCA
- Section 7.3: summarise TfGM's recommendations of modifications to the Proposed Franchising Scheme in light of the consultation responses
- Section 7.4: consider why no aspects of the Proposed Franchising Scheme will require modification as a result of the impacts of Covid-19
- Section 7.5: consider how GMCA may progress the Proposed Franchising Scheme in the context of the requirements of the Act

7.2 Description and background to the Proposed Franchising Scheme

7.2.1 Under the Proposed Franchising Scheme, the majority of the routes and frequencies of local services operating in Greater Manchester would be determined by GMCA. Bus operators would run these services under local service contracts ('a franchise contract'), awarded by TfGM on GMCA's behalf.

7.2.2 If the Proposed Franchising Scheme is introduced, no local services that have a stopping place within Greater Manchester could operate in Greater Manchester unless they were:

- Provided under a franchise contract;
- An interim service;
- Provided under a service permit; or
- Excepted from regulation under the Proposed Franchising Scheme.

7.2.3 Local services which operated outside the area of the Proposed Franchising Scheme, including those which operated partly in Greater Manchester under a franchise contract or service permit, would still need to be registered with the relevant traffic commissioner. If the Proposed Franchising Scheme is introduced, GMCA would have the ability to extend the amount of notice that operators would have to give before varying or cancelling services (which are neither exempt nor excepted from regulation under the scheme) from the current 56 days to 112 days. The Assessment found that this would help to mitigate the effects of any short-term changes made by operators and therefore reducing any transitional issues.

7.2.4 The Assessment found that, to enable GMCA to achieve its objectives as set out in the Vision for Bus, the Proposed Franchising Scheme should apply across the whole of Greater Manchester. This would cover all Greater Manchester local authorities: Bolton, Bury, Manchester, Oldham, Rochdale, Salford, Stockport, Tameside, Trafford and Wigan. The local services that would be provided under franchise contracts, as well as those services which were excepted from regulation (which included dedicated school services and those temporarily excepted for the purposes of transition), would be identified in the Proposed Franchising Scheme. Any local services not identified in the Proposed Franchising Scheme and which were not provided under a franchise contract would need a service permit to operate in Greater Manchester.

7.2.5 The consultation document stated that the Proposed Franchising Scheme would be introduced in tranches and by way of three sub-areas. It was proposed that this would allow the bus market to move smoothly and efficiently to the new way of operating. Once franchising was operational across the entirety of Greater Manchester. There would then be just a single franchised area and there would no longer be any need to consider service provision by sub-areas.

7.2.6 Provisional dates were included in the Proposed Franchising Scheme to allow consultees to see how the Proposed Franchising Scheme would be implemented (e.g. when franchising would become operational in each of the sub-areas). The Proposed Franchising Scheme also included a nine-month period, which was proposed would be needed between the date of awarding any franchise contracts and the start of services under those contracts. The Proposed Franchising Scheme also proposed that GMCA would provide depot facilities for the large franchises let by GMCA. The Proposed Franchising Scheme also included a description of GMCA's plans for consulting on how well the Proposed Franchising Scheme was working in the future.

7.3 Modifications proposed after the consultation

7.3.1 Section 13 of TfGM's Consultation Report considered TfGM's analysis of the consultation responses that related to particular questions on the Proposed Franchising Scheme. Further detail on those responses can be found in Section 13 of that report. However, in summary, there were two specific aspects of the Proposed Franchising Scheme that it was considered should be modified in light of the consultation responses.

7.3.2 The first modification that was proposed related to the dates included in the Proposed Franchising Scheme. As set out in Sections 13.2.50 to 13.2.57 of TfGM's Consultation Report, some consultees commented that the dates originally proposed were too short and that they would not allow GMCA enough time to consider the outcome of the consultation before any decision could be taken by the Mayor on whether or not to introduce the Proposed Franchising Scheme. The report also noted that the effects of Covid-19 were yet to be considered by GMCA. With these factors in mind, it was proposed that all dates would be removed from the Proposed Franchising Scheme. These dates were only included for the purposes of the consultation and to let consultees see how the Proposed Franchising Scheme would work. These dates would then only be inserted at the time of any decision to introduce franchising and to make the Proposed Franchising Scheme formally.

7.3.3 The Proposed Franchising Scheme was also modified to include the dates on which a local service may first be provided under a local service contract. The Proposed Franchising Scheme already set out the date on which a local service contract may first be let and then how a period of nine months would be required before a local service may first be provided under such a contract. This means that this modification only clarified when a local service might first be provided and did not change how the Proposed Franchising Scheme would work.

7.3.4 The description of GMCA's plans for consulting on how well the Proposed Franchising Scheme is working was also modified. As Sections 13.2.59 to 13.2.77 of TfGM's Consultation Report set out, the Transport Act 2000 (as amended by the Bus Services Act 2017) (together: "the Act") requires a description of those plans to be included in a franchising scheme. It was originally proposed that GMCA would consult such organisations appearing to GMCA to be representatives of users of local services once the first franchise contracts had expired. Some consultees commented that GMCA should consult sooner and that certain groups should also be consulted. Whilst TfGM considered there would be value in consulting sooner, it was not thought appropriate to specify in the Proposed Franchising Scheme which specific groups and organisations should be consulted. It was therefore proposed that the description of GMCA's plans to consult within the Proposed Franchising Scheme should be modified such that GMCA would first consult within 12 months of franchising being operational in all sub-areas, as opposed to only consulting after the expiry of the first franchise contracts.

7.4 Potential modifications that may be required as a result of Covid-19

7.4.1 Having considered the potential impact and effects of Covid-19 on the bus market in Greater Manchester and on the Assessment, it is also important to consider the potential impact and effects of Covid-19 on the Proposed Franchising Scheme itself.

7.4.2 At this stage it is considered that no modifications to the Proposed Franchising Scheme are required other than those already contemplated. The Act requires certain matters to be specified in the Proposed Franchising Scheme. As described below, Covid-19 has not impacted on the fundamental principles underpinning the Proposed Franchising Scheme and the flexibility retained within the Proposed Franchising Scheme means that no modifications to the Proposed Franchising Scheme are needed.

7.4.3 The impact of Covid-19 means that there is a level of uncertainty as to what the bus market in Greater Manchester will look like in the future. Depending upon which (if any) of the Scenarios materialise there may be aspects of the Proposed Franchising Scheme which may need to change after it is made, just as they would if similar situations had arisen following the Proposed Franchising Scheme being made. It is important, therefore, that GMCA considers whether the legal mechanisms available to GMCA allow for it to manage such impacts if they arise, including how GMCA may change the Proposed Franchising Scheme in the future to manage such risks.

7.4.4 Section 3 of GMCA's Consultation Document provided a description of what was included in the Proposed Franchising Scheme. Considering specific elements of the Proposed Franchising Scheme in turn:

Area

7.4.5 The Assessment found that the best way for GMCA to achieve its objectives was to introduce the Proposed Franchising Scheme across the whole of Greater Manchester. TfGM's Consultation Report found that this was endorsed by the majority of consultees. It is not thought that Covid-19 will change the desirability of the geographical extent for the Proposed Franchising Scheme for the reasons previously identified, and GMCA's ambition to *"Build Back Better"* also shows the importance that any intervention should apply to the entirety of Greater Manchester to support the recovery of the region as a whole. It is likely that the need for any intervention in the bus market to apply to the entirety of Greater Manchester has been strengthened further by the impacts that Covid-19 has had not only on the bus market in Greater Manchester but also its residents.

Local Services

7.4.6 GMCA's Consultation Document stated that under franchising all local bus services within Greater Manchester (with some exceptions) would be provided under franchise contracts and that the list of services included in the Proposed Franchising Scheme would need to be updated to reflect the commercial network at the time of any decision being made to introduce franchising.

7.4.7 Since the start of the pandemic, there has not been a significant amount of service de-registrations. This does not mean that services have been running in accordance with their previous frequencies, but Government support has helped to stabilise the market and ensure that services on most routes are still operating. Instead, operators have dramatically reduced the frequency of their services. In most cases, operators have recently been gradually restoring frequencies to pre-Covid-19 levels. However, patronage is still down, and it is unclear whether some services may be deregistered in the future and what impact the second national lockdown (and any other restrictions in the future) will have on services.

7.4.8 The Proposed Franchising Scheme does not include any of the frequencies or precise route details of the local services to be franchised. Whilst these may have been impacted by Covid-19, there is no need to change the Proposed Franchising Scheme to reflect this. The principle that the Proposed Franchising Scheme would reflect the current commercial market at the time of any decision remains appropriate.

7.4.9 Whilst no material changes in the services detailed in the Proposed Franchising Scheme are needed at this stage, there remains uncertainty as to what the market may look like in the future. The local services identified in the Proposed Franchising Scheme are those which, if it is made, are the services GMCA intends to provide under local service contracts. If that intention subsequently changes, for example under Scenario 3, then GMCA may be required to consider varying the Proposed Franchising Scheme.

Transition sub-areas

7.4.10 It is proposed that franchising would be introduced in three stages, by reference to three sub-areas as defined in the Proposed Franchising Scheme, to allow the bus market to move smoothly and efficiently to the new way of operating. As set out in 4.2.61, Covid-19 has not changed GMCA's proposals for how franchising would be introduced under the Proposed Franchising Scheme.

Dates and timing

7.4.11 GMCA's Consultation Document described that if a decision was made to introduce the Proposed Franchising Scheme on 6 March 2020, the date on which a local service contract could first be entered into in Sub-areas A, B and C would be on 2 April 2021, 25 March 2022 and 10 March 2023 respectively. Those dates were provided for the purposes of consultation and to show consultees how franchising would be rolled out if made on 6 March 2020. No decision has yet been taken to introduce the Proposed Franchising Scheme, and the outbreak of Covid-19 has already impacted on when franchising may be introduced. These dates would be specified if any decision is taken to introduce franchising.

7.4.12 The Proposed Franchising Scheme also specified a period of nine months which would expire between awarding a franchise contract and the running of local services under that contract. As set out in Section 4.2.4 (Franchise Model) of this report, that proposal has not been impacted by Covid-19 and would therefore still give operators sufficient time to mobilise in exactly the same way as was originally proposed.

Consulting on how well franchising is working

7.4.13 As set out above at section 6.2.66 (Plans for consulting on the proposed scheme), it was proposed that the original description of GMCA's plans to consult within the Proposed Franchising Scheme would be modified in light of the previous consultation responses so that GMCA would first consult within 12 months of franchising being operational in all sub-areas, as opposed to only consulting after the expiry of the first franchise contracts.

7.4.14 Consulting sooner on how the Proposed Franchising Scheme would be working is still seen as a benefit to GMCA and Covid-19 has not changed this thinking. No changes to those plans would therefore be required.

Facilities

7.4.15 The Act requires a franchising scheme to identify any additional facilities that the authority considers appropriate to provide. The Proposed Franchising Scheme indicated that it was appropriate for GMCA to provide depots to facilitate the letting of large franchises. For the reasons given above in section 4.2.29 (Asset Strategy – Depots – Steady-State Model), it is still considered appropriate for GMCA to provide depots for the letting of large franchises, irrespective of any potential reduction in operated mileage, as the barrier to being able to submit a credible bid for a large franchise without a depot remains significant.

7.4.16 Section 4.2.8 (Packaging Strategy – Steady-State Model) also considers that the size of the large franchises, which are defined in the Proposed Franchising Scheme by a minimum peak vehicle requirement (PVR), would not need to change. This would mean that no changes to the Proposed Franchising Scheme would be needed. A variation would only be needed if GMCA needed to change the minimum PVR that is defined for the large franchises, in which case GMCA could vary the Proposed Franchising Scheme once operational.

The Proposed Franchising Scheme and changes to it

7.4.17 In summary, there could be changes which may need to be made before the Proposed Franchising Scheme is made. For example, and as set out above in Section 7.4.9 (Potential modifications that may be required as a result of Covid-19 – Local Services), GMCA may update the list of services which it would intend to franchise. However, at this stage, no further modifications to the Proposed Franchising Scheme are required as a result of Covid-19. In specifying the period of 9 months to expire between the making of a local service contract and when a local service might first be provided under it, however, the draft Proposed Franchising Scheme on which consultation was conducted failed to state (as the Act requires) that that was the "minimum" period (as had been envisaged). It is recommended that that omission be rectified by the insertion of "minimum" in article 4.2 of the draft Proposed Franchising Scheme.

7.4.18 Section 123I of the Act allows GMCA to postpone the dates specified in the Proposed Franchising Scheme on which a local service contract in any sub-area may first be entered into or a local service in any sub-area may first be provided under such a contract. Before doing so GMCA would need to consult bus operators and others on whether it may be appropriate to do so and it would also have to publish notice of its decision including a statement of its reasons for doing so.

7.4.19 Section 123M of the Act also allows GMCA to vary the Proposed Franchising Scheme once it is in operation. That section prescribes a statutory process that would need to be followed and includes consulting on any changes and the publication of a notice of any decision to make those changes, which cannot take effect until a period of six months has passed.

7.4.20 Franchising is intended to be a long-term intervention. Returning to a deregulated market would not be straight forward. It may be noted, however, that section 123N of the Act allows GMCA to revoke the Proposed Franchising Scheme but only after it is operational.

7.4.21 If the Proposed Franchising Scheme is introduced, then GMCA would have to decide whether it would still be appropriate to extend the deregistration notice requirement during transition to a period of 112 days. Extending that period means operators would have to operate services for a longer period of time and that may include services which may no longer be profitable. It is accepted that Covid-19 may increase the impacts of any such decision on operators. It is still the case, however, that extending the notice period would be an important means of enabling GMCA to stabilise the market during transition and to make sure that operators cannot disrupt it by withdrawing services at short notice.

7.5 Conclusion

7.5.1 This Section has considered the potential impact and effects of Covid-19 on the Proposed Franchising Scheme and has concluded that no further changes to the Proposed Franchising Scheme are now needed beyond those previously contemplated. A modification to article 4.2 of the draft Proposed Franchising Scheme is recommended to rectify the omission of the reference to the period of 19 months that is to expire between the making of a local service contract and the provision of such a service under it as being the minimum period. If there are any other changes that are needed before any decision to franchise is taken, for example, if operators have withdrawn services and GMCA wanted to update the list of services it would franchise, such changes could be made.

7.5.2 There is a statutory process that would have to be followed if it was subsequently decided to postpone the dates on which a local service contract may first be entered into for any sub-area. Should any other changes to the Proposed Franchising Scheme be required after it has come into operation, GMCA would have to follow the prescribed process to be able to vary the Proposed Franchising Scheme. Given the likely consequences of making a scheme and then revoking it after it has become operational, it would not be reasonable for the Mayor to make the Proposed Franchising Scheme unless he were satisfied that it would, in fact, be a long-term intervention.

8. EQIA

8.1.1 As part of its consultation, GMCA sought views from consultees on the initial Equality Impact Assessment (EQIA) which had been prepared by TfGM to identify potential adverse impacts of the Proposed Franchising Scheme on persons with relevant protected characteristics. Section 12 of TfGM's Consultation Report explains what key themes came out from consultees and considered that there were no aspects of the EQIA that would require significant changes.

8.1.2 It was therefore concluded that any revised form of the EQIA which would be published by GMCA would not be materially different to the EQIA which was published for the previous consultation, albeit some minor changes would be made to address some useful points made by consultees. Those changes included inserting a preface to the EQIA to explain the purpose of the document and making some minor updates and changes to two of the questions in the EQIA. Further information of those changes can be found in more detail in section 12.10.5 of the Consultation Report.

8.1.3 As set out throughout this report, Covid-19 has had a significant impact on the bus market in Greater Manchester and on passengers – in particular those citizens with protected characteristics who may have been disproportionately affected by the virus in the short term. However, in the longer term, it is anticipated that any impacts would be significantly reduced and that people with protected characteristics would positively benefit from the Proposed Franchising Scheme.

8.1.4 GMCA and the Mayor must ensure that they fulfil their duties under the Equality Act 2010 and this includes having due regard to the public sector equality duty, which is what the EQIA is aimed at addressing. This duty will continue to be considered as GMCA decides how to progress the Proposed Franchising Scheme. For the time being, it is not proposed that the EQIA would be updated and published alongside this report. Instead, GMCA and the Mayor would continue to have due regard to its public sector equality duty. If any decision is taken in the future to introduce the Proposed Franchising Scheme, the EQIA would be updated to reflect the bus market at that point and how the Proposed Franchising Scheme would impact those with protected characteristics.

9. Overall Conclusion

9.1 Introduction

9.1.1 This report has considered the effects of the Covid-19 pandemic on the critical conclusions of the Assessment and TfGM's Consultation Report that there was a Strategic Case for intervening to improve the Greater Manchester bus market and that the best strategic option for doing so was the Proposed Franchising Scheme. It also considers the conclusions from the other cases about whether the Proposed Franchising Scheme offers value for money, whether it is affordable, what the commercial model should be and whether it can be delivered, and whether it can be implemented successfully.

9.1.2 TfGM have developed four Scenarios during the Covid-19 pandemic to help plan for an uncertain recovery. These Scenarios were developed as part of TfGM's work to help plan recovery actions during the Covid-19 lockdown. They have provided context for the analysis across each of the different Cases – Strategic, Economic, Financial, Commercial and Management.

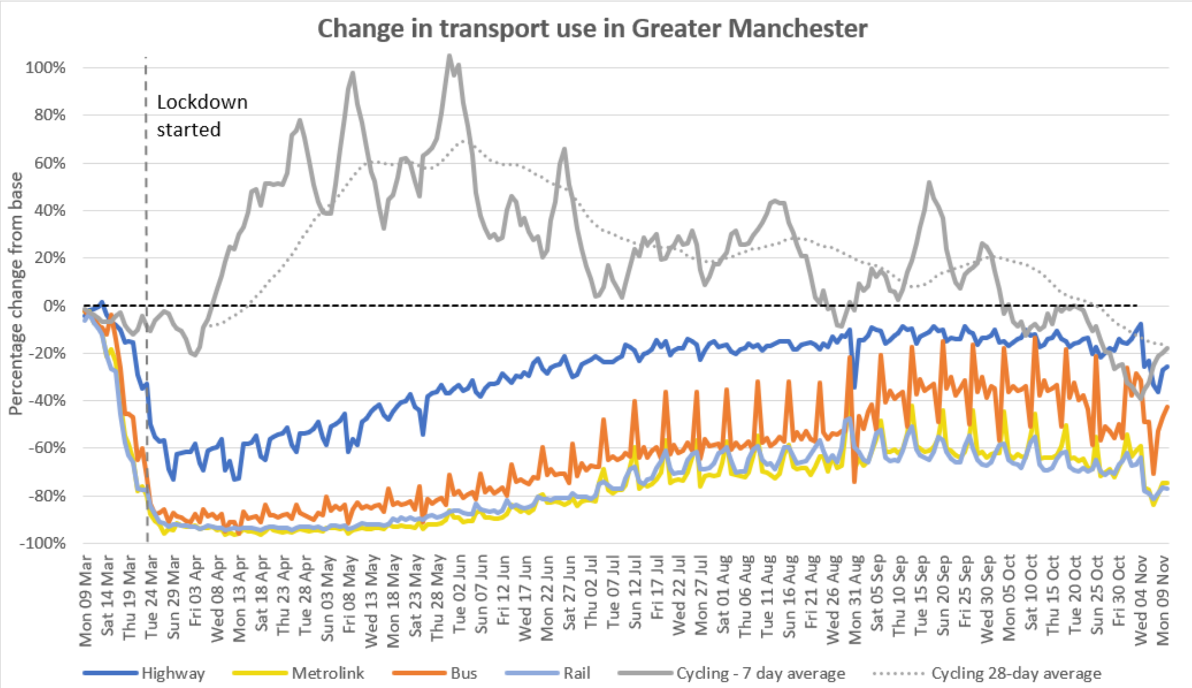
9.1.3 The outcomes of the Scenarios for the bus market differ widely and reflect the fact that Covid-19 has created additional uncertainty on both the economy (and hence employment) and attitudes to public transport in the medium-to-long term. This report has considered the alternative options – the Proposed Franchising Scheme and an improved partnership scheme in light of these different possible outcomes.

9.1.4 In the response to the consultation, the partnership options proposed by Stagecoach and First envisaged a 'partial' partnership for a section of Greater Manchester. These options were not considered desirable partly because of the issues raised by a market split between different forms of governance. The Covid-19 pandemic does not change the conclusion reached in respect of these partial partnerships. The main focus of discussion in this report when considering partnership is on the improved partnership proposals from OneBus (the representative organisation for commercial operators in Greater Manchester) that were considered in the Consultation Report.

9.2 The impact of Covid-19

9.2.1 Following the imposition of social distancing rules in March 2020 and choices made by passengers concerned about their wellbeing, patronage across all modes of travel in Greater Manchester reduced drastically, as shown in Chart 9. As rules relaxed and the impact of the pandemic lessened, there was a gradual return of patronage on bus and tram. As social distancing is more difficult on public transport, car travel has returned to a greater extent than public transport.

Chart 9: Change in transport use in Greater Manchester, March-November 2020



9.2.2 Public transport has relied heavily on Government subsidy in order to continue to operate effectively, as the reduction in patronage has significantly reduced revenues. In accordance with Government guidance, concession payments have been maintained at pre-Covid-19 levels. The Covid-19 Bus Services Support Grant (CBSSG) provided an additional £167m of temporary funding for the bus industry, in addition to the increased amounts of BSOG to pre-Covid-19 levels. The CBSSG Restart has since replaced the CBSSG. The scheme will be subject to monthly reviews by the DfT and the Treasury.

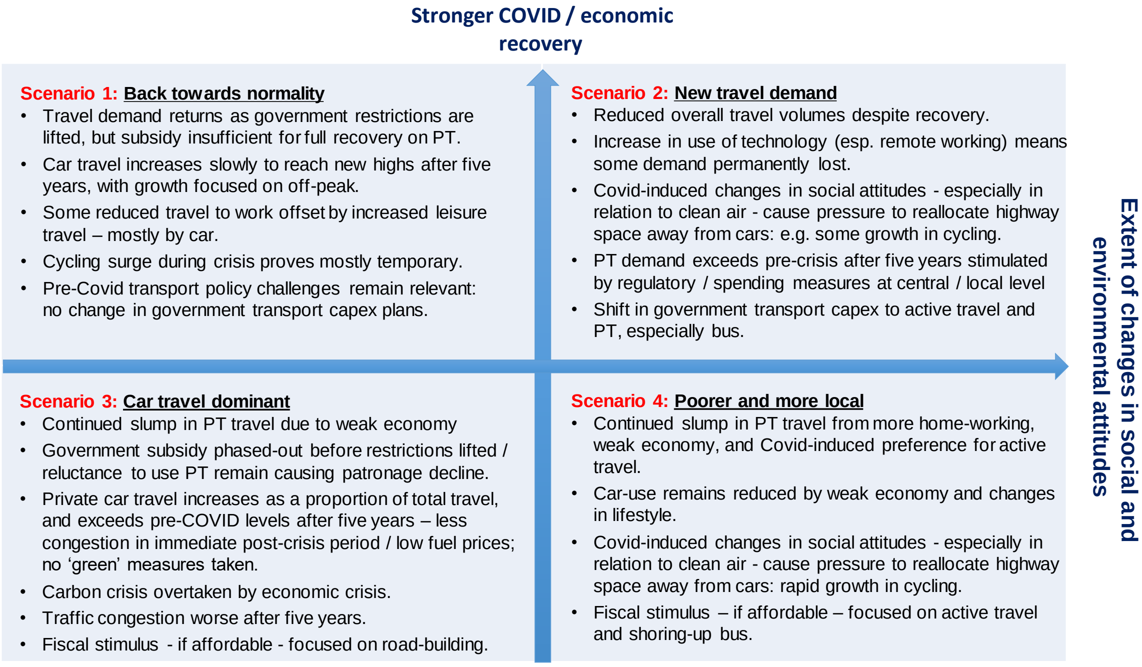
9.2.3 Bus operators have reported losses or lower profitability and pointed to the impact of Covid-19 on their businesses and warned of the potential effects of the reduction in patronage in the longer term. As a result, across the bus industry investment in vehicles and other areas has largely been put hold. There is likely to be a stall (or some reversal) in the recovery trajectory shown above because of a renewed national lockdown during November 2020, and the shape of recovery in 2021.

9.3 The Scenarios

9.3.1 To help make informed decisions across different aspects of travel (not just bus reform), TfGM have taken a scenario-based approach that takes four potential futures (referred to in this report as the “Scenarios”) with different characteristics, branching from how the market has been affected by Covid-19. Not all of these potential Scenarios are equally likely, but it is helpful for decision-makers to be aware of a broad range of potential outcomes as to what the market may look like in the future. None of these Scenarios is likely to be exactly what happens to travel and the bus network, but they help to illustrate the range of potential outcomes that exist.

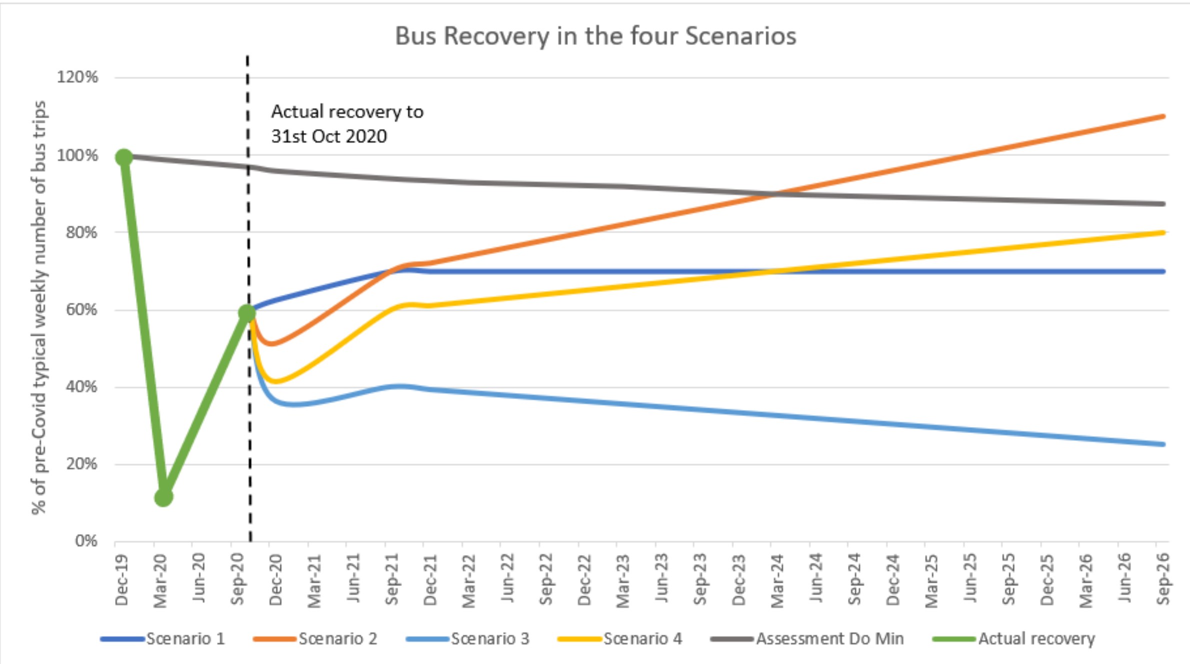
9.3.2 Whilst there are many factors that affect the bus market, to give a useful range of outcomes, the Scenarios were considered as the intersection of two important trends. First the pace and nature of the economic recovery, and the associated employment and travel that would occur, and secondly the social attitudes to public transport and employment (for instance where people choose or are able to work). This gives four potential futures which are characterised by different social and economic circumstances, and which are likely to have different outcomes in terms of bus patronage.

Figure 2: Grid of the four recovery Scenarios and their underlying drivers



9.3.3 An illustration of how patronage may evolve under the different Scenarios is set out below in Chart 10.

Chart 10: Actual bus recovery, bus recovery under the four Scenarios, and the forecast decline in patronage from the Assessment



9.3.4 Since some Scenarios were initially formulated, some developments have meant that the likelihood of the different Scenarios happening has changed. In particular, the recovery of bus (and the fact bus has shown it can rebound quickly following restrictions being lifted) and the continued support for public transport mean that Scenario 3 may be less unlikely to occur. Also, there is no sense that Government is not still committed to support for both public transport and the wider economy through schemes such as the furlough scheme. By the same token, the lack of a sustained change in attitudes to sustainable transport means that Scenario 2 (showing an increase in bus patronage and all modes of sustainable transport) may also be less likely to occur.

9.3.5 Apart from Scenario 2, an outcome that looked like any of the other Scenarios and a weakened the bus service in Greater Manchester, particularly by comparison with more expensive modes of travel such as the car, would have damaging effects on access to education, employment and services for poorer people. The greater this effect, the more this would damage people's life chances and make GMCA's objectives for Greater Manchester harder to achieve.

9.3.6 It is unlikely that events will unfold as exactly set out in any of the individual Scenarios. Whilst each of the four Scenarios is not equally likely to occur, they represent a range of outcomes in the period to 2026 that should be considered when looking at the decision of whether to franchise bus services in Greater Manchester.

9.4 The Strategic Case

The case for change & GMCA's objectives

9.4.1 The analysis set out in the Strategic Case demonstrates that the issues affecting the bus service have largely not changed as a result of the Covid-19 pandemic. Some challenges are potentially greater – for example, from the demand-responsive transport, and taxis in particular. However, whilst the context is more challenging, there is no difference to the aspects of the bus service that GMCA have the ambition to change. GMCA's objectives for the bus service are still valid. Any intervention in the bus market reform should still aim to improve the network, integrate and simplify fares, improve customer service and ensure value for money.

9.4.2 With different Scenarios for what recovery might look like in Greater Manchester, there is greater uncertainty about what the bus network will look like in the future, but the case for intervention remains strong. The issues affecting the bus network have not disappeared. Whilst the context is more challenging, the aspects of the bus service that GMCA have the ambition to change remain the same; its objectives for the bus service are still valid.

9.4.3 The Do Minimum option remains similar in that GMCA would continue their current efforts to improve the bus network (for instance, through capital investment). Under Scenarios 1, 3 and 4, the impact of Covid-19 threatens GMCA's specific objectives for bus, the broader objectives of the Greater Manchester Transport Strategy 2040 and public wellbeing, health and the economy from the decrease in the ability of people in Greater Manchester to travel. Bus plays an important part as it would allow people to travel to return to work or resume social activities. The situation would be more optimistic under Scenario 2, although there would be a dip in patronage before its eventual recovery. Although Scenarios 2 and 3 can be considered less likely, there is a clear case for further investment in Greater Manchester to improve the lives of residents and to facilitate the recovery.

How the options for reform compare

9.4.4 The options for reform remain largely the same in terms of how they are expected to work. The Proposed Franchising Scheme remains the same (apart from the changes noted in the response to the consultation). TfGM have written to the operators, and the responses indicate that they cannot now undertake to keep to the commitments made before the pandemic, including the OneBus Partnership. Therefore, the benefits of the partnership now are likely to be lower than the Ambitious Partnership set out in the Assessment. Also, the benefits of the Operator Proposed Partnership, as that included fare reductions that are now less certain. The Do Minimum option remains similar in that GMCA would continue its current efforts to improve the bus network (for instance through capital investment).

9.4.5 In terms of the choice of intervention, the Proposed Franchising Scheme is still likely to perform better in achieving GMCA's objectives for the bus service than a partnership under each of the Scenarios in terms of supporting the bus service in Greater Manchester. How the partnership and the Proposed Franchising Scheme affect the objectives of neighbouring authorities has not changed because of the Covid-19 pandemic. Cross-boundary services may need more public sector support during the recovery from Covid-19 than previously. The Proposed Franchising Scheme is also better able to facilitate further spending on 'Phase 2' measures to support the bus service, which may become more important in the recovery from Covid-19. Therefore, the conclusion remains that the Proposed Franchising Scheme would best address GMCA's objectives.

9.5 Economic Case

9.5.1 The Economic Case considers the value for money of the potential interventions, looking at the costs and the benefits of the interventions to enable a conclusion to be drawn on whether they represent value for money.

9.5.2 A 'What If?' factoring approach has been applied to the Economic Case in the Assessment to explore the impacts that the Scenarios may have on the quantified economic metrics (NPVs/BCRs) for the Proposed Franchising Scheme and the Operator Proposed Partnership.

9.5.3 The analysis presented here does not rebuild the full economic appraisal, and the results are simply intended to illustrate the uncertainties that exist and to assist in making inferences about the robustness of the existing Assessment. These inferences would inform any adaptation of how the Proposed Franchising Scheme would be implemented given any significant change in circumstances. The potential for such adaptations is discussed in the Commercial and Management Case sections of this report.

9.5.4 The 'What If?' tests presented here reflect a simple factoring of the appraisal results from the Assessment and, in turn, look at:

- Rebasing the appraisal to reflect changes to the size of the bus travel demand by:
    - Step 1 – the impact of changes to aggregate benefits due to overall changes in trip-making under the Scenarios;
    - Step 2 – the impacts of changes to the implementation costs to scale the options to the revised bus market size;

- And then looking at some potential downside tests that consider what level of benefit reduction would be required to mean that the Proposed Franchising Scheme was not value for money by:
    - Step 3 – changes to the benefits of individual impacts:
        - the impacts if the bus market size reduced; and
        - further analysis of the branding benefit.

9.5.5 These steps were designed to progressively work through how potential effects of Covid-19 on the bus service and how this might affect the BCR and NPV of the different options, including looking at potential downside tests. There are several inferences that can be drawn for this 'What If?' analysis of the potential impacts of the Covid-19 Scenarios on the un-adapted scheme:

- The initial simple factoring of benefits due to the projected patronage changes from the uncertainty scenarios clearly has a significant impact on the net benefits of the Proposed Franchising Scheme, both positive and negative, and hence the appraisal metrics such as the BCR and NPV.
- The factoring in Step 2 to reflect how the implementation costs would also be adjusted in the radically changed circumstances helps to moderate these effects and highlights that it is crucial to get costs in proportion to the market.
- For three of the Scenarios (Scenarios 1, 2 and 4), with the demand rebasing and adjusting the implementation costs so that they vary in a ratio of 1:2, the Proposed Franchising Scheme is still likely to offer high value for money and offer the highest economic value in terms of NPV. Scenario 3 would represent low/poor value for money.
- The Step 3A test, which looks to explore the possible downside of a declining market size affecting the individual network and interoperability benefits, shows that in the case of Scenarios 2 and 4 value for money nonetheless would remain high, but in the case of Scenario 1 it would be low.
- In the Step 3A test for outlier Scenario 3, network inefficiencies may have largely been removed due simply to the contraction of the market itself and value for money would be poor. However, this structural change is unlikely to be without new market failures in how the bus network supports the Greater Manchester economy in getting bus-dependent people to their places of work, and it is uncertain what if any partnership proposals would be offered to contribute to keep the network running.

9.5.6 The downside sensitivity on branding (Step 3B) shows that in all but the downside outlier Scenario 3 the rebased appraisals for the Proposed Franchising Scheme offer at least medium value for money.

9.5.7 The conclusions to be drawn from this 'What If?' analysis are therefore that:

- Covid-19 has added uncertainty around the central Economic Case presented in the Assessment but the 'What If?' testing shows a level of robustness in the economic appraisal with the rebased appraisals showing that, in all but the outlier Scenario 3, the rebased appraisals for the Proposed Franchising Scheme are likely to offer at least medium value for money, and continue to out-perform the partnership options in terms of net economic benefit.

- The 'What If?' downside tests show that if the bus market consolidates, rather than fragments, in response to the declines in bus market size projected in three of the four Scenarios, then the loss of the key benefits of franchising in terms of addressing network inefficiencies and interoperability would see the Proposed Franchising Scheme offers less value for money. In this downside situation, the Proposed Franchising Scheme (if un-adapted to changing bus market conditions) and partnership options (if deliverable) would offer similar value for money.
- As per standard bus network planning processes, to ensure better value for money in the circumstances discussed above, TfGM would need to adapt to changing contexts by revising the commercial levers within the franchise contracts. These changes to contract specifications would use market intelligence and principles along the lines set out in the Commercial and Management Case chapters to achieve better value for money.

Partnership

9.5.8 The value for money of the partnership options will be affected by Covid-19 for several reasons. Firstly, because there may be fewer passengers who would benefit from any improvements to the bus network under the Scenarios where patronage falls as shown under Scenarios 1, 3 and 4. Secondly, operators have indicated that they may not now be able to keep to all of the commitments outlined in previous partnership proposals, notably the OneBus proposal for the whole of Greater Manchester. This means important benefits, such as a freeze to all-operator fares, are now very unlikely to be committed to. Thirdly, the costs are likely to be the same as previously stated in terms of running a partnership. This means that under all Scenarios, the value for money of the partnership would be lower than previously assumed in the Assessment, without the factoring exercise undertaken.

Conclusion on value for money

9.5.9 User benefits under both reform options are likely to scale to market size, and some benefits are likely to be no longer realisable under both franchising and partnership options. Though there are reasonably likely Scenarios where unit benefits could increase if the problems identified in the counterfactual worsen. However, given the structural changes that may occur due to Covid-19, it is not possible to reforecast these impacts with the levels of confidence previously included in the Assessment.

9.5.10 Covid-19 has added uncertainty around the central Economic Case presented in the Assessment, but the 'What If?' testing shows a level of robustness in the economic appraisal. The rebased appraisals that allow for demand changes and adjustments to implementation costs show, in all but the outlier Scenario 3, that the rebased appraisals for the Proposed Franchising Scheme are still likely to offer at least medium value for money. The downside 'What If?' testing shows that in instances where a significant proportion of the benefits were not realised then the value for money for the Proposed Franchising Option would fall to low or even poor.

9.5.11 An illustrative partnership option has been tested, though there is considerable uncertainty surrounding the delivery of benefits when compared with the situation at the time the Assessment was prepared, as operators have stated that they can no longer commit to their previous proposals. This illustrative partnership option shows high value for money in most Scenarios other than in Scenario 3, though has lower net economic benefit than the franchising option. In practice, the costs of managing the partnership for TfGM are likely to remain similar to the Assessment and therefore unlikely deliver the reductions assumed in the tests to the level of implementation costs. As noted above, there is also considerable uncertainty as to whether operators could achieve the assumed benefits realisation.

9.5.12 For the outlier Scenario 3, in a situation where decline is exacerbated by the assumed early withdrawal of significant proportions of government funding, the test does suggest that the Proposed Franchising Scheme would be poor value for money. If such conditions did happen in reality, (and as set out in the Section 1.4.26 (Current Status), this is now considered unlikely) the problems of market failure in the bus market will be more acute than those defined previously in the Reference Case, and so the standard transport consideration of value for money would fail to reflect sufficiently the importance the bus network would play in supporting the economy of Greater Manchester.

9.5.13 In all of the Scenarios considered, the analysis has highlighted the importance of an approach to franchise specification and contracting that includes suitable uncertainty management strategies to address any resilience issues which may arise in respect to value for money. A consideration of the commercial levers available to TfGM to address these issues, therefore, are articulated in both the Commercial and Management Case chapters of this report.

9.5.14 The overall conclusion of this analysis is to confirm that, on balance, the value for money of the Proposed Franchising Scheme is likely to be robust to the uncertainty created by Covid-19 in all reasonably likely Scenarios. The Proposed Franchising Scheme also remains preferable to the Partnership option as, on balance, the overall net benefits are likely to remain higher and more deliverable, particularly given the considerable uncertainty surrounding what, if any, partnership options are on offer.

9.6 Impacts on different groups

9.6.1 The Assessment set out the impacts of the options on different groups – passengers, operators, GMCA and wider society in the Economic Case and repeated this analysis in the Conclusion. The analysis below sets out how the Covid-19 pandemic may affect the conclusions drawn in those sections.

Passengers

9.6.2 The effects on passengers of the different options are described in the Strategic Case, where the options were compared in terms of the extent to which they achieved GMCA's objectives for the bus service. The relative performance of the options has not changed. The Do Minimum option would leave many challenges unresolved and passengers would suffer under Scenarios 1,3, and 4 from a smaller network and potentially higher fares; they may have some benefits in the medium term from patronage increases and a stronger network under Scenario 2. Passengers would still be likely to benefit from the advantages of the Proposed Franchising Scheme over a partnership in terms of the comprehensiveness, stability and efficiency of the network; greater fares simplification; a better provision of information and a single point of contact for customer service.

9.6.3 The Assessment set out the potential for some disruption to passengers from the transition to the Proposed Franchising scheme, and the risk management that would be undertaken to mitigate this. In the context of Covid-19, the reduced financial strength of some operators may increase the potential for some withdrawals of service before franchising is in place. The Management Case above sets out how TfGM have strengthened the provisions in order to monitor and mitigate this risk.

9.6.4 There is no indication of a differential effect of Covid-19 on cross-boundary services, or that this would affect the proportion of revenue that would come from journeys wholly within Greater Manchester. The impact on passengers from neighbouring authorities may be increased if commercial cross-boundary services are more vulnerable to the loss of any revenue, but it is not clear that this would be the case. The response to the consultation set out the measures that GMCA would be able to take to support services if they became commercially unviable following the implementation of the Franchising Scheme, as happened during the consultation period. It may be more straightforward to support cross-boundary services under Franchising because the portion within Greater Manchester could be run as a franchised service and would not be subject to the restrictions on competition that currently affect supported services.

Operators

9.6.5 The effects of Covid-19 will affect operators, and some of the changes to the market are set out above at Sections 2.2.21 - 2.2.25 (New challenges due to Covid-19). The context for the potential options is different. However, the effects of the different options are largely unchanged.

9.6.6 The effects of TfGM choosing Do Minimum option on the operators in Greater Manchester (and elsewhere in the UK) would be little change. They would be exposed to the risks of the reductions in patronage in Scenarios 1 and 4, and the more extreme Scenario 3 where patronage reduces more significantly. In these circumstances, operators would need to make choices about reductions in services and fare rises to maintain their profitability. There would be some advantages to operators from the business-as-usual activity of TfGM – supporting parts of the operators' network and working to resolve congestion issues. Smaller operators may suffer more because of the Covid-19 pandemic because they lack the ability to survive long periods of low profitability.

9.6.7 As set out in Sections 2.4.8 - 2.4.23(Options for Intervention), operators in Greater Manchester have indicated that the commitments made as part of the previous discussions on partnerships and the documents submitted to TfGM cannot now be relied upon in the context of Covid-19. This means that the effects on operators of a partnership are now difficult to determine, as it would depend on what they would do. Closer co-operation may improve how TfGM are able to deploy support for the bus network (e.g. through tendered services or infrastructure investments), and this could benefit operators. Smaller operators may find it more difficult to make commitments as part of a partnership. Operators outside Greater Manchester would not be greatly affected by a partnership, and that has not changed since being originally considered in the Assessment.

9.6.8 The Proposed Franchising Scheme would affect the operators in Greater Manchester in the same way as was set out in the Assessment, in that they would need to compete for franchise contracts and would not be able to operate in a deregulated market. The effects would remain the broadly the same as described in the Assessment (in terms of likely effects on market share, profitability etc.) and the position with regard to the potential for stranded assets would be the same. In some of the Scenarios, 1, 3 and 4 where there is reduction in patronage, operators may start from a worse position in terms of their profitability and potentially, particularly under Scenario 3, having stranded assets prior to any intervention. Successful bidding for contracts may Operators with cross-boundary services would be affected in the same way, as would operators from outside of Greater Manchester who would be able to compete for franchise contracts. Smaller operators would be affected in the same way as prior to the Covid-19 pandemic in that they would need to compete for franchise contracts (several of which will be smaller in scale). Relatively few small operators run services commercially. The effects of the Proposed Franchising Scheme on operator pension funds would be the same as was set out in the Assessment. Those with defined benefit schemes (now the minority) may see debt crystallising through a 'Section 75 debt', or causing a more conservative valuation of assets against liabilities, meaning potentially greater contributions from the employer.

TfGM and GMCA

9.6.9 The Do Minimum option would have little direct effect on TfGM or GMCA in that the current activity would continue. As set out above, there is, however, the potential for there to be pressure for further funding for bus services where there are cuts as a result of the Covid-19 pandemic. This could become particularly acute under Scenario 3 where services could be severely affected.

9.6.10 The partnership options would mean that GMCA would incur costs to support the partnership that would be ongoing for its life. The benefits of the partnership are currently in doubt, so this expenditure may not be value for money under any of the Scenarios.

9.6.11 The Proposed Franchising Scheme would make the greatest changes to the position of GMCA and TfGM as described in the Assessment. They would take on the responsibility for the bus network in Greater Manchester and hence the responsibility of setting fares and routes to maximise the benefit to the people of Greater Manchester. The effect of the Covid-19 pandemic is to increase the risk that there would be a reduction in revenue, as patronage would fall under Scenarios 1 and 4, and fall more precipitately under Scenario 3. If those scenarios were to materialise, and the possible mitigation contemplated were not to be wholly successful, GMCA would then face the choice of putting more money into the network or making cuts or raising fares (or both) to balance the budget, rather than these choices being made by private sector operators, if those Scenarios were to materialise.

Wider Society

9.6.12 Wider society would suffer from the damage to the bus service under the Scenarios where bus patronage reduces, both in terms of the economics and the environmental outcomes (from a less environmental fleet and increased relative car use). Under Scenario 3 the effects in these areas would be greater.

9.6.13 The Assessment considered the wider economic impacts of the options from effects such as agglomeration and access to labour markets. Wider society would benefit to the extent that an improved transport system would support economic activity and reduce the congestion that would inhibit it. The uncertainty on the level of economic benefit under the different Scenarios means that it is difficult to say how many wider economic impacts would remain, but that they would be less than previously envisaged for both the partnership options and the Proposed Franchising Scheme.

9.6.14 The Assessment concluded that the Proposed Franchising Scheme would be better for environmental outcomes both because it offered a greater degree of mode shift away from private cars and because it offered a greater prospect of improvement in the environmental performance of the fleet. In terms of the former, it is still likely that under all Scenarios the Proposed Franchising Scheme would offer a greater degree of mode shift because it will offer greater benefit than a partnership where the benefits are now uncertain. However, the scale of those benefits may be less than would have been the case before Covid-19, particularly under Scenario 3. Operators have retreated from commitments about the composition of the bus fleet. This could still be specified by GMCA under the Proposed Franchising Scheme. In all cases, a step change in age and performance would require investment.

9.7 Commercial Case

9.7.1 The section on the effects on the commercial proposition for the Proposed Franchising Scheme considered the impact of, and TfGM's response to, the potential implications of Covid-19 on the proposed commercial model for the Proposed Franchising Scheme.

9.7.2 This has considered franchise design, asset strategy, procurement, contractual arrangements, market engagement, the facilitation of competition, arrangements to protect passengers during transition, key commercial risks, and the proposed approach to cross-boundary services.

9.7.3 It has also considered the commercial levers available to GMCA to mitigate the risk of uncertainty on the proposed commercial model for the Proposed Franchising Scheme presented by Covid-19.

9.7.4 This has concluded that the franchising commercial proposition would remain largely consistent with that as set out in Sections 25 to 27 of the Assessment, and therefore meet the commercial aims as set out in Section 24.2 of the Assessment, and that the flexibility provided in the commercial model would enable GMCA to adapt the model as appropriate to the changing requirements that Covid-19 has presented. In the event of:

- No change to operated mileage (e.g. Scenario 2): there would be no impact on the commercial model in either the steady state or during transition and, therefore, the commercial proposition described in the Assessment would not be impacted.
- A mid-range reduction in operated mileage (e.g. Scenarios 1 and 4): the commercial model may be adapted as follows:
    - Packaging: a reduction in the number of franchises and a reduction in the size of some franchises to reflect a reduced bus network
    - Risk allocation: in the event that the market's appetite for risk is lower during transition than it was at the time of the Assessment, areas of risk transfer could be modified to mitigate operator exposure and ensure the franchises remained attractive to potential bidders. However, this would only apply during transition, and it is not anticipated that these would materially change the overall risk-and-reward model.
    - Depot strategy: if the number of large franchises let at transition is less than the number of strategic depots controlled by GMCA, it may result in more than one strategic depot being allocated to a single large franchise during transition.
    - Procurement strategy: Given the number of potential bidders in the market, and the likely attractiveness of lower risk/more certain contracting, it is considered that there would still be sufficient market appetite to bid for franchised contracts. However, in the event of reduced bidder appetite, there are changes that could be introduced to the procurement strategy to strengthen competition by streamlining the bidding process. The ultimate

    - introduction of any of these, or similar, measures would need to be balanced against the risk that the procurement process is weakened as a consequence.

- A significant reduction in operated mileage (e.g. Scenario 3): the commercial model may be adapted in the manner described above in respect of a mid-range reduction in operated mileage, and also as follows:
    - Franchise length: letting of shorter-term franchises during transition to mitigate against Covid-19 impacts.
    - ITS strategy: the smaller number of interfaces required in the event of a significantly smaller bus network, with a corresponding reduction in the number of operators active in the Greater Manchester franchised market, may reduce the risk and complexity such that the relative benefits of common GMCA ITS solutions are reduced or eroded when compared with individual operator solutions.

9.7.5 Following the consideration of the potential commercial implications of Covid-19 on the proposed franchise model, it has been concluded that the commercial model would continue to:

- Allow the network to operate under franchised contracts, whilst at the same time allowing operators to run excepted services and to apply to run cross-boundary and other non-franchised services under Greater Manchester service permits.
- Achieve the key commercial aims of delivering franchised bus operations that offer high quality of service and value for money, whilst allowing access to the market for small and medium-sized operators.
- Be accepted by the operator market, and that there is an appetite from the operator market for franchising.
- Be deliverable by GMCA, including during the transition period.

9.7.6 The section on the effects on the partnership commercial proposition concerned the means by which GMCA's commercial arrangements that would support the partnership would be introduced and run. It has not been proposed that this would materially change because of Covid-19.

9.8 Financial Case

9.8.1 The Assessment concluded there was a forecast net transition funding requirement of £122m for the Proposed Franchising Scheme. Following transition to the end of the appraisal period, there was a forecast net cumulative surplus of £94m. The GMCA meeting of 7 October 2019 approved a preferred funding strategy for the purposes of consultation both to fund the forecast transition requirement and to provide an additional source of ongoing revenue funding post transition through the proposed mayoral precept. The Proposed Franchising Scheme was, therefore, considered feasible and affordable.

9.8.2 The impact Covid-19 will have is principally related to uncertainty over the levels of bus demand and associated farebox revenue in Greater Manchester and the extent of the operated mileage that will be run. Under Scenarios 1 and 4, there is a substantial decline in farebox revenue, and in Scenario 3, a very substantial decline in the transitional period.

Scenario 2 sees an increase, but only after several years, so there may still be reductions during a potential transition to the Proposed Franchising Scheme.

Partnership

9.8.3 In the Assessment, the Financial Case reported that the forecast net deficit over the full modelled period would be £97.4m for the central Operator Proposed Partnership. The Assessment also explained the distribution of the partnership funding requirement and risk profile was different compared with franchising. The partnership funding requirement is a more consistent steady-state annual requirement reflecting incremental ongoing costs and risks, compared with franchising which has higher short-term transitional costs and funding requirement. The partnership options considered in the Assessment also did not involve a transfer of revenue risks, and therefore from that perspective, partnership options were considered to result in lower financial risks for GMCA compared with franchising.

9.8.4 Given the nature of the funding requirement, the ongoing revenues sources identified in the Assessment, such as the mayoral precept and revenue earn-back, were considered credible funding sources for the partnership options. The Assessment concluded that the value of these funding sources meant the partnership options could be considered feasible and affordable provided that funding of the required value from these sources could be allocated to fund a partnership.

9.8.5 Covid-19 impacts are not considered to significantly affect the affordability of a partnership option from GMCA's perspective as farebox revenues would remain with operators and so the direct financial risks for GMCA are considered to remain lower compared with franchising. There is, however, greater uncertainty as a result of Covid-19 in relation to the commitments that would be offered by operators, and the associated benefits under a partnership option.

Transition period revenue impacts and mitigation options for the Proposed Franchising Scheme

9.8.6 As a result of the uncertainties caused by Covid-19, particularly with respect to future bus demand and the variables influencing demand, it is not considered possible at the present time to provide a different central forecast of bus demand and a precise funding requirement for the Proposed Franchising Scheme. The Scenarios therefore represent possible, rather than forecast, changes compared with the Assessment more generally.

9.8.7 Estimates of the potential unmitigated change in farebox revenues accruing to GMCA compared with the Assessment under each Scenario over a transition period up to 2025/26, which assumes a one-year implementation deferral, are set out in Table 11 below:

Table 11: Estimates of the potential unmitigated change in farebox revenues

GMCA's Potential (unmitigated) change in farebox compared with the Assessment	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	Total over the period £m
Scenario 1	(4)	(16)	(33)	(43)	(96)
Scenario 2	(3)	(4)	7	31	31
Scenario 3	(10)	(43)	(97)	(141)	(292)
Scenario 4	(5)	(17)	(29)	(30)	(82)

9.8.8 In the event that downside changes to farebox revenues materialised, GMCA would need to consider further mitigations and/or funding in order for the Proposed Franchising Scheme to remain affordable. These mitigations would be of the same kind as set out in the Assessment and previous reports to GMCA (increase fares and/or reduce the network and/or increase funding contributions), but the scale of any or all of the options may need to change. The potential mitigations, during transition, if Government funding is reduced or withdrawn would include:

i. Making reductions to the network. This would be a significant mitigation option in the event of lower demand scenarios, although noting that there would be some time lag in realising savings. The contracting strategy has the flexibility to accommodate such changes. For example, a 1% reduction (by way of illustration) in fleet volumes, operating kilometres and operating hours could result in a saving in the order of £4.5 million over the period from 2022/23 to 2025/26. Some of the changes may well be made by private sector operators before those parts of the network are franchised, so GMCA may potentially be taking over a smaller, less expensive part of the network.

ii. Local Authorities, in conjunction with additional government funding, are currently being directed to pay concessionary reimbursements (and subsidised services payments) at pre-Covid-19 levels. If concessionary reimbursements were once again paid on a usage basis, it could generate additional resources of at least £30 million, including £12.5 million previously provided for concessionary liabilities as part of GMCA's preferred funding strategy, up to 2025/26 in the 'central' Scenarios.

iii. Reducing transition costs (including on bus equipment and risk allowances). Savings in the order of £5 million to £10 million, net of inflation, could be achieved under the central Scenarios and further savings could be achieved under a more adverse scenario.

iv. Other, credible, locally prioritised funding sources included in the Assessment which GMCA / the Mayor could prioritise in the transition period, in particular the value of Integrated Transport Block ("ITB") from 2021/22 that, based on previous years' allocations, would be up to £16 million per annum and uncommitted 'earn earn-back' funding of approximately £15 million per annum from 2025/26, subject to confirmation through future gateway reviews.

Ongoing phase and mitigation options

9.8.9 The Scenarios do not specifically include any assumptions about the position beyond 2025/26 (i.e. beyond a revised transition period), however it is reasonable to assume that if a downside Scenario materialised, demand and associated revenue would not simply revert to a pre-Covid-19 level or the level previously forecast in the Assessment, but there would be some continuation of trends and potential ongoing reduction in revenues compared with the Assessment forecast.

9.8.10 Notwithstanding this, it is considered in general that GMCA could have greater surety over its ability to mitigate any shortfall in farebox revenue and its ability to afford the Proposed Franchising Scheme beyond any transition period as:

i. over time, uncertainty as to the effects of Covid-19 is considered likely to lessen and prevailing trends would become established giving greater certainty over the level of any mitigation required to achieve a balanced budget;

ii. a limitation to operating cost savings offsetting a reduction in farebox revenue in full or in part may be the fixed nature of some operating costs in the short term and associated time lags. However, over the full appraisal period, operating costs could vary to a greater degree and thus realise a greater degree of operating cost savings;

iii. GMCA’s preferred funding strategy includes a progressive mayoral precept requirement over the transition period, which would provide an ongoing source of revenue funding of approximately £13.5 million per annum from 2025/26; and,

iv. subject to GMCA’s consideration of the further mitigations set out above, GMCA could prioritise uncommitted funds in the event risks materialised and could not be accommodated through other mitigations, including specifically uncommitted earn-back funding of £15 million per annum which could be available up to financial year 2045/46.

Conclusion

9.8.11 A potential mismatch between income and costs could affect all bus reform options, as well as the Do Minimum. This is the case at present. As a result, operators have been financially supported by i) Government emergency funding through various iterations of the CBSSG, ii) utilisation of the Coronavirus Job Retention Scheme and iii) payment of concessionary reimbursement, tendered service payments and BSOG at pre-Covid-19 levels. However, the ongoing availability of additional financial support to sustain the bus industry is uncertain At the time of writing, the Coronavirus Job Retention Scheme has been extended up to the end of March 2021 and the Government have not committed the CBSSG / CBSSG Restart beyond an assurance that an eight-week notice period would be provided before its withdrawal.

9.8.12 The proposed local contribution of £134.5m and the further mitigations and funding options set out above could offset a loss of farebox revenue compared with the Assessment and could provide significant resources and resilience both in the transition period and on an ongoing basis if the Proposed Franchising Scheme were implemented. On the assumption GMCA endorsed these potential mitigation options then it is considered a package of these mitigation options could offset the potential farebox revenue losses during the transition period and the Proposed Franchising Scheme would remain affordable under Scenarios 1, 2 and 4. After transition, the proposed precept included as part of GMCA’s funding strategy would provide a further ongoing source of revenue funding. Greater confidence in prevailing trends along with the ability to fully adapt the network and associated operating costs, if required, would provide further confidence that the Proposed Franchising Scheme would be affordable over the appraisal period under these Scenarios.

9.8.13 It remains possible that under a more significant downside Scenario (such as Scenario 3), these resources would still leave a residual funding gap, during and post transition, and in the event that GMCA/ the Mayor subsequently implemented the Proposed Franchising Scheme and such a Scenario materialised, GMCA would need to accept this residual risk and, in the absence of sufficient levels of Government funding, underwrite this risk through incremental local funding.

9.9 Management Case

Partnership

9.9.1 This report demonstrates that the approach to transition and management defined in the Assessment provides the flexibility required to accommodate the requirements of Scenarios 1, 2 and 4 and that the proposed level of resources (people and systems) required to manage partnerships is the broadly the same as that proposed in the Assessment. It is recommended that people are initially employed on a fixed-term basis due to the level of market and economic uncertainty and the risk on the enduring nature of the partnerships. The report concludes that TfGM on behalf of GMCA would be able to manage the transition and implementation of the partnership operating models and work with the operators to manage the partnership effectively despite the impact of Covid-19. Only if Scenario 3 emerged as the future forecast would there be a question of the scale of support that TfGM would be able to put in place to support the partnership.

Franchising

9.9.2 The report concludes that despite the level of market and economic uncertainty the proposed approach outlined in the Assessment demonstrates how TfGM on behalf of GMCA would be able to manage the Proposed Franchising Scheme whilst mitigating potential cost risk.

9.9.3 The fundamentals of the future operating model as defined in the Assessment are still relevant, and this framework can still be used to provide the foundations for the implementation and business as usual, with redesign happening at specific targeted areas and to manage cost so that it is aligned to the economic and traffic forecasts at that point in time. With the level of economic and market risk, it is essential that TfGM can flex the operating model to meet the future requirements, no matter what happens in the market (higher or lower usage because of different Scenarios).

9.9.4 Following the review of the impact of Covid-19 on the transitional arrangements, it can be concluded that there would only be a marginal level of savings that could be realised when reviewing actual direct transition costs as compared with the Assessment. However, over the coming months, TfGM will continue to explore and identify efficiency savings whilst not jeopardising implementation timescales.

9.9.5 The reviews of Assessment risk registers and mitigation plans indicate TfGM would be able to manage transition mobilisation despite the high level of uncertainty driven by the impact of Covid-19. The majority of approaches defined in the Assessment to mitigate the risks are unchanged. There are some changes in the costs with some risk costs increasing and some reducing marginally.

9.9.6 Covid-19 has undoubtedly introduced new challenges for the implementation and operation of the Proposed Franchising Scheme. The lack of certainty around the nature, extent and timing of any recovery makes planning for the future more challenging. Implementation of the future operating model post any Mayoral decision will commence whilst Covid-19 is still disrupting normal activities. The approach proposed in this document demonstrates that TfGM could still implement the future operating model. The design and framework provide the flexibility and agility required to increase or reduce the resources aligned to the economic predictions at the point of a decision. This allows the effective and efficient management of franchising whilst minimising the risk of incurring significant unnecessary costs.

9.10 The Proposed Franchising Scheme

9.10.1 This section has considered the potential impacts of Covid-19 on the Proposed Franchising Scheme itself and whether any modifications to that proposal may be needed. This report concluded that those matters which are defined in the Proposed Franchising Scheme have not changed and that no changes are needed at this stage beyond those previously contemplated as a result of Covid-19. The reasons for this are explained further in Section 7 (Legal and Other Consideration) of this report and are also summarised below.

9.10.2 The Act specifies the required content of a franchising scheme. One requirement is to set out the area to which a franchising scheme will apply. The Proposed Franchising Scheme provides that franchising would apply to the entirety of Greater Manchester. This has not changed because of Covid-19, and it is thought that the justification for any intervention to apply to the entire bus market, and not just a specific area, is strengthened as GMCA aims to meet the objectives of the Greater Manchester Transport Strategy 2040 and to recover from the pandemic.

9.10.3 It was also proposed that for the purposes of aiding transition to franchising, the Proposed Franchising Scheme would be split up into three sub-areas. This is still considered appropriate, despite the potential impacts of Covid-19, as this will continue to allow the Proposed Franchising Scheme to be rolled out efficiently through a staged approach across those three sub-areas, and the justification for this in the Assessment remains correct.

9.10.4 The Proposed Franchising Scheme proposed that a period of nine months (which should have been stated to be the minimum period) would expire between the letting of a franchise contract in each sub-area and the date of a service first being provided under it in that area. The Proposed Franchising Scheme provides for the dates on which GMCA may first let franchise contracts in each sub-area and also for the dates when franchised services will start to operate in those sub-areas to be included in the Proposed Franchising Scheme. Those dates are not known as they would be determined as part of any decision to introduce the Proposed Franchising Scheme, at which point they would be set relative to the date of making the Proposed Franchising Scheme. Covid-19 has not changed these proposals.

9.10.5 It is still considered that it would be appropriate for GMCA to provide depots for the purposes of letting large franchises as stated in the Proposed Franchising Scheme makes provision for this, albeit without defining how many depots would be provided or where they would be. It is also still proposed that GMCA would consult on how well the Proposed Franchising Scheme is working within 12 months of franchising being operational in all sub-areas. As set out in TfGM's Consultation Report, this would allow GMCA to consult sooner than previously proposed and it remains the case that it would be appropriate to consult when franchising was operational, as opposed to before it is introduced in all three sub-areas.

9.10.6 It has always been envisaged that the list of local services in the Proposed Franchising

Scheme would need to be updated prior to any decision to take into account any changes to the network of services. Changes to the Proposed Franchising Scheme would not be needed if service frequencies changed as these are not specified in the Proposed Franchising Scheme. If any changes to the Proposed Franchising Scheme are required after it becomes operational, GMCA would have to consult and then vary the Proposed Franchising Scheme, as allowed for under the Act.

9.11 Overall conclusion

9.11.1 The effect of the Covid-19 pandemic on the patronage and revenue of bus services in Greater Manchester has been severe. They are currently running at about half the capacity that they were previously. Whilst services are likely to continue to recover as the economy recovers, and restrictions reduce, the timing and extent of this continue to be in doubt.

9.11.2 The pandemic has also shown that the bus network is vitally important for people in Greater Manchester, enabling them to access employment, education, services and wider opportunities, as recognised by the central and local government support provided to keep buses running. Where patronage will be reduced, there will be threats to individual services as they become less viable, and there is a likelihood that the bus network will reduce further. This could be driven by mode shift. Those who can switch to more expensive modes, leaving the services on which poorer people in Greater Manchester rely on less viable. This is more likely to occur when Government support for bus services reduces or is stopped at an early stage.

9.11.3 If there was greater damage to the bus market leaving people without travel options, or only more expensive travel options, there would be a greater imperative for GMCA to intervene to support the market and people's ability to travel, irrespective of whether franchising has occurred. As set out in the Assessment, the Proposed Franchising Scheme would give GMCA the opportunity to support the whole bus service on a coherent basis, and to gain the advantages of integrated network planning, simplified and integrated fares and improved customer service through a single point of contact and unified information. Such intervention would also be better value for money under the Proposed Franchising Scheme than the Do Minimum or a partnership because intervention would not be adapted around what is left in the commercial sector but would be done on the basis of a coherent intervention across the whole of Greater Manchester.

9.11.4 The case for change set out in the Assessment remains and the Franchising Scheme still offers a greater chance of achieving GMCA's objectives for the bus network than the potential partnership option in Greater Manchester under the different Scenarios that could occur. The Proposed Franchising Scheme remains the only option that will enable Greater Manchester to get the full benefit of an integrated transport system. The Proposed Franchising Scheme also still offers more scope for introducing Phase 2 measures that would improve the service, and to do so with greater value for money than the partnership option.

9.11.5 The analysis in this report confirms that, on balance, the value for money of the Proposed Franchising Scheme is likely to be robust to the uncertainty created by Covid-19 in all reasonably likely Scenarios. The Proposed Franchising Scheme also remains preferable to the Partnership option as, on balance, the overall net benefits are likely to remain higher and more deliverable, particularly given the considerable uncertainty surrounding what, if any, partnership options are on offer.

9.11.6 As with Partnership, the commercial arrangements for implementing franchising are still thought to be appropriate but may show some changes, and the management of implementation for both options would be possible under the different Scenarios.

9.11.7 The specific risks identified in the risk register and quantified in the economic analysis have not changed a great deal. However, the overall shift in GMCA taking revenue risk in a situation where revenues could fail to recover to previous levels is significant. If revenues do not recover fully, as is the case in three of the four Scenarios, GMCA would be in the position of making difficult decisions to reduce services or offer more public support. In the most pessimistic Scenario, where patronage falls dramatically, it may be difficult to build it up again, and this could affect the affordability of the Proposed Franchising Scheme; GMCA would need to find further funding to support the same level of service. The Proposed Franchising Scheme has the level of flexibility required to adapt to changes in demand and reductions in patronage and mileage – and so maintain its affordability despite the challenges that the recovery from Covid-19 may bring.

9.11.8 Although certainty on the level of the value for money of the Proposed Franchising Scheme in the economic analysis is now lower, and under a Scenario that sees a dramatic fall in patronage the affordability of the Proposed Franchising Scheme would be under threat, there is nonetheless a strong case to implement the Proposed Franchising Scheme. The lack of any certain partnership option that could be relied upon to bring benefit to Greater Manchester means that this option would potentially offer very little more than the Do Minimum. If there is long-term damage to the bus network that affects the ability of people in Greater Manchester to travel, GMCA will need to consider how to intervene. Intervention would be more straightforward and better value for money if the Proposed Franchising Scheme had been implemented. Without intervention, the long-term recovery of Greater Manchester could be under threat, and the ability to make a greater impact on issues of congestion and air quality that affect the economy and people in Greater Manchester. Given the strength of the Strategic Case and the importance of the bus service to Greater Manchester, the recommendation is to implement the Proposed Franchising Scheme.