GMCA GREATER MANCHESTER COMBINED AUTHORITY

Bus Franchising in Greater Manchester March 2021

Consultation Report

Issued: 12/03/2021

Table of Contents

1. Introduction

1.1 Introduction

Purpose of the Document

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

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

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

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

1.1.4 At the close of the first consultation, 8,516 consultation responses had been received. A breakdown of those responses can be seen in Ipsos MORI's June 2020 Doing Buses Differently: Consultation on a Proposed Franchising Scheme for Greater Manchester report ("Ipsos MORI's June 2020 Consultation Report") at section 2.3. This included 7,120 responses from members of the public, 115 from non-statutory consultee stakeholders, 41 responses from statutory consultees (which are those groups of persons and organisations whom GMCA were required to consult in accordance with section 123E(4) of the Act) and 1,240 campaign responses (further information about campaign responses can be found at section 14 of Ipsos MORI's June 2020 Consultation Report). This report also considers the findings of the supporting qualitative research activity (contained in Ipsos MORI's June 2020 Doing Buses Differently: Consultation on a Propsed Franchising Scheme for Greater Manchester Qualitative Research Summary Report ("Ipsos MORI's June 2020 Qualitative Research Report")) from the first consultation.

1.1.5 After the first consultation period closed, there was a global outbreak of Covid-19 which rapidly developed into a national state of crisis in the UK and elsewhere. Among other actions taken, the UK Government published its plan to "*contain, delay and mitigate any outbreak, and use research to inform policy development*" on 3 March 2020, which resulted in there being widespread and significant disruption to the bus market in Greater Manchester. Additional legal measures implemented by the UK Government in its response to the Covid-19 pandemic, such as the Health Protection (Coronavirus, Restrictions) (England) Regulations 2020, had further direct implications for GMCA, caused further disruption.

1.1.6 At its meeting on 26 June 2020 GMCA noted that before any decision on whether or not to introduce the Proposed Franchising Scheme could be made, consideration needed to be given to the impacts that Covid-19 may have on the bus market in GM. As a result, TfGM produced a Covid-19 Impact on Bus Franchising Report ("the Covid-19 Impact Report"). The Covid-19 Impact Report was not a new assessment of the Proposed Franchising Scheme. Instead, the Covid-19 Impact Report considered the extent to which the Assessment of the Proposed Franchising Scheme remained valid in the light of Covid-19 and the uncertainties associated with it. The potential impacts of Covid-19 on the key conclusions of the Assessment were considered against four potential scenarios which were developed to help plan illustrate what the bus market may look like in the future.

1.1.7 At its meeting on 27 November 2020, GMCA decided to undertake a further consultation ("the second consultation") on its Proposed Franchising Scheme. The purpose of that consultation was to allow consultees to provide their views on the Assessment in light of the findings of the Covid-19 Impact Report and to provide their views on whether or not the Proposed Franchising Scheme should be introduced.

1.1.8 The second consultation started at 09:00 on 2 December 2020 and closed at 23:59 on 29 January 2021. In carrying out that further consultation, GMCA consulted the same groups of consultees as before.

1.1.9 To inform consultees, upon the launch of second consultation GMCA published:

- Its detailed and comprehensive consultation document containing a summary of the Covid-19 Impact Report;
- the Covid-19 Impact Report; and
- The auditor's report on the Covid-19 Impact Report.

1.1.10 It also made available to consultees other documentation which related to the previous consultation. That included the documents set out at section 1.1.3 above, as well as a report TfGM had produced on the first consultation in June 2020 and other supporting materials.

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

1.1.12 At the close of the second consultation, 4,017 consultation responses had been received. This included:

- 3,954 responses from members of the public;
- 63 stakeholder responses (30 of which were previous statutory consultees); and
- 1,431 campaign responses (1,334 received via Better Buses for Manchester and 97 received via Your Buses – Rotala).

1.1.13 A summary of consultation responses can be found at section 2.3 of Ipsos MORI's Doing Buses Differently: Consultation on the impact of Covid-19 on the Proposed Bus Franchising Scheme for Greater Manchester March 2021 Report ("Ipsos MORI's March 2021 Consultation Report"). That report also includes consideration of the qualitative research activities which were also undertaken by Ipsos MORI and which are also considered in this report.

1.1.14 The consultation on the Assessment took place across two periods. When referring in this report to the first consultation this is in reference to the first consultation period and when referring to the second consultation this is referring to the second consultation period. This report provides TfGM's review of both of these consultation periods. The report explains:

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

1.1.15 In some cases, consultees raised similar issues during both consultation periods, in which case TfGM has reviewed those comments together and explained which comments were raised by consultees in each consultation period. This report also includes a review of alternative partnership options submitted by operators in their consultation responses.

2. Approach to reviewing consultation responses

2.1 Introduction

2.1.1 All responses received during both consultations went to Ipsos MORI – the independent agency appointed by TfGM on behalf of GMCA to categorise and code the responses. Ipsos MORI have reviewed and summarised all responses received during the consultation periods under the direction of TfGM and GMCA. This process, and the analysis from it, are summarised in two reports:

- The Ipsos MORI "*Doing Buses Differently: Consultation on a Proposed Franchising Scheme for Greater Manchester*" report (which is referred to below as the Ipsos MORI's June 2020 Consultation Report) for the first consultation, and;
- The Ipsos MORI "*Doing Buses Differently: Consultation and qualitative research on the impact of Covid-19 on the Proposed Bus Franchising Scheme for Greater Manchester*" report (which is referred to below as Ipsos MORI's March 2021 Consultation Report) for the second consultation.

2.1.2 These reports have been published and are referred to throughout this report (except for those sections addressing the qualitative research as explained at section 2.4 below).

2.1.3 Most of the responses during both consultations went directly to Ipsos MORI, but where a consultation response was sent directly to TfGM or GMCA, it was then sent to Ipsos MORI for coding.

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

- Statutory consultee responses
    - First consultation: a full review of all responses received was undertaken by TfGM.
    - Second consultation: all responses received from these same groups (i.e. those that were classified as statutory consultees in the first consultation) were reviewed in full by TfGM.
- Comments relating to protected characteristics
    - First consultation: a full review of all responses received in relation to the question on the draft Equality Impact Assessment (EqIA) was undertaken by TfGM.
    - Second consultation: a full review of all comments received that mentioned protected characteristics was undertaken by TfGM.
- All other responses across both consultations – a review of all comments coded by Ipsos MORI as 'unfavourable'/'negative' or 'suggestions'; plus, an additional 10% 'quality assurance' check across the Ipsos MORI codeframe.

2.1.5 More detail on this activity is set out below. The key themes from the comments received from consultees, and TfGM's response to the issues raised, will be set out in order of each case in the Assessment (see sections 4 to 8 below), before consideration is given to the alternative partnership proposals received during the consultation periods (see sections 10 to 12) and any comments relating to the EqIA or protected characteristics and the Proposed Franchising Scheme (see sections 15 and 16). Where appropriate, consideration of the relevant questions asked to consultees as part of the consultations will be given where it relates to the relevant case from the Assessment.

2.2 TfGM approach to reviewing responses

2.2.1 As stated above, Ipsos MORI received, categorised and coded all the responses to the consultations. This was done by creating a codeframe (or a coding framework), further information on which can be found at section 3.1 of Ipsos MORI's June 2020 Consultation Report for the first consultation and section 3/Appendix C of Ipsos MORI's March 2021 Consultation Report for the second consultation.

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

2.2.3 For statutory consultees (such as bus operators and local authorities), TfGM reviewed all responses received, regardless of which questions a respondent had answered or how Ipsos MORI had coded the response. This same process was used in the second consultation for responses received from the same groups. A full list of the groups of statutory consultees as per section 123E(4) of the Act can be found in Appendix 1 of this rpeort. Whilst OneBus – an association representing the majority of the commercial bus operators in Greater Manchester, formerly known as the Greater Manchester Bus Operators Association – is not identified as a statutory consultee within the Act, it undoubtedly plays an important role in representing the views of its membership. TfGM has therefore reviewed OneBus' responses to both consultations in full.

2.2.4 For all other responses (such as responses from members of the public and other stakeholders), TfGM undertook a 10% quality assurance review of all responses received. The purpose of this exercise was to review how Ipsos MORI had coded the responses and to provide reassurance that they had been correctly coded prior to being summarised in Ipsos MORI's reports.

2.2.5 The coding of these responses was reviewed by appropriate TfGM officers and advisors who had developed the Assessment and Covid-19 Impact Report, and who therefore had the expertise to review the coding of the responses, depending on which question had been answered. The output of the 10% quality assurance review was then shared with Ipsos MORI.

2.2.6 During the first consultation, one of the main issues identified by TfGM was in relation to Ipsos MORI's categorisation of responses as a 'comment' or a 'suggestion', as there were some instances where a comment was coded incorrectly, particularly around suggestions. Following this, TfGM also reviewed the codeframe itself to consider whether the codes established by Ipsos MORI were in fact suggestions, or whether the responses attributed to those codes should instead have been coded as favourable or unfavourable comments. This piece of work led to some codes being recategorised from a suggestion to a favourable comment, and some codes being re-categorised from a suggestion to an unfavourable comment.

2.2.7 There were no substantive issues raised in the same activity for the second consultation.

2.2.8 All comments ultimately coded as a suggestion or an unfavourable/negative comment were reviewed by TfGM for both consultations. This meant that TfGM reviewed each response and considered the points being raised.

2.2.9 It should be noted that TfGM did not undertake a review of all responses that had been coded as a favourable/positive comment by Ipsos MORI. Ipsos MORI's consultation summary reports present findings on what favourable/positive comments were made by consultees. It is that analysis of those favourable/positive comments for both consultations which is included and considered in this report.

2.3 TfGM approach to reviewing late responses

2.3.1 In the interests of fairness to those who took part within the consultation periods, Ipsos MORI have summarised late responses to both consultations separately.

2.3.2 The first consultation closed at 23:59 on 8 January 2020. Section 15 of Ipsos MORI's June 2020 Consultation Report shows that 72 responses were received after the consultation deadline and that the majority of those responses were in fact campaign responses.

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

2.3.4 Section 15 of Ipsos MORI's June 2020 Consultation Report found that, after excluding campaign responses, there were 27 late responses submitted by members of the public. Ipsos MORI found that all of those responses provided comments that were representative of the responses received by members of the public during the consultation period. Further detail on the key themes raised by the public can be found in Ipsos MORI's June 2020 Consultation Report and from section 4 onwards of this report.

2.3.5 The second consultation closed at 23:59 on 29 January 2021. Section 17 of Ipsos MORI's March 2021 Consultation Report shows that 23 responses were received after the consultation deadline.

2.3.6 Of the late responses, 11 were additional campaign responses and 8 were from members of the public. All of these responses provided comments that were in keeping with the themes raised by members of the public, as analysed throughout Ipsos MORI's March 2021 Consultation Report.

2.3.7 Of the remaining late responses, four were from stakeholder organisations. Stagecoach wrote to GMCA on 19 January 2021 and requested an extension of time, due to severe ill-health of a key member of the team developing their response to the consultation. The response was received by Ipsos MORI on 15 February 2021. This response was reviewed by TfGM in a manner consistent with all other responses from groups identified as statutory consultees in the Act, and this analysis is included in sections 4 and 8 below.

2.3.8 The remaining three late stakeholder responses were submitted from The University of Manchester, Graham Stringer (MP for Blackley and Broughton) and Schroders. All have made comments which were supportive of the Proposed Franchising Scheme.

2.4 TfGM approach to reviewing qualitative research

2.4.1 As well as categorising and coding the consultation responses, Ipsos MORI were also instructed by TfGM, on behalf of GMCA, to undertake a form of qualitative research to complement both consultations.

Qualitative research conducted as part of the first consultation

2.4.2 For the first consultation, the qualitative research explored the options set out in the Assessment, including the Proposed Franchising Scheme, with members of the public and other key interest groups such as businesses, young people and those residing outside of Greater Manchester in neighbouring authorities.

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

2.4.4 In addition to the workshops, six shorter focus groups were carried out. Three of these groups were carried out face-to-face, and three were conducted as online focus groups due to the geographical dispersal of the participants.

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

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

Qualitative research conducted as part of the second consultation

2.4.6 As part of the second consultation, the qualitative research explored in greater depth the Covid-19 Impact Report in relation to the Proposed Franchising Scheme. This activity was carried out online with a representative sample of GM residents, and over the phone with individuals aged 70+. The latter group was targeted due to lower levels of digital access within this cohort, and consideration of access to the consultation during ongoing lockdown restrictions.

2.4.7 An online deliberative workshop took place over two, three-hour sessions with the group of 45 members of the public. Quotas for participants in this workshop were set for: gender, age, ethnicity, disability, local authority, urbanity, socio-economic group, current and future bus use and access to a car.

2.4.8 Additionally, a total of eight 60-minute telephone in-depth interviews were carried out with a broad range of individuals aged 70+.

2.4.9 The research focused on key questions from the consultation questionnaire, namely:

- Future bus demand and the Scenarios;
- The Strategic Case and its conclusions in light of Covid-19;
- The Economic Case and its conclusions in light of Covid-19;
- The Financial Case and its conclusions in light of Covid-19; and
- Why GMCA is proposing to proceed now.

Reporting and consideration of qualitative research outputs

2.4.10 The findings from the qualitative research carried out alongside the first consultation are summarised in the Ipsos MORI's June 2020 Qualitative Research Report. The findings from the qualitative research carried out alongside the second consultation are summarised alongside the consultation responses in the Ipsos MORI's March 2021 Consultation Report. Further information on what was involved in the research, and what information was provided to participants, can be found in these reports.

2.4.11 TfGM reviewed and considered the findings of both sets of qualitative research activity alongside its review of the consultation responses.

3. Use of Scenarios

3.1 Introduction

3.1.1 In the second consultation on the effect of the Covid-19 pandemic, respondents were asked the following question:

Question 1: In looking at the effects of the Covid-19 pandemic on the decision about whether or not to implement the Proposed Franchising Scheme, TfGM has used a number of scenarios which illustrate a wide range of potential longer-term outcomes for travel demand in Greater Manchester. Do you have any comments on this scenario-based approach?

3.1.2 A number of respondents commented on TfGM's use of scenarios to look at future trends and understand how the bus market may evolve after Covid-19. The Covid-19 Impact Report set out four potential scenarios for future patronage trends, alongside an explanation of how these trends might arise. The patronage trends projected were not forecasts: they were intended to represent the range of future outcomes that could still come from the interaction of the long-term drivers, i.e. the strength of the economic recovery and the attitudes to public transport among decision-makers and the public. The scenarios were used to understand how the conclusions arrived at in the Assessment might vary in different circumstances.

3.1.3 Responses concerning the application of the Scenarios to the economic and financial analysis in the Assessment are considered below in sections 5.9 and 7.4 respectively.

3.2 Support and comments on the scenario approach

3.2.1 There was widespread support for the approach on the Scenarios from a range of stakeholders. These included the constituent authorities of the Greater Manchester Combined Authority. For instance, Manchester City Council stated that, *"A scenario-based approach using educated speculation on how different factors may influence and interact with each other to give a range of outcomes for bus patronage and wider transport usage is the only sensible way to attempt to navigate the future. The Council considers the four scenarios, and the analysis and interpretation of each, to be reasonable and well-founded."* (Manchester CC, Question 1)

3.2.2 Other stakeholders, including TravelWatch NorthWest, Transport Focus and the Competition and Markets Authority, also endorsed use of scenarios.

Outcomes from Ipsos MORI's March 2021 Consultation Report on the second consultation

3.2.3 Ipsos MORI's March 2021 Consultation Report on the second consultation noted that there was strong support from members of the public for the scenario-based approach, with more than twice as many positive than negative responses received. Most positive comments acknowledged that this approach was sensible and overall a good idea.

3.2.4 The majority of the public thought the scenario-based approach was considered to be comprehensive and covered a number of likely outcomes for the impact of Covid-19 on bus patronage in the future. Comments said they were generally well thought through and would prove useful in helping to redesign and plan future service delivery, as well as to forecast future costs.

3.2.5 Whilst there were fewer negative than positive responses to this question overall from members of the public, there was a greater range of negative themes raised. These mainly focused on why the Scenarios were unrealistic, either because they provided a false representation, did not consider certain variables/metrics, were too short-sighted and grounded in the current situation with the pandemic, and constituted speculation or guesswork. Comments were made about the lack of (or inaccurate) detail or information underpinning the scenario-based approach. A number of participants also considered that the Scenarios were biased and designed to support the proposals for a Proposed Franchising Scheme, whilst caution against making the Scenarios the sole/overriding focus was also urged.

3.2.6 Through the consultation, there were also some specific comments made about each individual scenario:

- Comments in response to Scenario 1 felt that it was the best/most realistic scenario, which represented the most likely outcome. There was also a specific concern raised about increased car usage and the potential resultant decline in bus usage.
- Comments in response to Scenario 2 were mixed between those that considered it to be the most likely outcome and those that felt it was unrealistic, either because bus usage will struggle to recover to pre-pandemic levels or because it is overly optimistic. It was also felt that Scenario 2 could be more achievable under a partnership option, because it would allow operators to rebuild the network.
- Comments were received about Scenario 3, which differed based upon how realistic or not participants felt it to be.
- Comments received in response to Scenario 4 also differed depending on how realistic or not participants felt it to be. Other comments felt this scenario would require more buses, that it includes an over-estimation in terms of the growth in active travel, as well as an under-estimation of the likely economic recovery.

Outcomes from Ipsos MORI’s qualitative research on the second consultation

3.2.7 During the qualitative discussions with the public, there was support for the scenario-based approach. It was generally deemed sensible by participants and covered all eventualities.

- “*I would say that you couldn't base your predictions on one scenario, you have to look at best, worst and something in between. I should think this was the obvious way to do it really*.” Male, 70, Rochdale.

3.2.8 Through the qualitative discussions, there was an observation that the Scenarios were ultimately guesswork, and underlying this sentiment there were a number of variables that were mentioned as being hard to define or predict.

3.2.9 One participant pointed out that none of the Scenarios accounted for another wave of the pandemic. The participant felt that the Scenarios were based on the assumption that the vaccines will work indefinitely.

3.2.10 Generally, there was a belief that Scenario 1 was the most realistic scenario and would be driven by the return of people to work.

- "*It's not going to get better or stupidly worse, it's going to be somewhere in the middle*." Female, 41, Bolton.

3.2.11 Scenario 2 was considered too optimistic for some. There was agreement that more people would work from home, but some but did not think demand for public transport would increase. There were references to public transport not being 'Covid-19 safe' and people taking a long time to change that mindset. However, there was a positive view that people may shift to more sustainable travel modes as Government funding invests in these modes.

3.2.12 There was a mixed response to Scenario 3. Some participants thought this outcome to be the most likely, as people had grown to rely on their cars, whilst others felt more optimistic about bus patronage – for some, this was because they had a belief that things would improve more generally post-Covid-19 and they refused to have a negative outlook. Others believed sustainable travel was here to stay and people had continued to use the bus during 2020.

3.2.13 Scenario 4 was also felt to be reasonable, although there were some who felt that car demand would not reduce as anticipated, simply because people will be reluctant to get on public transport because they feel less protected from Covid-19. A contrary view was that bus use would be higher than in this anticipated scenario, because of the environmental benefits.

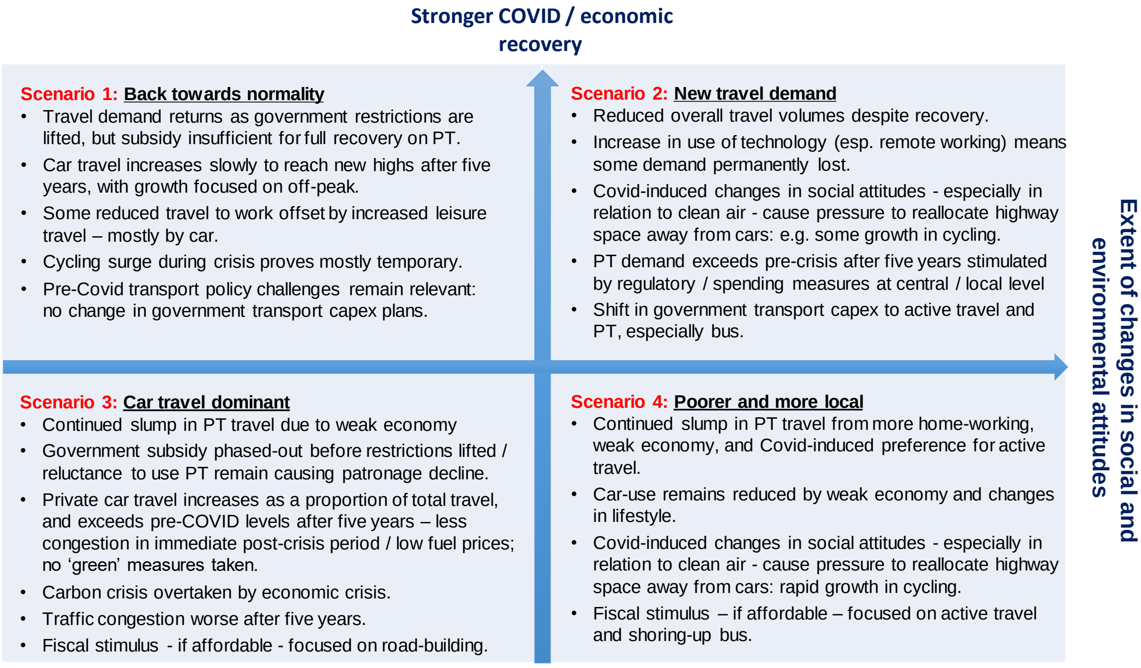
3.3 How TfGM developed the Scenarios

How TfGM developed the Scenarios

3.3.1 TfGM decided to use scenarios to help address the uncertainty associated with Covid-19 looking forward to 2026, as explained in the Covid-19 Impact Report. Scenarios are intended to represent 'corner points' of the domain of plausible outcomes and help to illustrate what may occur and why. Scenario planning entails identifying variables (sometimes called 'uncertain factors') that are expected to drive change in the future. The scenarios created in June 2020 reflected an iterative discourse between transport professionals, including those involved in planning and modelling, to reach a set of scenario narratives. In Greater Manchester, variables have been collected together to form two axes of a 2 x 2 grid of scenarios (Chart 1 below). The axes into which variables have been collected are:

- The strength of recovery from the Covid-19 pandemic. Economic strength/weakness is assumed to constrain central Government policy; and
- The extent of change in public attitudes following the Covid-19 pandemic, with public attitudes assumed to influence central Government policy.

Chart 1: Underlying drivers of the four scenarios

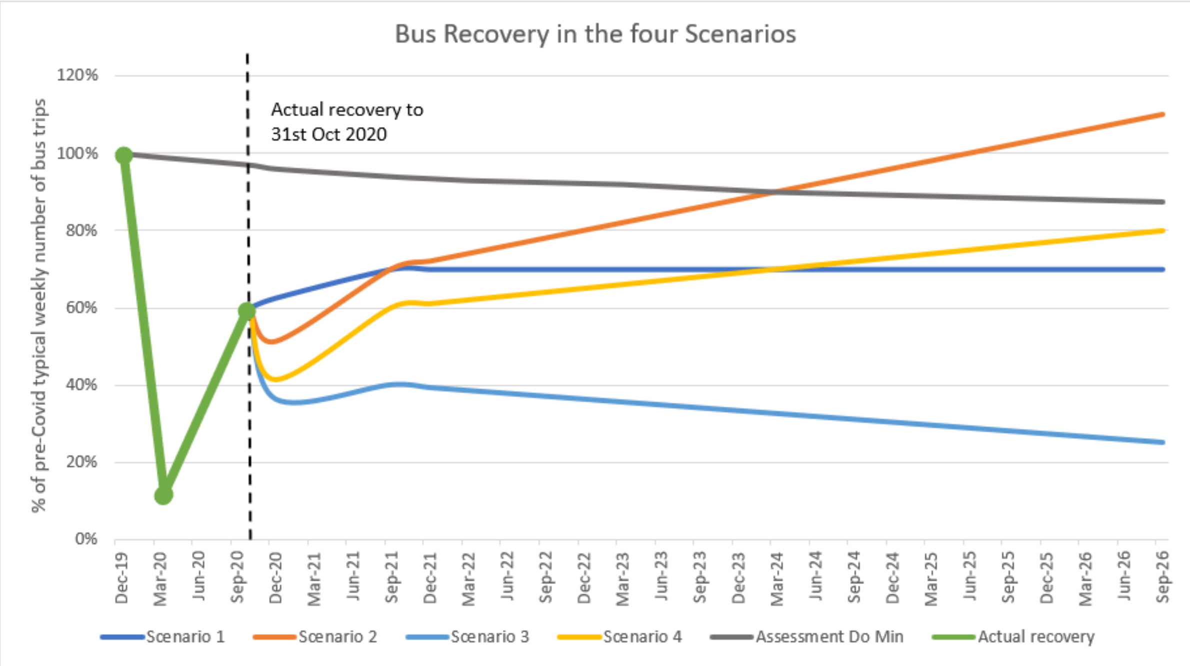


3.3.2 Before the work was started, advice was sought from Dr Katy Roelich of Leeds University on the derivation of scenarios and how this might be approached.

3.3.3 Once the Scenarios had been developed, internal assurance was undertaken to ensure that the projections were internally consistent. TfGM looked at the resultant implied trip rates for those travelling and also whether the results would conform with the well-established principle of constant travel-time budgets (by which people across a range of human societies spend on average the same amount of time per day on travel, even when, for instance, a faster mode becomes available for journeys they currently make). These tests showed that, while Scenarios 3 and 4 – under a weaker economy – showed some reduction in travel time, the Scenarios did not throw up any anomalous results that would lead TfGM to question their internal consistency or credibility.

3.3.4 The scenarios were developed to be useful for a range of purposes within TfGM, including bus reform. They were not designed in a biased way to enable a decision to be taken to implement the Proposed Franchising Scheme, but to support decisions made on active modes, clean air, Metrolink and other issues. It was important to have consistency in the Scenarios used to look at decisions to be made in different policy areas, so that they might be as robust as possible. The most important aspect of the Scenarios, for the purposes of bus reform, was the projections of bus patronage that would be used to underpin analysis. The scenarios needed to be sufficiently broad in this aspect to allow for a wide range of outcomes, even if not all of those outcomes were equally likely.

Chart 2: The recovery under each of the four scenarios as it appeared in the Covid-19 Impact Report



Objections to how the Scenarios have been apparently developed and used

3.3.5 The objections to the development of the Scenarios used to test the different options can be divided into a number of categories:

- General criticisms of the approach to the development of the Scenarios including the failure to use quantified inputs and modelling to produce the patronage projections, the failure to follow guidance, and what other authorities have done;
- Specific criticisms of the Scenarios;
- The need to await further information; and
- Describing one scenario as less likely or as an 'outlier' is inappropriate.

3.3.6 These objections are considered in the following sections.

3.4 General criticisms of the approach

3.4.1 Operators criticised the approach to the development of the Scenarios, including the failure to use quantified inputs and modelling to produce the patronage projections, the failure to follow guidance, and what other authorities have done.

3.4.2 OneBus, who represents operators in Greater Manchester, say that, in the current circumstances, scenarios could be accepted to help determine patronage levels. They contend, however, that the legislation and guidance do not include any suggestion that the Assessment should be based on scenarios, and that analysis should be based on current and predicted trends in patronage derived from robust and reliable data.

3.4.3 Go North West state that he full range of assumptions behind the Scenarios are not available and thus the robustness of how each of the Scenarios has been modelled cannot be verified (Go North West Question 1)

3.4.4 Oxera (who were instructed by Rotala) stated that, in principle, it is reasonable to adopt a scenario-based approach that considers a range of potential future scenarios for travel in Greater Manchester and the effects on bus travel, and that such an approach is recommended when evaluating different policy options, when the probability of an event occurring is unknown. Rotala and Oxera contend, however, that the Scenarios in the Covid-19 Impact Report have not been developed reasonably, using the Uncertainty Toolkit for Analysts in Government, published by the Government Actuarial Department (GAD), as a framework for that assessment. The toolkit requires each individual source of uncertainty and a range of possible values for each to be identified, and then a set of coherent scenarios to be created, setting each source of uncertainty to a value that could realistically occur in parallel with others.

- In Oxera's view, it is not clear what values are assigned to each of the sources of uncertainty: the quantitative assumptions for the identified drivers of demand are not set out, nor has their impact on demand been quantified through elasticities. There is, therefore, a risk of the Scenarios being optimistically or pessimistically biased and not evenly distributed around the most likely outcome. Absent such detail on the value selected for each source of uncertainty, insufficient evidence is presented to provide confidence that the sources of uncertainty, and the values chosen in each of the parameters included in each of the four scenarios, are unbiased (Rotala response section 14, Oxera Executive Summary section 2.2.1;

- The Toolkit notes that each source of uncertainty must be set to a value that could realistically occur in parallel with others. The approach in the Covid-19 Impact Report is out of line with that advice. Neither the description of the Scenarios, nor the qualitative assessment of the Covid-19 impact on the key demand parameters, provides a detailed insight into how the estimates of the levels of patronage shown under each scenario was generated. Recognising that the numbers were not modelled from a set of quantified inputs, but were devised to fit the Scenarios and to help understand what a range of outcomes could look like, Oxera states that the approach lacks transparency and that stakeholders cannot assess whether the combinations of values used for the full range of parameters under each scenario are compatible, and thus form a reasonable basis on which to conduct scenario analysis (Rotala paragraph 14, Oxera Executive Summary and section 2.2.2)

- It is not apparent that the uncertainty associated with each scenario has been quantified (Oxera 2.2.4)

3.4.5 Stagecoach contend, relying also on a report they commissioned from NERA, that the approach that TfGM has adopted is both seriously flawed; inconsistent with the rigour required under the Transport Act 2000 and the Green Book (to which the statutory guidance on franchising refers); and is not in line with best practice. NERA suggest that the analysis fails to match the level of rigour required in the Green Book, as the work done is not *"particularly rigorously and transparently done"* (p14). Subjective and unevidenced assumptions ae used at each stage, the effect of which is amplified at each further stage, resulting in a set of outputs that cannot rationally bear any weight in the decision-making process. In particular (i), the Scenarios are not developed and explained clearly and robustly. The evidential basis for the development of the Scenarios and the demand forecasts iis lacking. The documentation supplied, a 13-page note and a spreadsheet, provides very little information. It says nothing about how the Scenarios were developed or who was involved in the process of developing them. Without this analysis, it cannot be said that the Scenarios characterise the high uncertainty faced by the market. (ii) There is no clear and robust link based on analysis and evidence between the Scenarios and the forecasts used in the Assessment. Under TAG, demand forecasts should be explained, reviewed and tested rigorously. This means that the forecasts are effectively just assumptions. (iii) The likely benefits of franchising and partnership are scaled in line with the forecast changes in demand, without a clear and convincing rationale. (iv) the analysis includes a number of omissions and inconsistencies. There are examples of how to conduct a robust analysis: Highways England on the Lower Thames Crossing and A303; Transport for the North's report on future scenarios and TfL's Financial Sustainability Plan. TfGM's approach falls short of such good practice. GMCA has not had any meaningful review by a third party, or sought *"adequate assurance or advice on its approach"* (SC Business Response 1.11, .1.12; NERA Section 4.5).

Response to criticisms of the approach

3.4.6 In response to OneBus's critique, it is right to say that scenarios are not as such set out as an approach in the Transport Act 2000 (as amended) or in the associated guidance on preparing an assessment of a franchising scheme. The Covid-19 Impact Report was not a new assessment. But in any event guidance is just that. The statutory guidance refers to using sensitivity tests and the use of scenarios for that purpose is well-recognised. This is also considered in the Economic Case section of this Report. Scenarios are a long-used and accepted method of dealing with uncertainty in situations of significant uncertainty such as the COVID-19 pandemic. In any event the statutory guidance does not preclude the use of any analytic tools. An authority should consider what techniques are appropriate in an assessment of uncertainty, or when presenting uncertainty around conclusions drawn for decision makers.

3.4.7 The scenarios were developed by TfGM to help decision-makers deal with the uncertainty of the Covid-19 pandemic and its aftermath. There is no definitive guidance for transport projects or for wider application that sets out that public authorities must construct scenarios in a specific way for such circumstances.

3.4.8 The criticism from Rotala / Oxera that TfGM did not follow GAD guidance for *"scenario analysis"* in its Uncertainty Toolkit assumes that the only reasonable way to use a scenario-based approach is to forecast a set of scenarios, using a set of models and ascribing a range of values to different variables. This assumption may also be implicit in Go North West's complaint that the full range of assumptions is not available. TfGM does not agree with this because:

- There exists literature and guidance that describes how scenarios might be used without modelling a set of outputs in the way that the GAD guidance implies. For instance, the Government Office for Science (GO Science) Future's Toolkit (2014)[1] outlines an approach to the development of scenarios in this way, which can be used for 'policy stress testing', which involves seeing how well the objectives stand up to a range of conditions. All of the processes described in GOS's Futures Toolkit are qualitative, many activities are completed in a workshop setting (without models), and the key output of the scenario development process is a scenario narrative (or logic). Additional guidance is provided on 'adding metrics to scenarios' on P56 and Annex 1,

[1] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/674209/futures-toolkit-edition-1.pdf

but this is not mandatory. There is nothing in the GOS guidance that says factors under the influence of those developing scenarios (such as national Government policy) shouldn't be included in scenario development. The Aqua book contains guidance on expressing uncertainty and indicates that using scenarios is appropriate (including giving indications of the relative likelihood of different scenarios occurring), and that it not always necessary to quantify sources of uncertainty.

- Section four of the GAD guidance sets out a number of ways of arriving at a view of uncertainty, "*moving from approaches to use when we have a good numerical understanding of input uncertainties, though to approaches which can be used when we know less about how input uncertainties are quantified*." They set out Monte Carlo techniques (which were used to quantify risk in the Assessment), convolution, summing uncorrelated uncertainties in quadrature, using past variance, focusing on dominant uncertainty, scenario analysis, and judgment. Whilst the description of scenario analysis in the toolkit does assume that a range of values will be ascribed to different variables, GAD do not suggest that under all circumstances quantifying inputs must invariably be a necessary part of arriving at a view of uncertainty, and communicating this to decision-makers. It states that, having considered where uncertainties lie, it is first necessary to consider whether "*it is possible and appropriate to quantify this uncertainty*". It recognises that a quantified method may be unfeasible when there is too little information and that judgment may have to be relied on. The GAD toolkit recognises that judgment may be a way of examining uncertainty in such circumstances.
- As the GAD guidance sets out, scenarios are suitable where there are a number of sources of uncertainty with complex correlations between them, and it has the advantage of giving 'real world' explanations. Scenarios are commonly used in understanding and illustrating uncertainty. They can be derived from modelling (i.e. quantifying a set of inputs to a modelling system to arrive at a set of different outputs) as Rotala, Oxera and Stagecoach suggest, or alternatively through professional judgment. TfGM quantified bus patronage based on the factors in the Scenarios directly, using judgment with the aim of arriving at a good spread of scenarios.
- There is no information that would allow the generation of a forecast that would provide a reliable central case for patronage: the figures presented are part of a mutually exclusive set of projections of patronage. The scenarios do not represent forecasts of patronage in the way that the reference case forecast by the DRM in the Assessment does. TfGM felt that the degree of judgment required to determine a quantified variable for each input in each scenario (correcting for new factors due to Covid-19) was extremely high. In addition, there may be further uncertainty about the functioning of the modelling suite taking into account the impacts of Covid-19, because there are a number of influences on patronage (such as social distancing or the increase in home working) about which there is uncertainty. Further factors would have to be applied to the modelling, requiring further judgments where evidence is weak about the potential range of future values. Given the current uncertainty and the lack of information available to inform such judgments, this would have the effect of multiplying uncertainty rather than giving decision-makers help to understand it. It

would not be appropriate[2], therefore, to use the Demand and Revenue Model (DRM) to create projections for each scenario, and it would certainly not be more rigorous to do so.

- Whilst a modelled output could appear to employ an 'analytical method', therefore, it would also rely on significant judgment and be no more robust for that reason. Combining such a range of different figures, arrived at essentially through judgment, could conceivably result in a set of scenarios that reflect the range of possibilities less well. It would involve multiplying the number of times that judgments would need to be applied, and the number of times that the figures thus produced would interact and combine. The combination of such a range of judgments could have unpredictable results and the output would not be any more robust than simply taking the Scenarios and using judgment to arrive at patronage estimates, bearing in mind the need to ensure a good spread so that the uncertainty could be covered. Given the range of factors involved, it would potentially be less robust than the method TfGM chose.
- To present the results of a modelled exercise would also be to ascribe false precision to a complex set of inputs and relationships, which would not help decision-makers understand a reasonable range of outputs in terms of what might happen to patronage. Suggesting precision for each scenario in this instance, where what is being presented is a wide range of potential outcomes, is not helpful and potentially harmful in that it can imply that the scenarios can enable precise and accurate outturns to be forecast, when this is not actually the case. It should be remembered that these are not forecasts but, self-evidently, mutually exclusive projections that can help inform an understanding of the potential impact of different outcomes.
- The scenarios would not be made more fit for purpose, therefore, if they were derived from a modelled set of inputs – that would necessarily be invented – than from a set of patronage figures for the Scenarios arrived at by the exercise of judgment.

3.4.9 Oxera's statement that the Scenarios may be biased and not evenly distributed around the mostly likely outcome is misplaced. A scenario itself cannot be 'biased': it presents a specific outcome in terms of patronage. There could be bias in the exclusion of a plausible scenario that would disadvantage one or other option, but this is not the case. The only additional scenario suggested by respondents is *"Scenario 5"* by Abellio – which would mean continued public support for the bus service and would be more favourable to the Proposed Franchising Scheme. In fact, the range of scenarios in the Covid-19 Impact Report is wider than the examples, such as TfL, cited by Stagecoach as exemplars of how the scenario approach should be carried out. The scenarios are evidently not evenly distributed around the most likely outcome: no outcome is cited as the most likely, and there is no reason why a set of scenarios should be evenly distributed if that is not the best way to

[2] To reconfigure the DRM, including reassessing whether the elasticities within the model (which define the relationships between different variables) may take several years because it will be some time before settled relationships can be adduced by new research. To use the DRM for Covid-19-specific scenarios at this stage would not therefore add any rigour to the process or be justifiable.

present uncertainty. Indeed, one of the criticisms made of the discussion of Scenario 3 (discussed below) is that no relative likelihood should be attributed to any scenario.

3.4.10 A number of operators have included responses that set out what they consider to be the lack of transparency about the Scenarios and their development.

3.4.11 A description the key drivers of likely public transport use, and how they might be reflected in each of the four scenarios, was provided at sections 1.4.2 to 1.4.20 of the Covid-19 Impact Report.

3.4.12 Their initial development was described in 1.4.21. A lack of transparency cannot be inferred from the fact that there are no quantified assumptions set out, as it was clearly stated that the patronage figures *"were not modelled from a set of quantified inputs but were devised to fit the scenario and to help understand what a range of outcomes could look like."* It was thus clear that they were the product of judgment. There is no direct link between the spreadsheet that Stagecoach were provided with during the consultation and the Scenarios as set out. The spreadsheet was part of an exercise to look at an approach in which inputs to the modelling system were quantified, and projections taken from that the system and used for the Scenarios. But it was considered that this modelling approach would still involve judgments being made about a range of inputs, and would not yield a more transparent or robust set of scenarios: TfGM chose to use scenarios that were not constructed in this way.

3.4.13 Stagecoach complain that *"the forecasts are effectively just assumptions"*, as *"there is no clear and robust link based on analysis and evidence between the Scenarios and the forecasts used in the Assessment."* The projections were not forecasts. Moreover, as the Covid-19 Impact Report stated in 1.4.25, there had been developments since the projections were developed; some of the original assumptions upon which each of the Scenarios might develop had unsurprisingly not proved correct and some would, also unsurprisingly, prove not to be the case. The projections were useful for the purpose of testing the impact of Covid-19 on the appraisal of the options in the Assessment. It was thought that they represented the range of future outcomes that could still materialise. Whether that is the case is ultimately what matters.

3.4.14 Stagecoach has referred to three examples of alternative approaches:

- It is not possible to verify the statements made in the report by Nera, on Stagecoach's behalf, on the business cases for the Lower Thames Crossing and the A303, as these have not been made public. As they are not public and have not been released despite freedom of information requests, it is difficult to sustain the argument that their approach is more transparent.
- In terms of the types of scenario considered and the types of variables, the approach taken by TfN and TfL is similar to that taken by TfGM. TfN's approach to scenario planning is similar to TfGM's in that local and national transport policies are one of their four key drivers of the future. Thus TfN's scenarios also include variables over which it has some influence, but which are also major sources of uncertainty. TfL take a somewhat different approach in that only variables regarded as completely external to TfL are considered. So, central government policy was not considered by TfL as a driver of uncertainty – potentially because one key reason for TfL using scenario planning was to inform discussions with central Government on funding. TfN's and TfL's approaches do not fundamentally differ from that taken by TfGM, in terms of deciding what the

Scenarios should be, how they should be characterised and what factors should be considered.

- Both TfN and TfL modelled their scenarios from a set of inputs using their modelling frameworks. A different approach to quantifying outputs was taken in each. But, given the need to use judgment extensively in deciding on a large number of inputs, and the assumptions to be used in modelling any outcome, it is not clear that, for the reasons already given, such an approach is either more robust or transparent as Stagecoach and NERA claim. In fact both TfL and TfN use a narrower range of scenarios than TfGM. TfL have four main scenarios – in 2024 bus patronage ranges from +7% to -21%; by 2031 it ranges from +43% to -22%: the worst downside scenario is similar to TfGM's more central scenarios. The more positive scenarios would increase the benefits and financial position of the Proposed Franchising Scheme. TfN is more optimistic – they consider 2050 projections where three of four scenarios show increases in patronage of between 10% and 20%, and one shows a very slight decline. If TfGM had used scenarios more similar to those of either TfL or TfN, it would have been to the advantage of the Proposed Franchising Scheme compared to alternatives.
- Beyond the use of modelling to derive projections for patronage, the contrast drawn between the mode of producing the Scenarios in both TFN and TfL and TfGM's approach is exaggerated. Both TfGM and TfN use a matrix of four scenarios, and, in contrast to Stagecoach's claim, both set out the drivers of demand (Covid-19 Impact Report, Figure 1). TfN did publish a standalone report that describes the process of creating the Scenarios in more detail (including details of workshops held, etc.) – and given the modelling approach, there is a more complex process to describe. However, to say it 'generally provides a higher level of confidence' does not demonstrate that the Scenarios produced are themselves any more fit for the purpose of testing the options set out. TfL produce a similar set of scenarios to those used by TfGM in terms of characterisation; they did not consider more negative outcomes than TfGM (demand is lower than 'business as usual' in two of four main TfL scenarios, as opposed to three of four TfGM Scenarios). Their scenarios were also modelled in a more complex way (including in combination with a range of different cost scenarios) but this does not mean that they are more robust.
- With regard to the A303 and Lower Thames Crossing promoted by Highways England (cited by NERA), it is notable that Highways England published an economic appraisal of their £27.4 billion pound Road Investment Strategy 2 (Road Period 2: 2020/1-2024/5) investment programme in July 2020, which failed to mention the Covid-19 pandemic at all (this includes work on the A303). The work refers to uncertainty by referencing the DfT 2018 Road traffic forecasts. Whilst these are referred to as 'scenarios', they are in fact risk-based sensitivity tests based on varying one key input at a time, and hence pivot round a central case rather than representing alternative futures, as would happen with scenario analysis. From the publicly available information, it seems that Highways England have not taken the approach set out by NERA and Stagecoach as best practice.

3.4.15 The work done on scenarios, and using the Scenarios to test the validity of the conclusions of the Assessment, lies outside the usual practice of transport appraisal in TAG. This, and the methodology followed, does not mean that the work was not undertaken 'rigorously' as NERA and Stagecoach suggest. 'Rigour' in this instance does not mean necessarily using a modelled set of quantified inputs, but using a set of scenarios that carefully selected to reflect an appropriately wide range of possibilities and look at the consequences of those events occurring.

3.4.16 There has been no suggestion that there is a wider specific range of possibilities that should have been considered. Stagecoach's own use of scenarios in their interim financial results (to 31st October 2020), for example, used a far narrower range of possible outcomes, and there is no sense that these scenarios have been the result of any other process than judgement. They cite 'severe' and 'plausible' downside scenarios that have commercial revenue at 75% and 85% of pre-COVID levels in the year ending 30 April 2022. Go Ahead in their Group Annual Report (September 2020) set out scenarios of patronage returning to 80% and 90% of pre-COVID levels. When looking at the future of their business, operators are content to use narrow ranges of scenarios and use an approach similar to, if not cruder than, that employed by TfGM. As set out above TfL and TfN's scenarios are more 'optimistic' than TfGM's.

3.4.17 The wide range of potential scenarios TfGM set out remain appropriate for the purpose for which they were devised and means that decision makers can be confident there are not plausible outcomes that have not been considered. The consequences of these events – principally lower patronage (and also lower revenue for the bus service) – are also carefully considered. The analysis in the Economic and Financial cases uses the scenarios to carefully consider their implications for the conclusions reached in the Assessment on value for money and affordability.

3.4.18 The Government guidance on the level of detail for the Assessment refers to a level of detail for an Outline Business Case. The Assessment at check 1.3.1 set out the expectation of the development of different parts of the case at Outline Business Case (OBC) stage – the OBC should enable a decision maker to decide on an option to be pursued, but does not support final investment decisions or choice of a contractor as a Full Business Case (FBC) would. This means it is accepted that uncertainty – for instance over final costs – will exist at OBC stage. The guidance on developing business cases (Guide to developing the project business case, HM Treasury 2018) suggests using optimism bias to deal with uncertainty, which the Assessment does. However, the effects of the Covid-19 pandemic are such that the standard approaches to risk and optimism bias require supplemental approaches, to properly give decision-makers an understanding of the uncertainty they are facing – such as using scenarios.

3.4.19 The existence of different approaches in different circumstances in no way invalidates TfGM's approach to scenario planning. Grant Thornton (GT) were aware of the decision taken not to quantify inputs and model scenarios, and did not raise this as an issue in their review of the work done. The critical aspect is the range of scenarios used and whether this is adequate or is unreasonably narrow, and whether they are biased or partial to a specific option. The lack of a methodology, such as that proposed by Oxera or used in other cases, has no impact on whether the Scenarios can be considered to cover an appropriately broad range of potential outcomes. The range of scenarios is wide, and while the methodology has been criticised by some respondents, they do not suggest that the outcome would in fact be outside the range of the Scenarios set out by TfGM.

3.5 Specific criticisms of the Scenarios

3.5.1 Abellio recognised that a scenario-based approach was probably necessary, but the TfGM Scenarios had two key weaknesses and suggest that a 5th Scenario should be considered. More specifically:

- The weaknesses of the approach adopted were (i) that "*the two-dimensional approach to establishing scenarios may have been un-necessarily simplistic and reductive with the result that other potential scenarios are not covered*" and (ii) that the two variables used to create the four scenarios are both 'demand side' to the exclusion of the 'supply side'. (Abellio Question 1); and
- There should be a '5th scenario', *"state supply-side support"*, in which 100% of services are operated and maintained, despite patronage having fallen to around 60% and may only be likely to return to 70%–80% of pre-pandemic levels in the medium term. In this scenario, consideration would need to be given to the questions, arguably side-stepped in the Covid-19 Impact Report, of how long state support for existing networks should continue; who should make decisions on the shape and reach of the network while the state support continues; and what are the implications of Scenario 5 for the other options (Do Minimum, Partnership or Franchising). Abellio's conclusion is that the present circumstances are closely aligned to the Proposed Franchising Scheme and it should be implemented. Had Scenario 5 (assuming the patronage in the two 'central' scenarios, 1 and 4) backed by additional state support of £3.5m per month compared with the pre-Covid-19 market been compared with partnership or franchising, GMCA would surely wish to lead on the key decisions rather than following the lead of others.

3.5.2 Go North West raise a number of objections to the Scenarios and their construction:

- "*The scenarios themselves do not give sufficient indication of sensitivity of the economic and financial cases to patronage, farebox revenue and service level, and so there is little evidence to confirm that they properly assess the range of risk to GMCA*." (Go North West Question 1)
- There is a discrepancy in respect of the starting point in October 2020: chart 6 shows patronage levels at 60% of pre-pandemic levels; chart 2 in the consultation document shows the starting point at 50%.
- The approach adopted places a high dependency on the starting position, particularly patronage forecasts at 6 and 18 months from October 2020. The fact that the Scenarios, which were developed in May/June 2020, do not take into account the two most recent lockdowns, undermines the conclusions. Thus, the national figures for the week ending 21 November 2020 and that ending 22 January 2021 are both significantly lower than the forecasts for Scenario 1 and slightly lower for Scenario 3, the two scenarios considered the most likely outcomes. Using points in time at 6, 18 and 78 months is likely to produce an overestimate of patronage. Autumn 2021 would seem to be a much more appropriate and reliable baseline date for any assessment.
- The approach involves only a short-term view of the bus market, whereas the pandemic will have longer term impacts that are as yet unknown and not accounted for in the Scenarios. Consequently, any extrapolation of the results over the longer term must come with a high degree of caution as to their usefulness (Go North West Question 1).

- For the two most likely scenarios, patronage by 2026 is shown to be between 10% and 20% lower than the levels in the original Do Minimum assessment. Recovery to the predicted Do Minimum patronage levels is not expected until the late 2020s at the earliest, which is a fundamental change to the subsequent analysis and must impact on the case for change. 2026 seems to be too early to use as the point in time against which to base the affordability assessment presented, and undermines the economic appraisal.

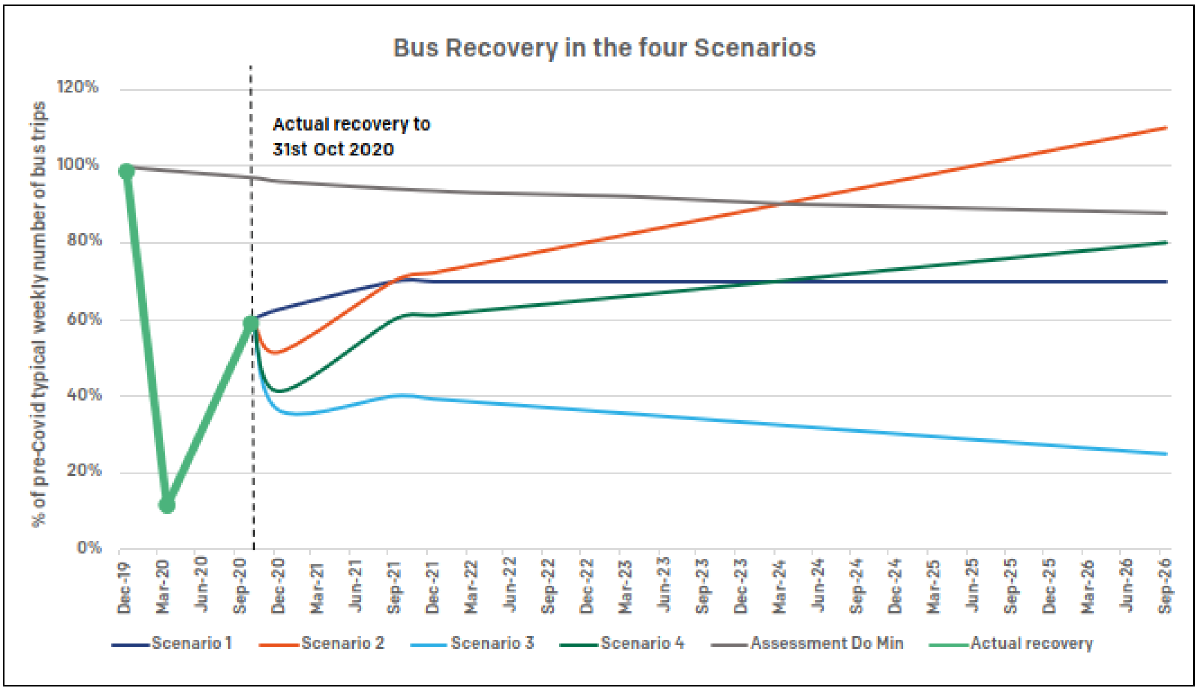
3.5.3 Stagecoach point out that each of the Scenarios (other than Scenario 3) assumes that the bus market will begin to recover in December 2020, which it has not done so; the assumptions for the Scenarios are out of date because of the emergence of new variants and the uncertain progress of the pandemic; it is unclear what further restrictions or relaxations to those restrictions will be put in place this year, and in those circumstances the patronage forecasts under each of the Scenarios cannot be relied on. They likewise contend that the Scenarios take a short-term view of Covid-19, assuming a return to pre-Covid-19 levels of demand beyond 2026, which is unrealistic.

TfGM Response

3.5.4 As set out above, the approach to scenarios was not to look only at two dimensions as Abellio suggest. As the section in the Covid-19 Impact Report (1.4.3 to 1.4.28) sets out, there are a range of different factors considered. The grid created, using two dimensions, shows how different scenarios can be contrasted using two high-level trends – attitudes to travel and the environment and the recovery of the economy. As the descriptions of the Scenarios demonstrate, each of these contains a number of different factors that could impact on demand in the future: the Scenarios were not simplistically created using two factors, but rather a grid of these two factors was used to help place and understand the range of factors considered. It is not the case that this process has led to a narrow range of scenarios or too few scenarios being considered: while an infinite number of scenarios could be created and used, to be of help to decision-makers they need to be few in number and cover the range of potential outcomes. The Covid Impact Report is explicit in stating that the outcome is unlikely to exactly match any one of the Scenarios presented.

3.5.5 Abellio also suggest that a ‘5th’ scenario should be considered – characterised by a dominance of public sector subsidy for operators. This may be a good description of the current situation, but does not invalidate the different potential future scenarios, which include consideration of the continuation of public subsidy. Whilst the Proposed Franchising Scheme is closer in character to the current market than that which obtained pre-Covid-19, this situation is unlikely to continue as it relies fully on Government support.

3.5.6 The discrepancy between Chart 6 in Report (p17) and Chart 2 in Consultation Document (p33) is an error in publication. The correct version is in the Report shows 60% as a starting point. In compiling the consultation documents an erroneous version of the chart was included. The points on the chart showing the progress of the Scenarios remain the same. See the corrected version of this chart below:



3.5.7 In contrast to the claim made by Go North West, the Scenarios do not place a high dependency on their starting position. They are explicitly formulated by reference to a range of factors that are longer term than initial variance in the response to the pandemic. Section 1.4.25 of the Covid-19 Impact Report sets this out, as well as stating that some assumptions will necessarily prove to be incorrect, which is self-evident in any event, given there are four contrasting scenarios.

3.5.8 Go North West also refer to a number of specific, unanticipated developments that have occurred since the Scenarios were developed – such as the national lockdowns – and Stagecoach also refer to recent developments in new variants of Covid-19 and their potential impact on the effectiveness of vaccination. Such developments, even if they were unanticipated, do not invalidate the Scenarios, nor do they suggest a different patronage for the main period for which the Proposed Franchising Scheme and other interventions are appraised. Recent developments (including the timetable for the lifting of the restrictions of the second lockdown) do not, in fact, invalidate the original projections for 18 months into the Covid-19 pandemic, i.e. September of this year, (70%, 80%, 40% and 60% of pre-Covid patronage for the four scenarios respectively). These outcomes are still possible under different circumstances over the next six months or so. Even less would recent events invalidate what any of the Scenarios project beyond this year; depending on the progress of the different drivers of the Scenarios Neither Stagecoach, NERA, or Oxera suggest any different range of longer-term outcomes that should be tested based on these recent developments, or any other consideration.

3.5.9 Go North West state that the Scenarios are too short-term and that 2026 is too early to end the Scenarios. This timeframe was chosen as one over which the effects of the Covid-19 pandemic could be thought to play out, and the key shorter- and longer-term effects of the pandemic would by that point be part of a new status quo. The Covid-19 pandemic will affect long-term trends and attitudes as well as having shorter term effects – but given the level of uncertainty, and the use of a range of scenarios (rather than a central focus approach), it is appropriate to represent its effects as occurring over a discrete period of time.

3.5.10 The trend of a fall in patronage each year of 1.2% assumed in the Economic Case moving forward from 2026 is also conservative in that it represents a continued decline even after the negative shock in three of the four scenarios. Assuming a longer term trend for the effects of COVID-19 (for instance to 2031 as TfL do) is unlikely to lead to a different outcome in terms of the economic analysis – particularly as the effects of COVID-19 will become less marked in the years following 2026. .

3.5.11 In terms of the affordability of the scheme in the years after 2026, the Covid-19 Impact Report also accepted (at section 5.3.37) that, if a downside scenario materialised in the years following transition period (after 2025/6), then it would be reasonable to assume revenue would not revert to pre-Covid levels after the transition period set out in Table 10. In considering the affordability of the Proposed Franchising Scheme and financial risks for GMCA it is relevant to note, as set out at section 5.3.19 of the Covid-19 Impact Report, that it is any impacts on net revenues that are ultimately relevant and that a loss of farebox revenues is not in itself problematic from a purely financial perspective if this were offset by equivalent reductions in network operating costs. These matters are further considered in the Financial Case section of this Report at 7.5.

3.6 The need to await further information

3.6.1 A number of representations were to the effect that no decision should be made until the DfT has provided its guidance on using scenarios, due to be published in February 2021 (but not yet forthcoming as of 12th March 2021), and until the impacts of Covid-19 in the longer-term are known or knowable.

3.6.2 Rotala and Oxera suggest it is irrational for the Scenarios to have been developed before consideration of the guidance which the DfT is developing. GMCA should have waited to ensure that the Scenarios used are in line with the guidance. It would be prudent to wait until the guidance is published, which may support a more robust assessment. The Covid-19 Impact Report suggests that approach adopted will align with this yet unpublished DfT guidance, but, in the absence of any evidence of any discussion with, or information provided by, the DfT, 'the accuracy of GMCA's approach by reference to the DfT guidance' cannot be tested (Rotala response sections 12 and 23; Oxera p8).

3.6.3 Go North West state that a scenario-based approach is only effective and useful if the Scenarios developed are both realistic and sufficiently differentiated. It considers that the scenario planning used is unrealistic, and that it is unclear whether the approach used will be consistent with the guidance expected from the DfT. As the economic analysis is required to be compliant with Transport Appraisal Guidance, it would been better to wait for the new guidance to be published to ensure alignment with it (p5, 11), (Go North West Question 1).

3.6.4 Stagecoach further contend that it does not understand the basis for the statement that TfGM was confident that its approach to the application of scenario analysis will align with the DfT's guidance once published; NERA consider that it will not do so; and that, given its resources and expertise, the DfT is better placed to prepare these scenarios.

TfGM Response

3.6.5 It is not the case that TfGM based the Covid-19 Impact Report on draft DfT guidance that others have not seen. Whilst TfGM was aware of discussions within DfT and with their stakeholders on further work on dealing with uncertainty, TfGM did not have sight of any drafts prior to the publication of the Covid-19 Impact Report, and TfGM engaged with DfT alongside other stakeholders in early discussions, and was ready to take note of aspects of such discussions that would indicate their proposed approach was not the right one. Nothing of this nature was apparent. The Consultation Documents did set out that TfGM was confident of alignment between the scenario approach taken and the forthcoming guidance. The update given by DfT in July 2021 set out that *"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****. Similarly,* ***standard sensitivity testing around appraisal values provides resilience*** *against potential changes in those values as a business case is developed."* (section 2.11; TfGM emphasis).

3.6.6 It is likely that, when the guidance appears, it will represent an evolution of both sensitivity testing and the use of scenarios. The evolution of scenarios could well explore structural trends of national importance, as set out by DfT in Jul 2020 in their 'route map', where they stated their intention to create scenarios looking at specific national trends, with forecasts being developed after February 2021. If so, TfGM consider that while such scenarios would be helpful, they are not likely to be as appropriate for the consideration of the impact of Covid-19 on the robustness of the conclusions in the Assessment regarding the VfM of the Proposed Scheme. Any new DfT scenarios are still likely to pivot round a central national projection, and so would not create the diverse range of plausible futures that Scenario Planning requires. They are expected to be more akin to sensitivity tests of particular drivers of uncertainty (such as technology changes, e.g. high electric vehicle take-up, or behavioural factors, e.g. changing trip rates), rather than narratives that explore the interaction of these drivers into coherent and plausible scenarios. It is the latter form of Scenario Analysis that TfGM has determined is most applicable for assessing the potential impacts of the uncertainty introduced by Covid-19 on the conclusions within the Assessment in a way that is relevant, informative and transparent to local decision-makers. TfGM acknowledge that such an approach does not align with current guidance, nor may it align with the Uncertainty Toolkit as and when it is published. However, it was felt that neither the existing guidance nor the planned Uncertainty Toolkit, for the reasons set out above, were likely to offer an appropriate approach for the consideration of Covid-19 impacts, and so an appropriate local methodology was devised.

3.6.7 The question of whether TfGM should wait for this potential guidance to be published until further information becomes available is addressed in the section 17.2.31 on 'Considerations on taking the decision on the Proposed Franchising Scheme now'.

3.6.8 Whether or not DfT are better placed to prepare scenarios, it is not clear that they intend themselves, as NERA suggest, to develop projections of bus demand in Greater Manchester, and they have not indicated that they would do so.

3.7 Describing Scenario 3 as an 'outlier'

3.7.1 Rotala and Oxera contend that certain scenarios cannot be described as *"outliers"*, as the probabilities associated with each have been omitted, and there is no evidence that a sound statistical framework has been developed to determine the probability that must have been attached to each. They contend that the term 'outlier' should be reserved in a statistical sense for data within a 'stochastic process' that would 'have to be stationary'. Although including a highly optimistic and highly pessimistic scenario is consistent with the guidance, the Toolkit notes that equal attention should be given to each scenario to avoid bias. Calling two of the Scenarios outliers suggests that equal attention has not been given to these two, relative to the others. They also contend that there is no basis, in any event, on which to dismiss certain unfavourable scenarios, most notably Scenario 3. The recovery between the summer and November 2020 is not sufficient to discount the likelihood of Scenario 3 or other downside scenarios that could undermine the case for franchising, given the obvious uncertainties associated with Covid-19 (Rotala response sections 15-17; Oxera Executive Summary sections 2.2.3 and 2.3). Rotala argue (at section 16) that any decision-making process which takes Scenario 3 effectively out of account as being an outlier would be 'irrational' and/or would fail to take material considerations into account.

3.7.2 Stagecoach suggest there is no solid justification for describing one of the Scenarios (Scenario 3) as an outlier. TfGM's description of that scenario actually seems to accord with reality today. (SC Business Response 1.9). NERA question how Scenario 3 can be described as unlikely, given what has happened to bus patronage since the report was written (NERA Section 4.1). In an Appendix, NERA selectively underline some aspects of the text written in June 2020 describing Scenario 3 and suggest that these are characteristic of the current situation.

3.7.3 Go North West state that it is unclear why two of the Scenarios proposed (Scenarios 2 and 3 – where patronage increases and suffers its greatest decline), which are considered unlikely, are used in the Assessment.

3.7.4 OneBus state that all the Scenarios are 'off track' and that Scenario 3 (which sees a drastic reduction in patronage) is most likely to occur.

3.7.5 The Community Transport Association concurred with this view, stating that Scenario 3 is the most likely and therefore work should be undertaken to avoid such an outcome.

Response to the points made on Scenario 3 as an outlier

3.7.6 In response to the points made on Scenario 3 being described as an outlier:

- The Covid-19 Impact Report does not discount Scenario 3, but rather points to the need to consider all 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*." (Covid-19 Impact Report 1.4.29).

- The statement that Scenarios 2 and 3 should be described as ‘outliers’ is made in a section that considers the likelihood of some of the factors described in the Scenarios. Neither Rotala nor Oxera challenge the specific reasons set out for Scenario 3 to be considered unlikely. Oxera argue that the term should be reserved in a strict statistical sense for data within a ‘stationary stochastic process’, and it is true that the term is often used for data points within a dataset that lie outside a certain range. The scenarios are clearly not data points, however, and the term was used in the Covid-19 Impact Report to indicate they should be considered less likely. The discussion of the likelihood of different scenarios is intended to help decision-makers understand better the circumstances that might occur in the future, and thus allow for better decision-making, rather than indicating a biased or irrational process.
- One Bus and the Community Transport Association both assert that scenario 3 is the most, rather than least, likely to occur. Scenario 3 should still be considered an outlier notwithstanding recent developments (including the renewed lockdown of January 6th) that some respondents suggested may make it more likely. The reasons for thinking that scenario 3 is less likely remain valid. The economy has shown the ability to bounce back following each lockdown (the last OBR forecast has an expectation that GDP is expected to grow by 4 per cent in 2021 and to regain its pre-pandemic level in the second quarter of 2022, six months earlier than forecast in November). The Covid-19 Impact Report sets out that scenario 3 includes the removal of support for the bus service before restrictions are lifted, and other long-term factors that reduce patronage even from the levels seen during the initial lockdown when patronage was at its lowest. There is no evidence this will happen. The bus market similarly has been shown to be to some extent resilient. While bus patronage is currently low, even in the midst of lockdown it is 35% of pre-COVID levels and is likely to rise once further restrictions are lifted. Crucially the Government has not withdrawn support for the market and it is public knowledge that DfT are considering how to structure future support for the bus industry. The phrase ‘recovery partnerships’ has been used by some operators to describe arrangements around such support (some operators have argued that GMCA should delay any decision until these arrangements are in place – these points are discussed at section 17.2 ‘Considerations on taking the decision on the Proposed Franchising Scheme now’. NERA’s suggestion that the low levels Scenario 3 envisages should not be seen as unlikely is misplaced. Likewise, linking (a limited selection of) aspects of scenario 3 with the current situation, (i.e. prior to the period to which the patronage forecasts refer), as NERA do in the appendix to their report, in no way means that this is likely to remain the case for the next few years.
- In response to Go North West’s argument that the Scenarios do not give an indication of the sensitivity of the economic and financial cases to them, this analysis is clearly set out in the Economic and Financial cases in the Covid-19 Impact Report.
- The scenarios considered less likely are included because it is good practice to include a range of outcomes that are possible even if they are less likely. In particular, this gives decision- makers a wider view of potential outcomes that they should be aware of.

3.8 Conclusion

3.8.1 The Oxera report, commissioned by Rotala noted that forecasting should not be based on a central estimate approach, and that, to take account of the long-term effects of the pandemic, a scenario-based approach is appropriate. They and a number of other operators criticised how TfGM approached the construction and use of scenarios. However, they attracted support from a very wide group of stakeholders. Key points in conclusion are

- In contrast to the suggestion that the Scenarios were not developed in a transparent way and were biased, the methodology used was set out clearly in the Covid-19 Impact Report. The outputs of the process (and thus the assumptions made about patronage in each scenario) were checked for coherence and consistency. Recent developments (either positive or negative) do not affect the validity of the Scenarios as they are dependent on longer-term factors. There has been no suggestion that there is a wider specific range of possibilities should have been considered. The wide range of potential scenarios TfGM set out remain appropriate for the purpose for which they were devised and means that decision makers can be confident there are not plausible outcomes that have not been considered.
- Whilst operators have pointed to one piece of guidance – the GAD guidance that suggests scenarios should be developed through quantifying inputs and modelling outputs in each scenario, and quantifying the uncertainty associated with each – , this does not mean this is the only reasonable, or necessarily the best, way to approach scenarios in circumstances of uncertainty. Exercising judgment over a range of complex inputs and relationships is no more robust or transparent thatn doing so on an appropriate range of outputs – in this case bus patronage figures.
- TfGM have not followed a markedly different approach to that taken by other organisations such as TfN or TfL, even though they have quantified inputs. The existence of other approaches doesn't mean in any event that TfGM's approach is the wrong one or lacks the robustness necessary to test the options for bus reform. TfGM's most pessimistic downside scenario is far more pessimistic than that of TFL or TfN, or any of those used by operators in informing their shareholders of expected performance.
- It is legitimate to regard Scenario 3 as less likely or an 'outlier'. The use of such language did not imply that it was being used in a strict statistical sense. The reasoning laid out in the Covid-19 Impact Report on why it is less likely than others remains sound, and recent developments do not invalidate it. Stagecoach themselves, in their interim results published in December 2020, for example, cite 'severe' and 'plausible' downside scenarios that have commercial revenue at 75% and 85% of pre-Covid-19 levels in the year ending 30 April 2022, which would indicate patronage considerably higher than TfGM's Scenario 3.

3.8.2 The most important consideration in looking at the Scenarios is whether they are sufficiently broad to encompass the right range of potential outcomes, to enable reasonable testing of the sensitivity of the conclusions in the Assessment to the uncertainty associated with Covid-19. Whilst NERA say they are not able to say whether the range is appropriate, it is notable that none of the operators have actually suggested a different, wider range of potential outcomes should be tested. The alternatives cited as better practice, TfL and TFN, have narrower ranges of outcomes for public transport. It is considered that TfGM's scenarios provide a good basis for considering the sensitivity of the conclusions in the Assessment to the uncertainty associated with Covid-19.

4. Strategic Case

4.1 Introduction

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

4.1.2 This Section also addresses issues raised by respondents to the second consultation following the Covid-19 pandemic and the Covid-19 Impact Report that was published alongside it.

4.1.3 It should also be noted that, during the first consultation, TfGM received further partnership proposals from bus operators. They have been considered by TfGM, and the conclusions are set out in separate sections of this response (see Section 10, Section 11, Section 12 and Section 14 of this response). The implications of that consideration are set out here as part of the discussion on the treatment of partnerships within the Strategic Case. Some responses to the second consultation discussed using partnership as part of the recovery from Covid-19 – these responses are considered in the section that looks at whether now is the right time to make a decision on the Proposed Franchising Scheme.

4.1.4 In the first consultation, consultees were asked to consider the following specific questions in relation to the Strategic Case:

Question 12: The Strategic Case sets out the challenges facing the local bus market and says that it is not performing as well as it could. Do you have any comments on this?

Question 13a: The Strategic Case says that reforming the bus market is the right thing to do to address the challenges facing the local bus market. To what extent do you agree or disagree with this?

Question 13b: Why do you say this?

Question 14: Do you have any comments on GMCA's objectives for the future provision of bus services as set out in the Strategic Case?

Question 15: Do you have any comments on how the Proposed Franchising Scheme might contribute to GMCA's objectives for bus services as set out in the Strategic Case?

Question 16: Do you have any comments on how a partnership option might contribute to GMCA's objectives for bus services as set out in the Strategic Case?

4.1.5 The following discussion of Strategic Case issues also looks at relevant issues raised in answers to other questions and in separate submissions and letters – such as that of

Stagecoach – which is not organised by consultation question. In particular, answers to Questions 26 and 35 contained relevant material from respondents.

4.1.6 In the second consultation, consultees were asked the following specific question:

Question 2: Do you have any comments on the conclusion that the Proposed Franchising Scheme is likely to perform better than the partnership option in achieving GMCA's objectives, notwithstanding Covid-19?

4.1.7 The discussion of Covid-19 issues looks at responses to this question and other relevant material raised in answers to other questions and separate submissions and letters.

4.1.8 The discussion of the Strategic Case issues also picks up the issues set out in the *Ipsos MORI Doing Buses Differently: Consultation on a Proposed Franchising Scheme for Greater Manchester* report on the first consultation (which is referred to throughout this section as *"Ipsos MORI's June 2020 Consultation Report"*). The report concluded that most participants agreed with the challenges facing the local bus market as set out in the Strategic Case, that reform was needed, and that such reform would be the right thing to do to address such challenges. Of the 6,032 participants who completed the tick-box question (Question 13a), 87% agreed that the Strategic Case for reform was the right thing to do. Furthermore, 74% agreed strongly with reform, just 4% disagreed strongly. According to Ipsos MORI analysis, most but not all, of the 39 statutory consultees who provided comments about the Strategic Case for change were in agreement that there was a case for change and that reform would be necessary in the future. Whilst bus operators currently not present in the Greater Manchester market tended to welcome the Proposed Franchising Scheme, Ipsos MORI note that some of the incumbent bus operators did not think that the Proposed Franchising Scheme is the right approach at all, preferring a partnership option instead. For organisations who advocated a partnership approach, they believed that this could have more benefits over the Proposed Franchising Scheme and that in their opinion, GMCA's objectives could be achieved in less time, for less cost and less risk by a partnership scheme.

4.1.9 The discussion also picks up issues set out in the Ipsos MORI's March 2020 Consultation Report on the second consultation.

Statutory Consultees – Bus Operators and Transport Stakeholders

4.1.10 Ipsos MORI's June 2020 Consultation Report noted a number of points on the bus operators' responses. Ipsos MORI noted that non-incumbent operators tended to support the Proposed Franchising Scheme and thought there would be advantages to introducing it. An operator not in the commercial market in Greater Manchester, HCT Group, cited declining passenger numbers, route cuts and increasing fares as justification for change. Incumbent operators tended to oppose the Proposed Franchising Scheme, and the main source of opposition came from the operators currently active in Greater Manchester. Opposition also came from organisations associated with operators, such as OneBus, that represent commercial operators in Greater Manchester. An incumbent operator, Rotala, cited pollution and congestion as key issues to be tackled. Some respondents, such as Stagecoach, were not in agreement with GMCA's analysis of sub-optimal performance of bus services in Greater Manchester and did not agree with re-regulation.

4.1.11 Other points are important to note from the Ipsos MORI's June 2020 Report on the first consultation. Incumbent operators face a change in the market where they would need to compete to run services in Greater Manchester and potentially operate at a lower margin than they would wish to. They have marshalled a number of arguments to oppose the Proposed Franchising Scheme. Incumbent operators linked their challenge of the analysis of the causes of decline to the potential for the Proposed Franchising Schemes to meet GMCA's objectives. They have, in general, argued that the challenges to the bus market from internal causes (such as complexity of fares or network issues) are far less significant than challenges from outside – the most significant being congestion, which slows buses down (although this also affects one key alternative mode, private cars). Thus, a push to change how the market works which franchising represents would be misplaced. They go on to argue that the best solution would be for GMCA to pursue a partnership and spend further funds on bus priority measures, combining the benefits from these two measures.

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

4.1.13 Ipsos MORI's March 2020 Consultation Report notes that some operators maintained opposition to the Proposed Franchising Scheme and also argued that it was the wrong time to take a decision. The bus operators representative group for Greater Manchester, OneBus, also expressed opposition, the details of which will be considered below and at section 3 Use of Scenarios. Abellio, an operator from outside Greater Manchester reiterated their support for the Proposed Franchising Scheme (e.g. answers to Question 2, 6, and 7). Warrington's Own Buses indicated support and noted that the Proposed Franchising Scheme should be implemented as soon as possible (Question 2).

Statutory Consultees – Local Authorities

4.1.14 Ipsos MORI's June 2020 Consultation Report noted that local authorities were in agreement with the challenges put forward in the Strategic Case and the proposed reforms, in particular citing poor service levels, declining patronage, congestion and pollution as reasons for change. Increased affordability of fares and provision of services based on social needs were also reasons cited by local authorities as justification for change. Local authorities raised some additional reasons, such as the changes in the location of public services, which were not considered in the Strategic Case. Whilst most local authorities were in agreement that the Proposed Franchising Scheme was the best way to combat these challenges, some councils raised concerns around the impact of change on cross-boundary services, and also the potential cost associated with the introduction of the Proposed Franchising Scheme.

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

4.1.16 Ipsos MORI's March 2020 Consultation Report noted that many local authorities reiterated their support for the Proposed Franchising Scheme in their responses to the second consultation. For instance, Manchester City Council reiterates its support, along with other authorities within Greater Manchester and outside it. For example, Blackburn with Darwen (outside Greater Manchester) say that *"The Council is supportive of GMCA's proposal to* *introduce a Franchising Scheme for the Greater Manchester area, in order for GMCA to achieve its strategic objectives in terms of supporting sustainable economic growth, improving quality of life for all, protecting the environment and developing an innovative City Region."* (Question 2)

Other Statutory Consultees

4.1.17 Ipsos MORI's June 2020 Consultation Report noted that most other statutory consultees supported the Proposed Franchising Scheme. TravelWatch NorthWest cited cheaper fares and better ticketing as supporting reasons for change, but noted that the full extent of benefits would not be achieved without additional investment in improvements to infrastructure. This is in line with TfGM's acknowledgement that 'Phase 2' measures will be required to deliver the full benefit of change. Unite stated that increased accountability was a key benefit that re-regulation can deliver, which would enable increased control.

4.1.18 It should be noted that, in their response, the Competition and Markets Authority *(CMA),* reiterated their previous views on the bus market in the UK and their preference for 'on-road' competition (as the current deregulated market) over the 'off-road' competition. They also noted the difficulty of reversing the decision to put a franchising scheme in place, and therefore urged that any authority considering such a move be clear on the benefits to passengers that would result.

4.1.19 Ipsos MORI's March 2020 Consultation Report noted that, in responding to the second consultation, a number of stakeholders repeated their support, such as Unison, MPS (Afzal Khan, Debbie Abrahams, and Councillors from different parts of Greater Manchester. Groups representing passengers such as Travelwatch NW and the Association of British Commuters also expressed support for the Proposed Franchising Scheme. HHS Trust in Greater Manchester (Manchester University NHS Trust; Northern Care Alliance NHS Trust; Christie NHS Trust) also expressed their support, citing their concerns about the network and how it should support patients and staff.

Academic Institutions and Action Groups

4.1.20 Ipsos MORI's June 2020 Consultation Report noted that responses put forward by academic institutions and action groups included support for the Proposed Franchising Scheme, as it would create greater and easier mobility for students, reduced/cheaper fares, improvements in disabled access, a better ticketing system, and integration of the bus network into the wider Greater Manchester transport network. They also stated that the Proposed Franchising Scheme would be likely to reduce car journeys across Greater Manchester, and as such there would be environmental benefits with reduced pollution.

4.1.21 Some groups were very supportive of the Proposed Franchising Scheme, and cited reports from independent organisations that were favourable to franchising and its ability to improve bus services in UK cities.

4.1.22 Ipsos MORI's March 2020 Consultation Report noted that a number of groups and institutions supported the implementation of the Proposed Franchising Scheme, such as the Trafford Centre, Oxford Road Corridor, Steady State Manchester, Broadheath Community Association, GM Older people's Network, Bruntwood, and Recovery Republic CIC. Manchester Metropolitan University set out their support for the scheme. The Centre of Cities repeated their support, stating *"Franchising is the clearest route to delivering a higher quality bus service at greatest value for the public purse. Duplication can be stripped out of the network, underserved areas subsidised, integration with other modes improved,* *fares simplified and massive investment in electric vehicles accelerated in ways that the best partnerships cannot."* (Question 2).

4.1.23 Groups associated with operators – the Confederation of Passenger Transport, the Chartered Institute of Logistics and Transport, continued to oppose the scheme.

Members of the public

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

4.1.25 Ipsos MORI's March 2021 Consultation Report on the impact of Covid-19 on the Proposed Bus Franchising Scheme for Greater Manchester showed there was strong support from members of the public for the Proposed Franchising Scheme. Through the consultation, there were over three times as many positive as negative comments from members of the public in response to the conclusion of the Strategic Case (that it is likely to perform better than the partnership option in achieving GMCA's objectives, notwithstanding Covid-19).

4.1.26 Most of the positive comments in response to the conclusion of the Strategic Case agreed that the Proposed Franchising Scheme is the preferred option and should go ahead, because it will help to deliver the objectives. Other responses suggested there was impatience amongst participants that bus reform was long overdue and that the Proposed Franchising Scheme should be implemented sooner rather than later, and that they did not want to see any further delays. There was broad agreement expressed in the positive comments that the current system is not working, and that reform is necessary, bringing with a range of benefits to Greater Manchester.

4.1.27 A large proportion of the negative comments from members of the public concluded that the Proposed Franchising Scheme is flawed (but did not go on to explain why), will not help to deliver against GMCA's objectives and should therefore not go ahead. Concern was raised about the potential increase in council tax and the increased burden this would place on taxpayers, whilst questions were also posed about the greater financial risk for TfGM and GMCA.

4.1.28 Participants thought that the benefits were exaggerated and not worth the upfront cost to implement the Proposed Franchising Scheme, whilst other participants did not think passengers and the public would reap any benefit from the reform.

4.1.29 Through the qualitative discussions, there were several reasons, cited from a number of participants, as to why the Proposed Franchising Scheme better meets GMCA's objectives, including control, integration and improving services.

4.1.30 Through the qualitative discussions, there were also a small number of negative comments made in relation to the performance of the Proposed Franchising Scheme in meeting GMCA's objectives, including affordability, and whether this could be delivered due to Covid-19.

Section structure

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

- General Market Update: setting out the latest information on the bus market in terms of patronage and the mileage run by operators (i.e. how the size of the market has changed);
- Causes of decline: looking at the account of the challenges facing the bus network in Greater Manchester, and the potential for congestion and other issues to have been underestimated in the Assessment;
- Competition and the shift from 'on-road' to 'off-road' competition, including the views of the CMA on this issue;
- The franchising proposition on network: considering and addressing challenges to the proposals around network change under the Proposed Franchising Scheme;
- The franchising proposal on customer service: addressing challenges on the value and nature of unified branding, accountability and point-of-contact under franchising;
- The franchising proposition on fares: considering and addressing challenges on fare levels and changes, and whether the proposed simplification is a good idea;
- The effect of the Proposed Franchising Scheme on cross-boundary services, and the approach to ensuring that services that are high-quality cross-boundary services where they serve a passenger need;
- The value of partnership proposals: considering and addressing challenges to how the Assessment appraised partnerships and the new partnership proposals that were presented in response to, or subsequent to, the consultation process; and
- 'Phase 2' and infrastructure spending: among other issues, considering and addressing the challenge on 'Phase 2' that the money required for the transitional spending for the Proposed Franchising Scheme could be better spent on relieving congestion and other schemes.

4.2 General Market Update

Patronage

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

Table 1: Total Passenger Journeys on Public Transport Services in Greater Manchester (Millions of Journeys)

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

4.2.2 It is clear from these figures that the decline in bus patronage continued into 2018-19. During 2019, there will have been some positive impact from the new concession for young people – the 'Our' Pass offering free travel to 16–18-year-olds. It is as yet too early in that pilot scheme to know by how much this will have increased patronage, and the effects of this will be hard to discern in 2020 because of Covid-19.

Mileage

4.2.3 Table 2 below shows estimated mileage since 2015.

Table 2: Annual mileage ('000s registered miles)
Source: TfGM Network Database

Calendar Year	Wholly commercial	Subsidised & partially subsidised	Overall
2015	52,114	11,857	63,971
2016	50,796	11,427	62,224
2017	49,295	11,115	60,411
2018	48,788	10,938	59,726
2019	46,244	10,701	56,945
2020	39,179	8,720	47,899

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

Market share and competition

4.2.5 Table 3 below sets out the level of market concentration in five-yearly intervals and the data from 2019.

Table 3: the level of market concentration in five-yearly intervals and the data from 2019

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

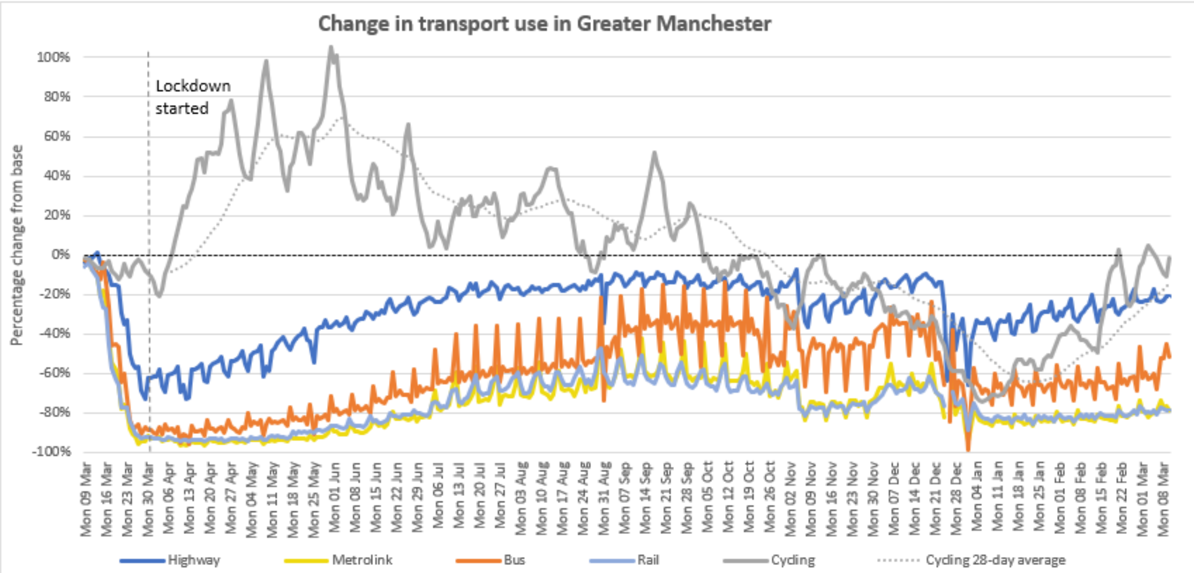
4.2.6 First's sale of its Queens Road and Bolton depots to Go Ahead and Rotala respectively has changed the market in the northern part of Greater Manchester. The contrast between 2018 and 2019 includes the effect of the sales. As the tables show, the top two operators in Greater Manchester went from running 84.2% of the commercial mileage to running only 62.8%. This means that there is a lower level of market concentration in the North of Greater Manchester than has been the case, and hence greater potential for competition.

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

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

4.2.9 The figures set out above represent the bus market in Greater Manchester prior to the Covid-19 pandemic. The Covid-19 Impact Report set out what has happened to different modes of transport in Greater Manchester to November 2020. This showed the effects of Covid-19 and the first lockdown, and showed a recovery into Autumn 2020. Chart 3 below shows the continued recovery of the different modes of transport in Greater Manchester up to February 2021.

Chart 3: Change in transport use in Greater Manchester, March 2020-March 2021



4.2.10 Since the Covid-19 Impact Report was published in November 2020, there have been further restrictions imposed across the UK and a national lockdown imposed on 6 January. These interventions have resulted in a decline in bus patronage since November 2020, when recovery was at c.60% of pre-Covid-19 levels, with bus patronage recovery compared to pre-Covid-19 levels falling to c.35% in February 2021. The network being run is smaller than the network before the Covid-19 pandemic and is extensively supported by the continuation of the CBSSG (including CBSSG Restart (CBSSG-R) and any future Government funding allocation(s) that may replace CBSSG)) public funding.

4.2.11 According to the announcement by the UK Government on 22 February 2021, the national lockdown will be lifted in stages, with the first relaxation of restrictions occurring on 8 March 2021, where all pupils will return to schools, and rules on socialising in a public space will be relaxed so that two individuals from different households can meet outside

4.2.12 On 29 March 2021, outdoor gatherings will be permitted for up to six people from different households, or any number of people from two different households. Outdoor sports facilities will also reopen, meaning there will be a significant increase in leisure activities from this date. Further easing of restrictions will occur throughout April and May, until eventually all social contact restrictions will be removed by 21 June, providing the levels of Covid-19 infections remain low.

4.2.13 TfGM expect bus patronage to recover back to at least 60% of pre Covid-19 levels throughout March and April, as it did when the previous restrictions were lifted in the summer of 2020. Recovery could then exceed 60% throughout late April and May 2021, as social contact restrictions are eased to a greater extent than in summer 2020, and even further recover in June 2021, when all social restrictions are planned to be lifted.

4.2.14 As can be seen from Chart 3 above, the various other modes of transport across Greater Manchester followed a similar trend to bus patronage, with recovery compared to pre-Covid-19 levels reducing since November 2020 due to the various restrictions and national lockdown imposed since the Covid-19 Impact Report was published. Again, TfGM would expect to see each mode recover back to summer 2020 levels, once the national lockdown begins to ease from March 2021 onwards. Cycling has significantly reduced. This is predominantly due, however, to the weather throughout winter and cycling is expected to return to the levels seen in 2020 as both the weather increases and social restrictions are eased throughout spring 2021.

4.3 Theme 1: Causes of Decline and the challenges facing the bus market in Greater Manchester

4.3.1 A number of incumbent operators who responded to the first consultation challenged the account, in the Assessment, of the causes of decline of the bus services. They argued that the discussion of the challenges facing the bus services (at section 2.1.10 to 2.1.16 of the Assessment) placed too much emphasis on issues with the bus services themselves (lack of co-ordination in the network, fares and ticketing issues, etc.), and too little weight on the other factors that influence demand, such as congestion. This supported statements later in their responses either that franchising was unnecessary, or that priority should be given to other direct measures to address issues such as congestion. Rotala, in their response to Question 12, describe franchising as a *"knee-jerk"* response to falling patronage.

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

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

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

Congestion

4.3.5 Operators have not challenged TfGM's points on congestion in the Strategic Case of the Assessment, but have argued, in their responses to the first consultation, that congestion should have more prominence compared with other issues.

4.3.6 Several incumbent bus companies and organisations representing the interests of bus users (OneBus and Bus Users UK) argued, in their responses to the first consultation, that the Assessment underplays the effects of congestion. For instance, in their answer to Question 12, First argue that *"the biggest single challenge facing local bus operation is the adverse effects of congestion, in terms of decreased service punctuality, greater variation in operating conditions and increased journey times".* They point to the increased journey times and the additional costs that congestion imposes on operators, and hence fare increases for passengers. Stagecoach cite Professor David Begg's report at section 4.5 of their response concerning the impact of congestion on bus services, which *"identifies that for every 1% reduction in average bus speed, the cost to bus operators of providing those* *services increases by 1%. The average speed of Stagecoach's South Manchester services has worsened from 10.17 mph in 2007/8 to 9.21 mph in 2018/19 – a 9% reduction".*

4.3.7 Several incumbent operators, including Stagecoach at section 4.6 of their response to the first consultation, suggest that congestion could as easily be addressed through partnership, and that it would, therefore, be wrong to proceed with the Proposed Franchising Scheme. OneBus, in their response to Question 16, suggest that partnership would be a quicker way of achieving GMCA's objectives. Operators also point to the transition spending on the Proposed Franchising Scheme, and argue this could be better spent elsewhere. This point is discussed below at section 4.12. Rotala felt it would be better to focus on congestion and pollution, rather than franchising. The report also refers to The Chartered Institute of Logistics and Transport's response to the first consultation, noting that they have seen no evidence that franchising would improve reliability and punctuality.

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

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

4.3.10 The effects of congestion are also clearly set out in the analysis presented in the Economic Case in the Assessment. In particular, the effects of congestion on the costs of running the bus service are taken into account. It is true that the Reference Case waterfall plot reported in the Economic Case (Chart 14) of the Assessment, showing the modelled factors that influence patronage, suggests at first glance that congestion has a minimal impact on bus patronage in the forecasting carried out. This is because that impact is only representing the immediate impact of increasing journey times for passengers, which are relatively small, and are offset by a positive impact on bus patronage caused by increasing car journey times.

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

4.3.12 This means that the overall effects of congestion in the model are significant, as the cost changes drive changes to fares and network which themselves have effects on patronage. Thus, TfGM is satisfied that, both in the Assessment of the bus market and in terms of forecast, the effects of congestion were not underplayed. This point is also considered in relation to comments made on the Economic Case, which explains in more detail the total impact of congestion in the forecasts (in section 5.3.2– 5.3.6 of this response) Whilst the consultees have raised congestion as an issue, consultees have not introduced any evidence or information concerning congestion that would justify changing TfGM's analysis of its effects in the Assessment materially.

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

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

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

Metrolink and tendered services

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

4.3.17 In the first consultation, a number of operators argued that the effect of Metrolink on bus patronage means that there is not a case to reform the bus market. Go North West stated this as a cause of decline in their answer to Question 12 of the first consultation, though they give no further detail.

4.3.18 Stagecoach, pointing to the new lines that have opened since 2007-08, contended that the abstraction from bus to tram accounts for the majority (two –thirds) of the decline in bus usage in that period and that, when adjusted for this correctly, the actual decline in bus usage is at its lowest level since the 1950s. First, in their answer to Question 12, they noted the information presented in the Assessment on the effect of Metrolink. They applied the 65% figure from the Assessment to the reported decline of 29.7 million journeys between 2010-11 and 2017-18 to arrive at a figure of 10.4 million journeys not attributable to

Metrolink. They concluded that, if the effect of Metrolink is removed, patronage fell by 4.6% between 2010-2011 and 2017-18, rather than 13.3% (29.7 million).

4.3.19 Some operators also attributed the decline in bus patronage to the decline in financial support for TfGM tendered services. These are put on where operators do not run (or more usually) have withdrawn a service or part of a service (e.g. evenings and weekends). Belle Vue, in their answer to Question 12, suggested this is part of the reason for the decline in bus patronage. Rotala contended that most of the decline in bus patronage is due to a combination of Metrolink and also reduction in support for TfGM tendered services. They argued that of the 4.6% decline (calculated above), 3.5% was accounted for by the reduction in the supported service budget. It considers, therefore, that the reduction in bus patronage is considerably less material than was assessed and *"entirely contradicts the assumption in the Strategic Case that bus patronage is on a downward spiral in the Greater Manchester Area".*

4.3.20 First also challenged how Metrolink has been taken into account in the forecasts: saying that it looks like recent trends in abstraction to Metrolink have been extrapolated forward, and that the forecast should be different (though they do not state how these should be different.) Arriva, in response to Question 12, stated that the development and expansion of the tram network, if not done in a coordinated manner, risks abstraction from bus services.

The effects of Metrolink

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

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

4.3.23 Since the Assessment was published, more recent patronage data for 2018-19 has become available (2019/20 data might be affected by Covid-19). Applying the same method for estimating patronage abstraction by Metrolink as was used in the Assessment to the 29.7 million fall in annual bus patronage over the seven-year period between 2011-12 and 2018-19, using Metrolink data for the period 2011 to 2018, the estimate of abstracted patronage becomes 38%. (Note that the 5.2 million fall in bus patronage between 2017-18 and 2018-19 was significantly higher than the 2.5 million increase in Metrolink patronage).

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

Metrolink to attract passengers from cars. It would not be unreasonable to assume that, considering the period as a whole, , abstraction would be in the range of 33% to 38%.

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

4.3.26 One other effect of the increase in Metrolink patronage, not included in the Assessment, is a potential positive effect on patronage in bus transport from the historic increase in Metrolink patronage. This will be stimulated by integrated public transport, as people use bus as a feeder mode to Metrolink or to continue journeys. A high proportion of Metrolink passengers might be those that otherwise would not be using public transport, or enabled by Metrolink to live a car-free or reduced-car-use lifestyle (as set out in the Assessment at section 5.4). A survey undertaken in October and November 2018 showed that 6.3% used bus to get to a Metrolink stop and 4.2% for an onward journey after using Metrolink. This shows that Metrolink does not preclude bus use but can also encourage it.

4.3.27 In contrast to statements by operators including Stagecoach, the Assessment did not underplay the effects of Metrolink in contributing to bus patronage decline, but rather overestimated those effects to the disadvantage of the Strategic Case supporting the Proposed Franchising Scheme. The effect on patronage between 2011 and 2018 is likely to be very much lower than set out in the Assessment. During the Covid-19 pandemic, bus patronage has held up better than rail nationally, and this is true of Greater Manchester; it is very unlikely there has been any further extraction of revenue at this time. Whilst this still means that the expansion of Metrolink has had a long-term effect on bus patronage, it does not mean that other factors are not important or that the bus service is not capable of improvement. In the Assessment, bus operators and other consultees did not provide any relevant evidence demonstrating that the material considerations in the Assessment had, in fact, been underplayed. Given the availability of improved data concerning bus and tram patronage, and no contradictory new evidence or analysis, TfGM now considers the Strategic Case supporting the Proposed Franchising Scheme is stronger in this particular respect than originally anticipated. The forecasts deal with the effects of Metrolink appropriately. The fact that the expansion of Metrolink reduced bus patronage does not mean that there are not issues with the bus service which should be addressed through reform.

Reductions in supported services

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

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

4.3.30 Mileage reductions will reduce patronage and reductions in funding for supported services have reduced overall patronage. This has been a factor in reduction in bus patronage in the

UK generally. However, commercial mileage had reduced more than subsidised mileage in the years preceding the Covid-19 pandemic, and because subsidised services are run in places or at times where operators do not think economic services are possible, they have significantly fewer passengers. In percentage terms, commercial and subsidised miles have reduced by similar amounts: since 2015, wholly commercial mileage reduced by 11.3% and subsidised and partially subsidised by 9.3%; in absolute terms the number is higher for commercial mileage approximately 5.9 million miles lost as opposed to 1.2 million.

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

The combined effects of Metrolink and reduced subsidised services

4.3.32 It would not be right, therefore, to attribute the decline in bus patronage pre-Covid-19 almost entirely to the expansion of Metrolink and reduction in the mileage of subsidised services.

Forecast effects of Metrolink

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

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

Other factors causing decline

4.3.35 Some respondents to the first consultation give other reasons for the decline in bus use. Some of these – for instance Tameside Metropolitan Borough Council – support the analysis presented in the Assessment but suggest other reasons why fewer trips might be taken, for instance, the decline in town centres in Greater Manchester, or an increase in low density housing. Rotala point to the lack of indexation of the Bus Service Operators Grant (BSOG) in addition to other factors in their answer to Question 12.

4.3.36 The Assessment points to a number of other reasons, for instance, the decline of town centres at section 5.2.8. The lack of indexation of the BSOG is taken into account in the financial forecasts for all scenarios in the Assessment, and this in the forecasts set out in the Strategic Case of the Assessment at section 5.5.

4.3.37 OneBus, in their answer to Question 12, set out a whole category of what they term *"authority failures"* where TfGM is said to be at fault and the cause of the decline in bus patronage. Factors they cite include inadequate information at bus stops, a lack of raised kerbs at bus stops, the closure of certain roads to bus traffic by local highways authorities (not TfGM), and perceived *"negativity"* about buses. TfGM is satisfied that none of these factors are likely to have been significant factors in the decline. It is false to claim that TfGM has been spreading negativity about buses as a mode of transport. It has instead highlighted their importance in its published policies such as the Greater Manchester Transport Strategy 2040 and its associated Delivery Plan. In any event, the factors identified do not weigh against the Strategic Case supporting the Proposed Franchising Scheme. As set out in the Assessment, 'Phase 2' measures could include improvements to on-street infrastructure (such as raised kerbs or information at bus stops) and could also include work to improve the reputation of the bus service.

4.3.38 TfGM is confident that all significant causes of decline in bus patronage before the Covid-19 pandemic were considered in the Strategic Case in the Assessment.

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

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

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

Competition

4.3.41 The Strategic Case in the Assessment sets out an assessment of competition within the Greater Manchester bus market at section 6.3.5 to 6.3.10; the effects of this on cost of travel and network integration are set out in the subsequent sections. This is supplemented by analysis set out in the Bus Market Supporting Paper at section 3.7. This concluded that there was limited competition within the Greater Manchester bus market and that the effects of the limited competition, and some of the effects of the competition that did exist, caused some challenges for the bus market. Operators generally did not challenge the concept that the bus markets suffer from limited competition.

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

4.3.43 In terms of the increased competition in the North of Greater Manchester, Go North West stated in its response to the first consultation that in fact it competes with other operators on similar or identical flows, and has increased competition recently by offering an enhanced peak express service between Bury, Heywood and Manchester. The main example is Rochdale Road, on which Go North West runs the 17 and 18 services from Manchester towards Middleton and Rochdale, which compete with Diamond services between Middleton and Manchester. The peak express service referred to is likely to be the X63 which was a pre-existing service where daytime services were increased. There was, however, no discernible trend of improved services across the North of Greater Manchester where these operators run services prior to the impact of Covid-19. The Assessment at section 6.3.39 noted that this would lead to a more fragmented position in terms of fares – and this proved to be the case in North Manchester, as passengers' operator-own tickets allow them travel on fewer routes than previously. As noted above in the General Market Update section from Section 4.2, this had not yet resulted in extensive changes to the bus network pre-Covid-19.

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

Network effects

4.3.45 First, in their answer to Question 12, say that the lack of network co-ordination is overstated, arguing that maximising *"connections"* could lead to reduced demand. Go North West, in their answer to Question 12, point to the existence of bus stations passengers can use for interchange and GMTL travelcards as evidence coordination is possible. Transdev argue the lack of co-ordination is a *"surprising accusation"* as there are tickets available for bus and tram (though not for train and tram).

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

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

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

Complex fares and ticketing

4.3.49 In their responses to the first consultation, operators have also criticised the points made on complex fares and ticketing. First say in their answer to Question 12 that *"continued existence of single operator period products is entirely appropriate. These provide a discount for the benefit of the great majority of passengers who make the same journey(s) every day on the same service provided by the same operator"*. First also say that better information choices *"are already available to the passenger should they choose to use them"* in their answer to Question 12. Go North West in their answer to Question 12 asserted that they *"do not consider current ticketing arrangements to be complex or detrimental to passengers"*. They say TfGM have overstated the importance of this issue. Stagecoach pointed to the existence of multi-operator tickets as well as single operator tickets (Section 4.7) and say that they can provide more choice and value. Transdev asserted that the complexity is *"subjective"* in their answer to Question 12 and that passengers taking regular journeys do not notice overall complexity.

4.3.50 The evidence presented in the Assessment at section 6.3.30 to 6.3.39, as well as the evidence presented in the Bus Market Supporting Paper on the views of passengers at section 6.3.43, shows that there is complexity in the current system and that passengers find the complexity of current ticketing, and the lack of interoperability between tickets, as a barrier to using the bus service. This is highlighted by the responses to previous engagement with passengers (including the consultation on the Greater Manchester Transport Strategy 2040) as well as the response to the first consultation on the Proposed Franchising Scheme. Ipsos MORI note, at section 7.1.2 of section 7 of the Ipsos MORI's June 2020 Consultation Report Transition Buxton's response in relation to challenges in the market, that *"It is not performing well because services are too expensive, too infrequent, routes are too complicated"*. They also note that 37 of the favourable comments, in response to how the Proposed Franchising Scheme might contribute to GMCA's objectives, were that tickets would be simplified with a member of the public stating that *"I hope a simpler fare system can be achieved"*. Another member of the public set out the lack of interoperability, stating that *"Part of the problem with the bus scheme is the weak and expensive interlink between different companies. Franchising this would be perfect as it gets rid of the different operators, different tickets, different prices and disjointed timetables"*. Other responses are considered further at section 5.1.27 below.

Satisfaction scores

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

4.3.52 Satisfaction scores are to some extent a helpful metric, but they do not relate to those who have chosen to stop using the bus or those who have never considered it as a mode. High satisfaction scores in these surveys have been a feature of the UK bus market while patronage has been declining, and they do not mean that there are no issues with the operation of the bus service that should be addressed.

Views of other stakeholders

4.3.53 In their answers to Question 12 from the first consultation, several of the Greater Manchester authorities and neighbouring authorities expressed agreement with the issues set out in the Assessment. For instance, Blackburn and Darwen Council said that it *“supports GMCA's analysis in terms of challenges facing the Greater Manchester bus market, which mirrors background conditions experienced within the Borough of Blackburn with Darwen”*. Cheshire East Council set out analysis that further supports contained in the Assessment, setting out *“shared issues that support a case for change include: lack of a coherent network; lack of a common identity (brand); complexity of fares and tickets; lack of local accountability; and unclear value-for-money on public funding”*. They also point to the performance of London under the franchised system compared with other metropolitan areas in the UK.

4.3.54 Others note problems with the network. Bolton Council report *“There is inadequate network coverage and absence of commercial services to some of our major employment sites such as Middlebrook and Logistics North”*. Manchester City Council express concern on the standard of service in their answer to Question 12 and note *"the current system often leads to a confusing range of tickets which the travelling public often find hard to understand"* and note the variable standards in terms of fleet and standards of service. They also point to lack of response to changing travel patterns in terms of the increased importance of Manchester Airport and its Enterprise Zone and the late night / shift work economy.

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

Objectives for reform

4.3.56 Among respondents to the first consultation, there is a good deal of agreement over the objectives for reform, that comes from the analysis of the issues affecting the bus market set out in the Assessment in section 7. This comes in part from incumbent operators (even those who oppose the Proposed Franchising Scheme): Arriva, in their answer to Question

13, note there is a case for reforming the bus market in Greater Manchester; First, in their answer to Question 14, note their agreement with all the objectives in the Strategic Case.

4.3.57 The Ipsos MORI's June 2020 Consultation Report at section 7.2.1 refers to a number of stakeholders who wanted the objectives to go further. Some referred to going further in terms of encouraging modal shift. Bolton Council advocated expanding objectives to include sustainable improvements that could be measured over time. However, the Ipsos MORI findings also acknowledge that most stakeholders agreed with the objectives, with 355 consultees providing favourable comments in response to Question 14 of the first consultation in comparison with 95 unfavourable comments. Very few of these comments were in disagreement with the objectives themselves. They are a combination of wanting to see more ambition in terms of overall outcomes – such as increases in the modal share of non-car modes of transport – and disagreement that the Proposed Franchising Scheme would be the best way of achieving these objectives.

4.3.58 Stockport Metropolitan Borough Council suggested extending the objectives to cross-boundary services. The objectives for improvement do apply to these services. It should be noted that it would not be possible to extend the franchise areas beyond Greater Manchester, other than in partnership with a neighbouring authority who would franchise services. Neighbouring authorities are in different positions with regard to potential bus reform, and this could be an option considered in the future. It would be possible to work with neighbouring authorities in the context of cross-boundary services as indicated below. In terms of further ambition to encourage modal shift and improve the environmental performance of the fleet, these ambitions were set out in the Greater Manchester Transport Strategy 2040 and further detail given in the Delivery Plan to the Greater Manchester Transport Strategy 2040 (published in 2019). The specific objectives set out in the Assessment build on these, and feedback suggests that they are right for the bus services in Greater Manchester.

Different challenges to the market due to Covid-19

4.3.59 In their response to the second consultation (Question 2), Go North West argue that the challenges facing the bus market are now different since Covid-19, because there are new patterns of trips being undertaken, and a lack of trust in public transport. It contends that there is likely to be a quite fundamental shift in how and when people wish to travel, which have not yet been recognised: there are immediate-to-short-term travel impacts from Covid that are likely to last well into 2021 and perhaps 2022; and medium-to-long-term economic and travel choice impacts, plus structural economic and mobility impact. Another omission is around public confidence in the public transport network. These, they argue, are more significant than previous challenges noted, and the absolute priority will be to give passengers confidence in using the network again.

4.3.60 Similarly, Stagecoach, in their response to the second consultation, argue that the original objectives for the bus service in Greater Manchester set in February 2017 are invalid because the effects of the Covid-19 pandemic, not least on the need for transport for work and leisure, are likely to be *"permanent"*. The challenges for the bus market set out in the Assessment do not remain largely relevant: the impact of Covid-19 has brought an entirely new set of challenges that are greater in magnitude and impact than those set out in the Assessment. (SC Business Response 10.4). There are key unanswered questions including the extent of modal shift (whether from public transport to cars or to cycling), the shape of the bus market (how many competitors survive and in what form), the level of migration within the country (e.g. from urban to rural settings) and patterns of commuting and working from home. Town and city centres will have to be rethought: the Covid-19 Impact Report has not evaluated the risks of changes in the use of town and city centres, and how the longer-term impact will play out in different parts of Greater Manchester (SC Business Response Introduction and Question 2).

4.3.61 Other respondents felt that the previous challenges still remain, such as Manchester City Council, Bolton Council (answer to Question 2) and Salford City Council (response p.1). Manchester City Council point out: *"However, in any scenario that emerges out of our hopeful transition out of the pandemic, the Council considers that all of the pre-existing problems with the current deregulated bus services will require to be fixed; that no other proposed reform to the bus market offers the same opportunity to integrate modes, simplify ticketing and specify the necessary level of service, and that the four scenarios set out in the second consultation, whilst merely illustrative, provide the confidence necessary to support the Proposed Franchising Scheme being adopted and implemented, alongside the evidence already presented as part of the 2019/20 consultation."* (answer to Question 2).

4.3.62 The scenarios set out in the Covid-19 Impact Report make clear that the challenges of changes in patronage, and the need to rebuild trust in public transport when it is safe to do so, have not been ignored by TfGM in their analysis. They form some of the context for the consideration of whether to implement the Proposed Franchising Scheme. Section 2.2.21-2.2.25 of the Covid-19 Impact Report refer to the Scenarios and the further challenges to the bus market noted there, including a lack of certainty and the potential for reductions in patronage. Section 2.2.25 noted the challenge to operators' capital programmes (Go North West criticise this as 'unsubstantiated' but then note that fleet and depot investment plans are being revised' (Question 2)).

4.3.63 Neither Go North West nor Stagecoach suggest alternative objectives other than a general point of recovering the bus market. As set out in the section on 'recovery partnerships' at section 13, TfGM intend to work with operators and take advantage of Government support under any market structures available to build back the bus market as strongly as possible. This is not an alternative course of action to Franchising but complementary to any choice on whether and how to reform the bus market (as set out in the section on 'recovery partnerships' at section 13 of this report.

4.3.64 While the effects of COVID-19 can be thought of in terms of new challenges – such as the need to persuade potential passengers to use the service again – it also makes existing challenges such as co-ordinating the network to best effect more urgent to recover better. While recovery will part of the activity of TfGM and hopefully undertaken in co-operation with operators, it is not separate from objectives maintaining or improving the quality of the network or the simplicity or value for money of fares. These are the elements that will assist any recovery no matter what the starting level of patronage is.

4.3.65 The additional challenges of Covid-19 do not change the need to reform the market to address these challenges. The objectives set out in the Assessment remain the right ones for GMCA, even though recovery could arguably be described as an 'objective' in itself. the Proposed Franchising Scheme is flexible and will be able to adapt to potential changes to travel patterns such as those suggested by Rotala and Stagecoach.

4.3.66 The COVID-19 Impact Report concluded that while the context of the COVID-19 pandemic was different, the objectives for improving the bus service in Greater Manchester remained valid, and this remains the case. A revised version of the Transport Strategy 2040 has also recently been adopted by GMCA in the light of COVID-19 (January 2021) that contained the same high-level objectives (the 'Vision for Bus') for the bus market as in the original (published in 2017).

Conclusion

4.3.67 Given the multiplicity of factors affecting bus patronage over the medium term, positively (the economy and population of Greater Manchester have grown over this period, which will have a positive effect on patronage) as well as negatively, it is not possible to be definitive about the causes of decline in patronage – nor how respective causes might continue to increase or decline in the future.

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

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

4.3.70 In addition, there is little challenge offered by operators to the objectives set out by GMCA in the Strategic Case of the Assessment, apart from that they could be implied from the challenges on the problematic nature of the complexity of fares and ticketing noted above. Neither does the argument that TfGM should have considered more challenges to the bus service following the Covid-19 pandemic (such as mistrust in public transport) mean that these issues have not been considered, or that the objectives for reforming the bus service should be different. The Objectives are generally endorsed even by those who oppose the Proposed Franchising Scheme for improving the bus service in Greater Manchester.

4.4 Theme 2: Competition and the shift to a franchise market structure

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

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

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

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

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

4.4.6 TfQL's report notes that effective transition towards a franchised model requires successful management and minimisation of disruption, as well as the introduction of measures for small operators. TfQL's research finds that this is most likely to be achieved through a depot-level franchising model, similar to the Proposed Franchising Scheme envisaged for

Greater Manchester. TfQL point out that any potential negative impact on small operators could be mitigated through the introduction of specific measures, such as allocating certain routes to be on an individual franchise, thereby encouraging participation from small operators.

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

'On-road' vs. 'off-road' competition

4.4.8 Comments on changes to specific level of competition are considered above at section 4.2. Some operators, and the CMA, said in their responses to the first consultation that it would be preferable to run bus markets so that there was 'on-road' competition. Without setting out a position in detail, incumbent operators Stagecoach and Rotala specifically expressed preference in their consultation responses for 'on-road' competition with Rotala stating that *"opening a market up to competition only periodically in the form of tenders limits the dynamic evolution of the market and risks locking in a sub-optimal outcome".* Rotala also point out that the competitive position in Greater Manchester has changed since the sale of two of First's depots and operations to Rotala and Go North West. Ipsos MORI note in their report that Rotala assert that competition for the market is an inferior form of competition in their answer to Question 35 (12.1.1).

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

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

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

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

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

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

4.4.14 Having set out its broader position on franchising, the CMA make a number of observations on the Proposed Franchising Scheme. It notes the decline in bus journeys and the target to increase the proportion of journeys made by walking, cycling and public transport to 50%. It also notes GMCA's and TfGM's intention to develop an integrated transport network. The CMA state that it has *"reviewed the full assessment and supporting papers, but we do not comment on the detailed analysis conducted by GMCA".* it does state, however, that *"GMCA presents evidence of local bus market(s) that are not working in the interests of passengers".*

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

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

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

4.4.18 Having noted this summary view, the CMA explain that the focus of its comments in the consultation response concern how the Proposed Franchising Scheme might best be configured, to ensure that there is a good level of competition 'for the market', as operators compete to fulfil franchise contracts. These points are considered in the response to the Commercial Case comments below at section 6.9.70 – 6.9.261.

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

4.4.20 The introduction of the Proposed Franchising Scheme would be a long-term change and is set out as a long-term intervention in the Assessment. The risks associated with a change in market structure are recognised in the Assessment, and the Assessment and this consultation response explain how it has considered these, and put in place appropriate mitigations. In is important to recognise, nonetheless, that the Proposed Franchising Scheme will involve a transfer of cost and risk to GMCA, and that this transfer must be regarded as long-term and not a responsibility that can be shed lightly. The Proposed Franchise Scheme is anticipated to benefit passengers and not have adverse impacts upon them in the long term. It is central to the franchising proposition that it is a long-term market change, and that it will enable further beneficial measures in the long term. However, whilst it should be regarded as long-term, is not irreversible. The market was changed following the Transport Act 1985 to the current deregulated market (and to a franchised market in London). It could be deregulated at a later date, although this may be unlikely to benefit the incumbent operators who, in the meantime, would need to compete for franchise contracts.

4.4.21 The fact of the widespread use of franchising in bus markets, not only in London but more widely in Europe, Asia, the America and the Middle East, however, shows that competition 'for the market' can be effective, lasting and can bring benefits to passengers.

4.4.22 In their responses to the first consultation, some operators criticised the record of London as a franchised market . Rotala claim in their answer to Question 12 that London has experienced declining patronage in recent years compared with the rest of the country; in their answer to Question 14 they note the average age of buses in London is 5.9 years (it is 8 years in Manchester); quote annual deficit numbers for 2019-20 of £722 million and say that passenger numbers have declined every year since 2014-15, to claim that the franchised market does not work well when compared with the deregulated market.

4.4.23 In recent years, London has suffered some decline in passenger numbers alongside other jurisdictions. DfT's Annual Bus Statistics 2018-19 note (December 2019) states that passenger numbers fell in London between 2017-18 and 2018-19 by 1.2%. Numbers in metropolitan areas outside London were broadly stable (although there was a decline in Greater Manchester of 2.7% between 2017-18 and 2018-19.) However, the picture in recent years is different – the DfT note that between 2008-09 and 2018-19 numbers fell in London by 1.4%, whereas in England outside London they fell by 11.9%, contradicting Rotala's assertion. Commercial mileage in metropolitan areas outside London fell during this period by 13.2%, whereas mileage in London rose very slightly (DfT Bus 0203a/0205a).

4.4.24 In terms of the deficit cited by Rotala, the Assessment acknowledged, when citing London, that it had received public support. However, quoting a deficit figure for London, without acknowledging deregulated markets also receive support from Government, is misleading: in 2018-19 English metropolitan areas outside London received a net figure of 56.4 pence per passenger journey compared with London's 36.4 pence per journey (DfT Bus 0503b). Over the period 2008-09 and 2018-19 the total net estimated Government support for bus service fell by 34% in London and 19% in English metropolitan areas outside London (DfT Bus 0502b).

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

In fact, following the huge success of franchising in the early years of the century, the bus market in London has sustained itself better than elsewhere.

4.4.26 Operator responses to the second consultation did not consider the question of different types of competition ('on-road' or 'off -road'). The CMA response to the second consultation does not repeat points from the first response, but notes that any move away from on-road competition should be on the basis it is the best way to secure better outcomes for passengers. They give examples, such as greater co-ordination of ticketing and greater coordination of the network, which are part of GMCA's objectives for bus reform. (CMA, p.4)

4.4.27 In Abellio's response to the second consultation, they state that the current situation should be regarded as a 5th scenario, noting that *"the deregulated market which existed pre-Covid will not be sustainable at its previous size in any credible medium-term forecast. So, if GMCA and the people of Greater Manchester wish to exercise control over the size (reach) and stability of the future medium-term network it is imperative that a decision is taken to introduce the Proposed Franchising Scheme as soon as possible."* In this analysis, the deregulated market lacks independent stability and there is not competitive pressure that would come from a flourishing market. Whilst TfGM prefers to use scenarios to look at the longer term than the immediate situation, this reinforces the need to move to a franchising system where competitive pressure can exist 'off-road'.

4.5 Theme 3: Franchising scheme proposition – approach to network

Approach to Network

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

Network efficiency

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

4.5.3 The OneBus response states, in response to Question 14, that this relies on *"latent market travel demand"* and that operators would have found all demand in the market because they are incentivised to do so. It would, they argue, be over-optimistic to believe that a franchised network could be more efficient and drive passenger growth. They also say that in terms of network planning principles that value both coverage (i.e. being more comprehensive) and simplicity and ease of understanding, *"it is certainly possible to have a network that is comprehensive and to have one that is comprehensible, but not both"*.

4.5.4 Go North West, in their answer to Question 35, argue that the redeployment of buses from busy corridors (where the Assessment states there may be over-busing) could disadvantage passengers. As suggested below in the Economic Case response at 7.5.13, they also argue the network would be less efficient and *"ossify".* First, in their response to Question 16 (and their letter to GMCA), suggest that the Proposed Franchising Scheme would not mean any step change in frequency or investment. They also suggest that the contention that the network will be planned as a single network is inconsistent with the intention to award contracts replicating the current provision.

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

4.5.6 At section 6.3, the Assessment sets out the reasoning behind the idea that current network planning is inefficient, noting that it is planned as a series of different and partially competing networks rather than as one efficient network – and that it would be possible to plan a network better and increase patronage with the same level of resource in section 9.2. Despite the assertions to the contrary that improvements could not be made on the current network, the ability of GMCA to control the network planning process, without the constraints of preserving an individual operator's routes, market share or profitability, would enable a greater degree of improvement than a partnership. The areas for improvement identified during work to consider network improvements included improving the coordination of services on shared corridors, the removal of service variants, and rerouting services within corridors to redistribute resources from over-bussed sections to poorly served areas.

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

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

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

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

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

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

4.5.13 In terms of the responsiveness of GMCA, the Assessment sets out in the Commercial Case how there would be a contractual change mechanism to enable changes to be made, and that GMCA would be able to make changes to the bus network during the period of franchises (Section 25.2). This mechanism would be able to absorb changes likely to be made during the term of the franchise. The contract would allow for increases or decreases in service on a cost-neutral basis. For any level of potential foreseeable change in the level of service specified (due either to patronage decline or to new services that would increase the service), the operator would be able to accommodate such changes without being left with unproductive assets or employees – for instance, buses or drivers that were not needed. Thus, in any year, TfGM would be able to change the service and either reduce the service and save the direct costs of running those services, or increase the service and pay the additional costs without additional penalty. Over the longer term, the Financial Case takes account of any costs that, while they would reduce as the network shrinks, would not do so in an even or directly proportionate way (for instance, some of the costs of operating a depot).

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

Decision-making and management of the network

4.5.15 As well as points made about the effectiveness of TfGM management (discussed at section 8), OneBus and some incumbent operators have argued, in their responses to the first consultation, that there would be political interference in network planning that would decrease efficiency or increase costs under the Proposed Franchising Scheme. OneBus, in their response to Question 14, point to a tension between passenger needs and political interference, and say that meeting social needs could be difficult financially. They also criticise TfGM's management of the schools network and the Metroshuttle service.

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

4.5.17 Prior to the Covid-19 pandemic, up to 40% of funding for the Greater Manchester bus market came from public sources (it is currently the majority of funding). It is therefore not inappropriate that there should be some democratic accountability in terms of how the service paid for is run. It is essential that any decisions made are based upon evidence. GMCA has, over the past 30 years, developed and run the Metrolink tram network and made decisions on routes, fares and operations based on evidence. There is therefore a strong track record to suggest that Greater Manchester will be able to run the bus network professionally, effectively and efficiently and take evidenced-based decisions on the network and other issues. As set out in the response to the Management Case questions (section 8), the points made by OneBus with respect to the schools and Metroshuttle service misrepresent those situations and do not vitiate the strong track record of TfGM in tendering contracts for bus services. All decisions under the Proposed Franchising Scheme would be made within the framework of that scheme and subject to the usual constraints of how public authority is exercised. TfGM is satisfied that the components of decision making under the Proposed Franchising Scheme, should it be proceeded with, will greatly enhance the quality of the bus network in Greater Manchester.

Punctuality and reliability

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

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

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

Proposed Franchising Scheme and the reliance of the case for the Scheme on benefits coming from ‘Phase 2’ (at section 4.12).

Responses to the second consultation

4.5.21 There were several comments received in response to the second consultation, regarding how the effects of the Proposed Franchising Scheme on the network could impact on passengers.

4.5.22 Most consultees who commented on the network made positive comments on how the effects of the Proposed Franchising Scheme on the network could impact on passengers. TravelWatch NorthWest commented that, under all scenarios, the Proposed Franchising Scheme would offer greater benefits for passengers looking forward. In particular, it should improve integration between modes. Transport Focus recognised that there would be an impact on council tax; from a passenger perspective they commented that the proposed scheme still could give the best outcome, by offering more stability and a bigger ‘safety net’. Bruntwood noted the advantages of the Proposed Franchising Scheme – rather than a partnership – in terms of the comprehensiveness, stability and efficiency of the network.

4.5.23 Manchester City Council reiterated the points, made in its first consultation response, that the Proposed Franchising Scheme represents the best outcomes for passengers and wider society in terms of the benefits of a coherent, integrated bus service within a wider public transport network.

4.5.24 Trafford Metropolitan Borough Council also commented that many of the benefits to passengers of the Proposed Franchising Scheme highlighted in the previous Trafford Council remain relevant – benefits such as the comprehensiveness, stability and efficiency of the network and greater fares simplification. They suggest that any disruption to services should be kept to a minimum, and welcome that TfGM has put additional measures in place to monitor and mitigate the risk.

4.5.25 Wigan Metropolitan Borough Council commented that the reduced financial strength of operators (due to the effects of Covid-19) could increase potential for the withdrawal of services or increased fares, and believes the Proposed Franchise Scheme could reduce this risk and provide greater certainty for passengers in the long-term.

4.5.26 Transport Focus also commented that they believe the plans lack clarity on addressing passengers’ priorities for improved reliability and punctuality, suggesting that robust measures are needed across modes to deliver an attractive network that fosters growth and trust. They also reiterate their suggestion of a need for transport users to have a voice that is heard through independent, multi-modal representation, which holds providers to account in a more focused and sustained way, to ensure user priorities remain at the heart.

4.5.27 In response to Transport Focus;’ comment, the Strategic Case of the Assessment sets out the ambition for improved reliability and punctuality at section 7.2. As set out in the Covid-19 Impact Report, whilst additional further spending would be required to support increased reliability and punctuality, the Proposed Franchising Scheme would enable operators to be incentivised directly via a performance regime, thereby improving consistency in reliability and punctuality across the network. As explained at section 2.5.12 of the Covid-19 Impact Report, the Proposed Franchising Scheme is, therefore, more likely to lead to continuous improvement than the voluntary arrangements of a partnership agreement with operators.

Conclusion

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

4.5.29 There are challenges by respondents to the consultation on whether it is possible to better plan the network under the Proposed Franchising Scheme, and whether TfGM and GMCA would together be able to do so. TfGM has carefully considered these responses in the context of the Assessment and the Proposed Franchising Scheme. TfGM's assessment is that none of the critical responses demonstrate that further efficiency cannot be delivered from implementing one single integrated public transport network rather than having different, partially competing networks. They also do not demonstrate that GMCA would, as the franchising authority under the Proposed Franchising Scheme, be unable to do so.

4.6 Theme 4: Customer Service

4.6.1 The Assessment sets out at section 9.4 how the Proposed Franchising Scheme proposition delivers against GMCA's customer service objectives. In their responses to the first consultation, OneBus and incumbent operators have challenged the Proposed Franchising Scheme in terms of some of the customer service elements. They have argued that some elements do not differ between the Proposed Franchising Scheme and a partnership, and that the effects of branding have been overestimated. They did not expand on these points in responses to the second consultation.

4.6.2 In their responses to the first consultation, some incumbent operators (such First and Stagecoach), along with OneBus, argued that there is not a great deal of difference between the franchising and partnership proposals in terms of customer service. In terms of the on-bus experience, both the Proposed Franchising Scheme and partnership proposals have measures to improve cleanliness and improve driver training. In both cases, improvement is more certain through the specification of these through franchise contracts. The proposals on driver training for partnership have been scaled down since the first consultation was published (see Partnership Plus Section 10.2.67). The Proposed Franchising Scheme does not contain any elements providing for significant improvement over the status quo in terms of vehicles available (other than that funded as part of a clean air plan); this is the same as the Partnership Plus proposal (which is considered in detail in section 9 of this report). Further investment would be part of 'Phase 2', and investment in new vehicles is likely to be driven by clean air and decarbonisation rather than by customer experience of the interiors. Proposals on the safety of passengers, other than 'Phase 2' investment, do not differ between the different options.

4.6.3 Go North West, in their answer to Question 35, argue that the existence of franchise contracts means that innovation is slow to arrive in franchise systems, which are rigid and slow to introduce new technology; they use an example of Metrolink, which they say is not punctual and has not introduced integrated ticketing. There is no evidence presented for this and indeed most franchise markets around the world show high levels of innovation. In the UK, London has used contactless and other forms of electronic payment for longer than the bus market in Greater Manchester, and has had integrated ticketing on bus and other modes for far longer through Oyster and contactless. It remains ahead of Greater Manchester in this regard. Metrolink has offered smart ticketing since 2019, whereas this has not happened in the bus market in Greater Manchester. The punctuality record for Metrolink is good, with 90.5% of trams departing less than two minutes late against a target of 90%. Issues affecting punctuality of Metrolink are discussed in the Metrolink Annual Performance Report (GMCA, October 2019).

4.6.4 Some operators focused on the issue of branding and information. TfGM believe there is value in making the bus network easier to understand and navigate, by having a unified brand for the network, and a single point of contact that is maintained by, and linked to, the entity responsible for the network, together giving customers confidence in using the network. This is reflected in the objective on information, branding and contact set out at section 7.4.1 to 7.4.4 of the Assessment.

4.6.5 Go North West, in their answer to Question 35, argue that having one brand on a network can make it harder to navigate, and that different branding for different routes can make the bus service more legible; they give several examples of these. Rotala, in their answer to Question 35, say *"there is no evidence that a degree of continued separate branding would be prejudicial to establishing a more integrated bus service across the whole of*

Greater Manchester". They also question the basis of the branding value used in the Economic Case (this is discussed at section 5.5.17 onwards).

4.6.6 Transdev, in their response to the second consultation, express concern at the idea of a 'one size fits all' brand for different types of service such as the Guided Busway or a smaller bus.

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

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

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

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

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

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

4.7 Theme 5: Fares

4.7.1 OneBus and incumbent operators, in their responses to the first consultation, raised some challenges on the fares proposition for the Proposed Franchising Scheme, in relation to both the levels fares are proposed to be set at and also the objective of simplification of fares. First Manchester and the Confederation of Passenger Transport (CPT) also make some points in their answer to the second consultation.

Fare levels

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

4.7.3 OneBus, in their answer to Question 14, and Rotala, in their answer to Question 13, wrongly imply that the modelled fare increase of 1.4% above inflation is specifically part of the franchising proposition. There are also challenges to that figure: Rotala say it is not sustainable and Go North West say that this is higher than has been historically the case. Stagecoach make the point that this rise is greater than that of "*average fare yield*" (again implying that historically fares have not risen by this amount); this point and the difference between this and fares is addressed in the discussion on the Economic Case below at section 5.5.29 onwards.

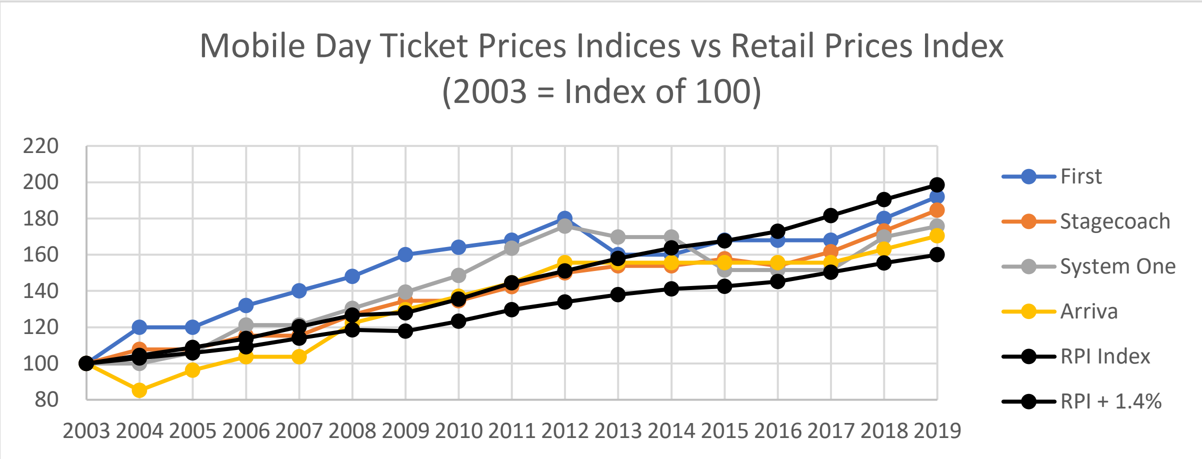
4.7.4 Transdev (trading also as Rosso), in their answer to Question 14, point out that the price level set out in the Assessment (£16) would represent an increase (of 6.7%) for customers using Rosso's 'GM Saver ticket' (currently £15). This is true, and there is potential for other fare increases for customers from smaller network operators such as Transdev. These effects are modelled in the Economic Case. However, the Rosso GM Saver ticket only allows passengers on Rosso buses in Greater Manchester along with other Transdev bus services within Greater Manchester (such as the Witchway and the Red Express). This is a very small part of the network (approximately 4.7% of mileage within Greater Manchester). The fare increase would give passengers access to the whole network rather than approximately 4.7% of it. Ipsos MORI's June 2020 Consultation Report notes that the Confederation of Passenger Transport UK (CPT) noted that passengers would still be subject to inflation-related fares' increases under franchising (12.2.2).

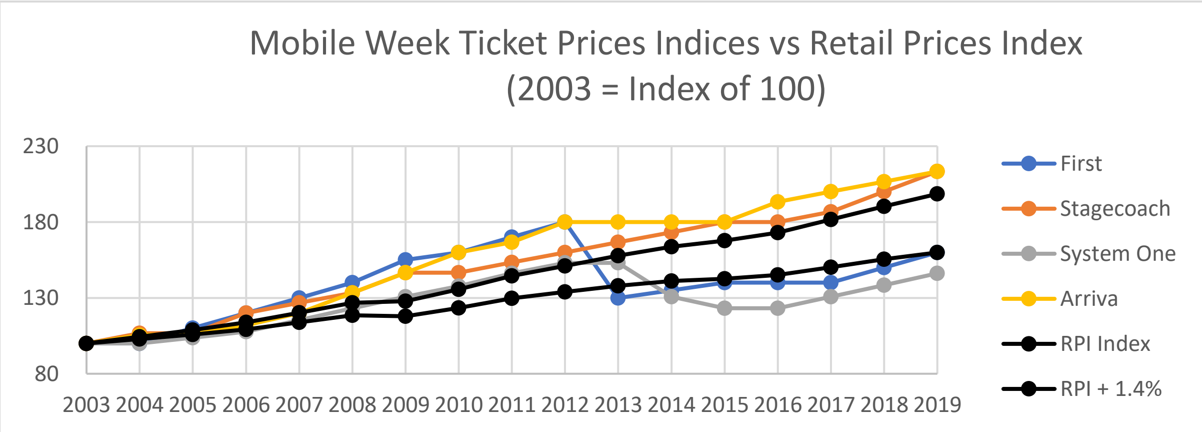
4.7.5 First Manchester, in their response to the second consultation (Question 12), say that it is unsurprising operators have increased fares above inflation, citing cost increases and the effects of congestion. They say that franchising would not solve this problem. CPT, in their answer to the second consultation, say that all fare rises go into improving services for passengers.

4.7.6 Salford City Council acknowledge that fares are a key issue for commuters and note: "*it is encouraging that the Proposed Franchising Scheme is forecast to result in no change or lower fares for the majority of passengers, with increased accessibility across the network*".

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

4.7.8 This assumption is given a degree of validity by the analysis of past fare increases in Greater Manchester, set out in the Strategic Case of the Assessment. Updated charts are shown below:





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

4.7.10 For the bus market to have a sustainable financial position in future years such an assumption was necessary: it applies to the Reference Case and all options. This is not to say that either private sector bus operators or GMCA would not seek to avoid such increases if possible. Above-inflation fare rises are clearly undesirable. It is clear from the objectives set out at section 7.3 of the Assessment, and from the discussion of how the Proposed Franchising Scheme would work in section 8.4 of the Assessment, that VfM for passengers would be central, and it is GMCA's objective that fare rises are kept to a minimum to ensure the funding of the service. Decision-makers would not, under the Proposed Franchising Scheme, simply apply an above-inflation fare increase unless it was necessary to do so to maintain the desired level of service. Given the need to maintain a degree of profitability, CPT's statement that all fare rises benefit passengers is impossible to verify.

4.7.11 It is not assumed, however, that the Proposed Franchising Scheme would make a difference to the basis of the costs of running the bus network (such as vehicles, labour and fuel), although operators would be incentivised to control costs to improve their returns from running bus services. The Assessment does not suggest that the pattern of cost increases would be changed by Franchising, as First Manchester suggest.

Fare simplification

4.7.12 In their responses to the first consultation, a number of incumbent operators suggested that the objective of 'simplified and integrated fares' (set out at section 7.3 in the Assessment) would not represent an improvement, and that the level of simplification proposed under the Proposed Franchising Scheme would not be appropriate.

4.7.13 OneBus, in their answer to Question 14, argue that "*simplification can be detrimental*," and that flat fares can lead to people travelling different distances paying the same fare, which can lead to inequity, and that simplification leads to increased prices and declining patronage. First, in their answer to Question 15, argue that normalising prices to the lowest large operator would require subsidy from taxpayers.

4.7.14 First Manchester, in its response to the second consultation (Question 12), accept that there is scope for simplification, but argue that there is scope for single operator tickets for those that make the same journeys every day using only one service.

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

4.7.16 As noted at section 7.2.3 of the Ipsos MORI's June 2020 Consultation Report, there were 202 comments made that were in general agreement with or support of GMCA's objectives, and a further 47 comments that ticketing would be more simplified, with resultant reductions in fares. Quotes from members of the public include: "*I hope a simpler* *fare system can be achieved, with seamless transfer between modes and between operators*" and "*I agree with all the points especially making it easy to use and affordable*" as cited in the Ipsos MORI report. Section 7.1.2 of the Ipsos MORI report also notes that amongst those consultees that agreed with reform, the "*perceived or actual benefits included having a more integrated bus network, cheaper fares, and a more straightforward ticketing system*".

4.7.17 The Proposed Franchising Scheme includes the simplification of period fares, of which there are currently over 200 period products valid on services operating in Greater Manchester (which are used by the overwhelming majority of passengers), and there would be a process of simplification to single fares. This would not increase fares for those typically using only one service, but give them a wider choice of services and journeys to use.

4.7.18 It is not necessarily the case that a single flat fare would be appropriate for the Greater Manchester market, and GMCA would not put in place such a system unless there was evidence that it would be beneficial. The introduction of a zonal fare structure on the Metrolink network simplified the fares and ticketing offer for Metrolink customers in January 2019. The system introduced four concentric-ringed fare zones, largely based on the previous underlying fare structure on the Metrolink network. This new system is simpler and easier to understand and reduced the number of fares available per product from 8,556 to just 10. The introduction of ticket zones also allowed TfGM to take advantage of the next iterations of smart ticketing and introduce contactless PAYG on the Metrolink network. TfGM's move to zonal on Metrolink is an example of where simplification for customers can be achieved without a single flat fare.

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

4.7.20 The pre-Covid-19 market also exhibited some reductions in VfM for passengers. First tickets now allow passengers to travel on a far smaller network than previously and this has not led to decreases in price (currently £17 for a weekly ticket). Similarly, Go North West and Diamond weekly tickets are a similar price (£16 vs £16.50 for Stagecoach in 2020) and also only offer passengers approximately a third of the network that they did before the sale of parts of First's operation.

Conclusion

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

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

4.8 Theme 6: Cross-boundary services – Permitting arrangements

Introduction

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

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

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

4.8.4 In response to the first consultation, there was some support for the arrangements set out in the Assessment. Abellio support the arrangements in their answer to Question 26. HCT Group argue that social value of a service should be taken into account in the first statutory test. Go North West, in their answer to Question 3, suggest putting cross-boundary services within the scope of the Proposed Franchising Scheme to preserve or improve service to passengers (this is proposed as set out below).

4.8.5 There were also comments received from operators and local authorities a (both inside and outside Greater Manchester), as part of the first consultation, focused on the impact that franchising may have on services that serve areas both inside and outside Greater Manchester, and the disruption and changes to them that it may cause.

4.8.6 Some authorities repeated these concerns as part of the second consultation. These are set out below at section 4.8.37.

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

Sufficient information

4.8.7 Rotala, in their response to Question 5 of the first consultation, have suggested there is not enough information in the first consultation to properly explain the process for obtaining a service permit, and that a permitting process could discourage operators from applying for a permit for a service in the first place (which in turn would have an impact on passengers).

4.8.8 Some authorities, in their responses to the first consultation, express the desire to know more about how services will be affected prior to any Mayoral decision. Cheshire East Council state in their answer to Question 12, "*The conditions relating to cross-boundary services should be known at the time of any decision to adopt franchising*". Derbyshire express concern that the impact on passengers has not been looked at in sufficient detail in their answer to Question 23. Cheshire East Council also point to a risk that the existence of franchises could distort local markets, and ask what arrangements GMCA anticipate to monitor this situation.

Effects on cross-boundary services

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

4.8.10 A number of operators commented on this in responses to the first consultation. In their responses to Question 5 and Question 26, Rotala commented that the Proposed Franchising Scheme would have a negative impact on cross-boundary services, because cross-boundary services would need to comply with the same standards as a franchised service to be able to obtain a service permit. In their response to Question 26, Rotala also point to the potential for reduced income for cross-boundary services and suggest that there may be a "*reluctance*" to permit cross-boundary services to stop, reducing their revenue and meaning passengers could not catch a bus. This concern relates to the application of the second statutory test, in ensuring that a proposed service should not have an adverse effect on any local service that is part of the Proposed Franchising Scheme.

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

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

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

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

Concerns on Fares and ticketing

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

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

4.8.17 The following sections address the concerns raised by operators and local authorities.

Sufficiency of information and the permitting process & specific routes

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

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

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

4.8.21 It is considered that sufficient detail was given in section 33 of the Assessment, absent a list of services for respondents to understand how this would work, as well as section 16 on the potential impact on passengers in neighbouring authorities. This was clear what types of services would potentially be affected. Section 33 of the Assessment set out how GMCA would approach the tests and the evidence that they would look at, as well as outlining the process for application, including potential pre-application discussions with GMCA, which in turn would help to reduce the risk of many of the issues raised by statutory consultees materialising, as early engagement with GMCA should help to promote the successful operation of the service permit process. Section 16 of the Assessment set out potential effects on these services, as well as actions GMCA would undertake to ameliorate any effects on passengers, as is discussed above. Consultees also had the opportunity to seek further information about the proposals during the consultation period.

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

The Permitting process and effects on services

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

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

4.8.25 There was some confusion as to whether any cross-boundary services would be franchised. As set out below in section 16, it should be noted that it is proposed that some cross-boundary services would be franchised within Greater Manchester. To the extent that they operate outside of Greater Manchester, then that portion of the route would be secured under other powers. Annexes 1 and 4 of the Proposed Franchising Scheme list the services which would be franchised, and there are currently 11 services that are currently assumed would continue to operate outside of Greater Manchester. These are as follows:

- Cadishead – intu Trafford Centre – Manchester City Centre (which runs into Warrington)
- Standedge – Uppermill – Oldham – Manchester City Centre (which runs into Huddersfield)
- Hollingworth – Stalybridge – Ashton (which runs into Glossop)
- Broadbottom – Hattersley – Hyde (which runs into Glossop)
- Strines – Marple – Stockport (which runs into Hayfield)
- Stockport – Hazel Grove – Disley (which runs into Hayfield)
- Standish – Wigan (which runs into Chorley)
- Rochdale – Healey (which runs into Wallbank)
- Bolton – Astley Bridge – Horrocks Fold (which runs into Belmont)
- Shevington Vale – Wigan Infirmary (which runs to Wrightington Hospital); and
- Wigan – Shevington Moor Circular (which runs to Wrightington Hospital).

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

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

4.8.28 In administering the statutory tests, GMCA would:

- Look at the benefits to all passengers, including those whose journeys start across the boundary, in determining the benefits of the service for the first statutory test;
- Determine the totality of effects on any franchised service when looking at the second test, to determine whether there would be an adverse impact. This would include potential negative effects (e.g. extensive revenue loss that would affect the viability of the service), as well as potential positive effects of the cross-border service on any franchise service affected in bringing in passengers who might interchange with it; or positive effects on any such services affected from decongestion from modal shift; and
- Welcome the input of local authorities in providing information and evidence concerning services that would apply for a permit. TfGM would anticipate working with Greater Manchester authorities and neighbouring authorities, not only on supported services but also those promoted by private operators.

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

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

Response to withdrawal of services

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

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

4.8.33 Any supported service would need to pass the competition test (set out in Schedule 10 of the Act). This might lead to some restrictions on the portion of the service outside Greater Manchester and journeys undertaken wholly within that area, so as to avoid the risk of the distortion of competition. However, in most cases it is anticipated that in the event that an operator or authority was unable to successfully apply for a service permit, a viable cross-boundary service could be put on to serve the needs of passengers.

Ticketing

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

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

Responses to the Second Consultation

4.8.36 Stockport MBC set out a concern that Covid-19 could worsen the situation for cross-boundary services, and so wish to work with TfGM to understand how to support these services.

4.8.37 Some authorities outside Greater Manchester set out further concerns in response to the second consultation. Blackburn with Darwen, Lancashire, and the Peak District NPA emphasised the importance of cross-boundary services and welcomed the chance to work with GMCA on improving services. Liverpool City Region urged GMCA to mitigate risks to cross-boundary services, and would seek to align permit schemes if both they and Greater Manchester were to take a decision to franchise their bus market.

4.8.38 Derbyshire County Council repeat points, made in response to the first consultation, set out that they remain concerned about the impact of the scheme on cross-boundary services, and urge TfGM to mitigate the risk of damage to such services (Question 7 / Question 12). West Yorkshire Combined Authority ask what involvement neighbouring authorities can have in the introduction of a permit scheme

4.8.39 As set out above, GMCA is obliged to apply statutory tests to the granting of permits under the Proposed Franchising Scheme. This would be done taking into account the benefits to passengers of these services, and the benefits to franchised services of potential services. GMCA will consult on the introduction of the permit scheme if a decision to franchise the bus market is taken, and will consult with authorities on that, as well as working with neighbouring authorities to improve cross-boundary bus services.

Conclusion

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

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

4.8.42 GMCA would welcome further engagement from local authorities inside and outside Greater Manchester on these arrangements, and, as well as consulting on the permit scheme, will seek joint working to improve cross-boundary services.

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

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

4.9 Theme 7: Greater Manchester Clean Air Plan

4.9.1 This section of the report considers the consultation responses relating to Greater Manchester's Clean Air Plan (GM CAP) and its potential implications on the Proposed Franchising Scheme.

4.9.2 Although consultees were not asked any questions in relation to the GM CAP, consultation comments on this subject area were received from operators, local authorities and transport user groups during the first consultation, and to a far lesser extent during the second consultation.

4.9.3 This section is structured into the following sections, responding to the main themes identified from TfGM's analysis of consultation responses and consideration of the Ipsos MORI analysis as follows. Note, not all themes were emphasised to the same extent in both consultations, given that, as referenced above, the responses to the second consultation are less detailed.

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

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

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

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

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

4.9.6 The Economic and Financial Cases in the Assessment did not consider the effects, on the options or on the Reference Case, of there not being sufficient Government funding for full reimbursement of the costs of upgrading or providing new vehicles to meet the Euro VI engine requirement, to comply with any forthcoming CAZ requirements.

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

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

4.9.8 At the time the Assessment was being prepared, the GM CAP Outline Business Case (OBC) had been submitted to the Government's Joint Air Quality Unit (JAQU), but work was ongoing to develop a more detailed plan and associated FBC, which was not due to be completed until later in 2020 (the GM CAP final plan will be brought forward for decision-makers as soon as is reasonably practicable possible). This necessarily meant that at the Assessment stage it was not possible to determine the costs in detail, given there was still work to be undertaken as part of the GM CAP to determine the numbers of vehicles that would meet the standards, the technical solutions to dealing with this and the approach to implementing a CAZ in terms of fines, etc. It is therefore appropriate that the costs (and benefits) of the different kinds of interventions, i.e. clean air and bus reform, are counted within their own business cases to avoid double counting.

4.9.9 If costs were to arise, in the deregulated market, operators would face a choice about how to comply and whether to absorb any costs through lower profits (assuming they have the capability to do so). Similarly, under the Proposed Franchising Scheme, GMCA would have to determine how to approach the requirement to comply as part of the franchising arrangements, including how this would be funded. This choice was acknowledged in the Assessment.

4.9.10 TfGM note the comments from OneBus that the GM CAP will either not be delivered, or will require funding from elsewhere. As described in the Assessment (Section 23.6.9). The GM CAP OBC asked Government to provide funding to upgrade the bus fleet, where possible, to meet Euro VI standards so that all buses would conform to the required Euro VI for buses standards if the CAZ is implemented. The Government awarded £14.7 million as an initial tranche of funding to retrofit buses running services in GM, which have older engines that are not compliant with the GM CAZ emission standards, but the remainder is still subject to a Ministerial decision. TfGM is coordinating the development and implementation of the GM CAP on behalf of the 10 districts in Greater Manchester. The costs and funding of intervention are included this business case and, therefore, these have not been included in the Assessment.

4.9.11 If the request for funding is successful, this would be applied to vehicles in the Proposed Franchising Scheme (to the extent that vehicles had not been upgraded prior to any implementation of the Proposed Franchising Scheme).

4.9.12 TfGM notes the comments from Bus Users UK that without initiatives to remove or reducing private cars from the centre(s), substantial modal shift from cars to public transport will not be feasible in the short or medium term. Any such initiatives (e.g. future policies linked to the City Centre Transport Strategy) to support clean air are separate to the Assessment.

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

Impact of the Proposed Franchising Scheme on the GM Clean Air Plan

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

- Salford City Council stated that "*the proposed franchising scheme offers the best opportunity to control the specification of buses in the fleet, which will ensure a regular renewal of vehicles and the provision of engines that meet the latest environmental standards; this is key to delivering on the aims of the Clean Air Plan*";
- Trafford Council stated similarly and added that they believe that the Proposed Franchising Scheme "*should be used as a mechanism to address clean air and particulates through requiring the move to higher environmental standards for buses including electric powered vehicles*";
- TravelWatch NorthWest stated that franchising would "*allow coordinated investment and greater control over bus services, allowing low-emission buses to be specified and thus contributing to the Clean Air Plan*";
- The Peak District National Park Authority stated that "*the overall approach could help to reduce the number of vehicles driving into already congested urban areas*";
- Warrington Borough Council commended "*the plans to enhance the operational fleet in terms of emissions allied to the CAZ*";
- Abellio stated that they believed "*the introduction of the Proposed Franchising Scheme would offer a great opportunity for the City Region to upgrade its fleet to new, low or zero emissions vehicles*";
- Bury Council stated that the Proposed Franchising Scheme supports the objectives of "*promoting modal shift from cars with the associated benefits in terms of emissions, contributing towards our tackling climate change*"; and

- Keolis stated that the Proposed Franchising Scheme "*is the best way to give TfGM the confidence to invest in an enhanced product offer which will deliver [amongst other things] … reduced congestion, … modal shift through network integration, …[and] reductions in harmful emissions*".

4.9.15 Several responses to the second consultation also expressed support for the Proposed Franchising Scheme, stating again that they believe it will help GM achieve its Clean Air Plan. For example:

- Bury Council stated that "*The proposed franchising scheme seems to provide better opportunities to reform the bus market in GM in a manner more commensurate with the vision of what is required to strengthen the bus network to positively impact residents and help address issues around congestion, active travel and air quality*."
- Salford City Council stated that "*Given the right infrastructure, promotion and management our positive experiences with the Vantage service which normally carries around 60,000 passengers per week could be replicated more widely across Salford and Greater Manchester. This, combined with transitioning fleets to electric vehicles would benefit all commuters by tackling congestion, improving air quality and reducing carbon*."
- Stockport Metropolitan Borough Council stated that "*There is also a clear opportunity for any franchising activity to coincide and support wider efforts to electrify the bus fleet and contribute to air quality improvements. Stockport Council would like to work with TfGM to understand how the proposed timescales for bus franchising fit in with the desire to electrify the bus fleet and replace or retrofit non-compliant buses*."
- Trafford Council stated that "*The problems of climate change, air quality and economic inequality remain significant challenges – and all will be easier to address with a better system of public transport. The franchising scheme appears to be the best means of meeting that objective*."
- Trafford Council went on to state that "*The Proposed Franchising Scheme will provide an integrated bus network that can properly connect to other public transport provision, deliver simplified and unified ticketing and information, improve standards and set a platform for investment to meet current and future need. It will also play a key role in increasing the use of public transport, reducing congestion and improving air quality*."
- Trafford also commented that "*even with the uncertainties of Covid-19, the proposed franchising scheme is an appropriate way forward. It will lead to an improved bus network which is integrated with other sustainable transport modes. This will also lead to improved environmental outcomes, through modal shift from the private car and also improvements to the environmental performance of the bus fleet*."
- Wigan Council commented that "*Without intervention, there is likely to be greater damage to the bus market, leaving people without sustainable travel options, forcing people to drive and further contribute to congestion and poor air quality. It is therefore imperative the decision is made quickly to address the challenges facing the bus market in Greater Manchester*."
- Abellio commented that "*The PFS provides greater control over emissions and congestion levels which will in turn lead to clear air benefits*."

- Bruntwood also commented that "*A franchising scheme is also likely to deliver wider societal benefits in terms of reduced emissions, over time, than the do minimum or the partnership model*".
- Bruntwood commented that a franchising scheme is also likely to deliver wider societal benefits in terms of reduced emissions, over time, than the Do Minimum or a partnership approach. They believe that it offers a greater degree of mode shift from private cars and a greater prospect of improvement in the environmental performance of the fleet and explain that, given the key requirement for the transport sector to make a major contribution to the objective of the city rapidly decarbonising, it is essential that GMCA and its partners have control of key levers, such as the operation of the bus network to enable this objective to be achieved.
- The Association of British Commuters also noted that the benefits to wider society are crucial, and it is clear that the economic benefit will stretch across multiple areas of public life including the environment.

4.9.16 A number of unfavourable comments were received in response to the first consultation, including:

- Go North West commented that they do not believe that the Assessment has considered CAZ obligations and associated timescales. In particular they state that "*bus operators are in the process of upgrading their fleets to Euro 6 standard in order to meet this deadline"* which *"requires operators not only to make investment (very little of which is underwritten by the Government) but to manage complex and significant upgrading projects".* It is *"not reasonable to propose making a decision regarding the Scheme in March 2020".* Instead they proposed that a *"better proposal would be for GMCA and bus operators to focus on achieving the CAZ obligations, and only once that is done, turn to considering the implementation of franchising or any other scheme*";
- Stagecoach stated that the Proposed Franchising Scheme does little to reduce the environmental impacts of vehicles on the Greater Manchester network. They state that there is "*criticism of operators in partnership schemes for their reliance on external funding, yet the same external funding sources (DEFRA) are relied upon for franchising*". Stagecoach consider that a "*key principle of any clean air strategy must be to reduce car usage, and the franchising scheme is modelled to have the greatest effect on reducing car km, of 13.4m trips per year. With no journey time reductions and so many of the initiatives in franchising unfunded, this assumption does not feel credible*"; and
- Stockport Metropolitan Borough Council noted concerns regarding the meeting of its clean air targets "*especially with Stockport borough's date of entry into the franchise agreement not expected until at least 2023*" and stated that "*greater clarity is required on how improvements to the bus fleet for emissions to meet clean air requirements could be delivered before franchising commences in the area*". The Council also asked: "*how will the Clean Air Plan bus schemes and the franchising requirements for fleet renewal work and will this lead to the Sub-Areas A and B benefiting from more clear air funding for buses than sub area C?*".

4.9.17 There were some other specific unfavourable comments raised in the Covid-19 Impact consultation about interaction between the Proposed Franchising Scheme and CAP (e.g. in relation to fleet requirements) that are considered in the relevant sections below.

TfGM Response

4.9.18 TfGM does not consider it is necessary to postpone the commencement of the Proposed Franchising Scheme (should any decision be taken to introduce it), as suggested by Go North West, in order to achieve the GM CAP. It should also be noted, as set out at section 16.2.54 of this report, that the Proposed Franchising Scheme would not be made in March 2020 as commented on by Go North West (as that date has clearly passed). The GM CAP does not assume any decision whether or not to make the Proposed Franchising Scheme, and the achievement of either the GM CAP or the Proposed Franchising Scheme is not dependent upon the other. It is also noted that the fleet residual value mechanism (described at section 26.2.5 of the Assessment) will offer operators mitigation from the risk of stranded fleet, including any investment in new fleet required to meet CAZ requirements, at the commencement of franchising. It is therefore possible to achieve both the GM CAP and any proposed implementation of the Proposed Franchising Scheme simultaneously.

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

4.9.20 The concerns raised by Stockport Metropolitan Borough Council over the fact that the South of Greater Manchester is in the final round of franchising implementation are noted, and are considered further at sections 6.9 and 16.2.34 onwards of this report. However, the GM CAP is neutral as to whether any form of bus reform is implemented, and therefore clean air obligations will apply to all bus operators, whether operating under franchise contracts or as commercial services. Similarly, the request made in the GM CAP OBC that Government provide funding to upgrade the bus fleet is made on a Greater Manchester-wide basis and does not distinguish between franchised and non-franchised operations.

Impact of Clean Air Plan on cross-boundary services

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

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

TfGM Response

4.9.23 Clean Air bus retrofit funds are available to any registered operator for a registered bus service operating in GM. As noted earlier in this section, future clean air requirements will be determined by the GM CAP and subsequent implementation, rather than the Proposed Franchising Scheme, which may impact on cross-boundary services. However, any such requirements would be independent of whether the Proposed Franchising Scheme is introduced or not. The impact of the Proposed Franchising Scheme on cross-boundary services are considered separately at section 4.8 of this report.

Implications for fleet requirements under the Proposed Franchising Scheme

4.9.24 Several responses to both the first and second consultations made comments on the implications for fleet requirements under the Proposed Franchising Scheme.

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

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

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

4.9.27 Wigan Council noted that for "*smaller companies operating bus services in the Wigan Borough … it is highly likely that new, higher quality, low emissions buses would need to be purchased and they would need support in making that transition if, indeed, the buses are not in public ownership through the Proposed Franchising Scheme*".

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

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

4.9.30 There were also some responses to the second consultation that made further comments on the implications for fleet requirements under the Proposed Franchising Scheme:

4.9.31 Go North West stated that *"[operators] fleet and depot investment plans are being revised as a result of the Covid-19 pandemic, but which will still align with legislative requirements. How and when the CAZ is implemented in Greater Manchester given the changes in air quality as a result of the Covid-19 pandemic is likely to be a more fundamental question than its supposed reliance on operators' investment plans*." Go North West were also concerned that any financial risk faced by GMCA as a result of the Proposed Franchising

Scheme could require funding to be diverted from other priorities and possibly undermining the ambitious plans to improve air quality.

4.9.32 Stagecoach stated that "*Any fleet upgrades would be priced in as a cost to the GMCA under a franchise contract, transferring the cost of decarbonising the Greater Manchester bus fleet from private operators to the taxpayer. In contrast a partnership option would encourage commercial investment in meeting clean air targets. This, however, has not been taken into account in the GMCA's assessment of the financial impact of Covid-19. TfGM appears to be aware that operators would not have invested in new fleet during the pandemic. However, it is unclear whether it has factored in the cost increases to get the fleet to the level it is intending to meet. This would likely worsen TfGM's analysis*."

4.9.33 CPT commented that given "*The franchise scheme transition period is anticipated to take 4 years and during this time, bus operators would simply not be able to commit to investing in any new, greener buses, and therefore not able to contribute to air quality targets if they faced the threat of franchising. In the future, any new buses delivered under the franchising scheme would need to be Government – ultimately taxpayer- funds*"

TfGM Response:

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

4.9.35 TfGM notes the comments from West Yorkshire Combined Authority in respect of lead times for new fleet. However, as also considered at section 6.8.28 of this report, it is currently satisfied that the proposed mobilisation period of nine months is adequate for the manufacture and delivery of both Euro VI diesel (typically six months) and ULEV (typically eight months) fleet, but would continue to review this, including via ongoing discussion with manufacturers, to identify any specific circumstances that require a longer mobilisation period.

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

4.9.37 In respect of Stagecoach's comment in regard to fleet investment, and as noted at section 4.2.37 of the Covid-19 Impact Report, the Assessment did not assume the availability of funding for generally reducing 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.

4.9.38 In respect of the cost to the taxpayer of decarbonising fleet, and the assertion that the partnership option would encourage commercial investment in meeting clean air targets, and as noted at section 4.9.61, conclusions drawn by TfGM based on operator proposals and responses to the original consultation are that the fleet commitments that would benefit clean air are dependent on Government funding being available. Therefore, it has been concluded that these proposals do not bear a significant difference to what could be achieved under the Do Minimum option. This has been re-enforced by the significant reduction in capital investment by operators during the Covid-19 pandemic.

4.9.39 In respect of Go North West's comment regarding how and when a potential CAZ is introduced, TfGM recognises the importance of implementing this as soon as possible but it is important to note that the Clean Air proposals are separate and will be considered irrespective of any decision in respect of the Proposed Franchising Scheme. This also applies to the concerns surrounding the funding available.

4.9.40 In terms of CPT's comment, to address the risk of outdated buses and equipment being retained in Greater Manchester through the RV mechanism, TfGM has a series of mitigations in place that are summarised at section 6.8.37 of the Commercial Case section.

Implications for depot requirements under the Proposed Franchising Scheme

4.9.41 A number of responses were concerned about the implications for depots of a transition from diesel to alternative technologies, required to meet the requirements of the GM CAP. These included the following:

- Arriva stated that "*depots would need to be 'future-proofed' to ensure that the requirements of the franchise contracts can be fulfilled, such as the provision of appropriate charging or other infrastructure. If this is not done, the barrier to entry (significant investment in charging infrastructure as an example) would remain and not be removed simply by providing a generic bus depot*";
- Abellio stated that "*options being considered by GMCA for future depot provision should include infrastructure to allow for the use of such vehicles*"; and
- Bury Council stated that the franchising proposal "*provides an opportunity for considerable action to be taken in terms of environmental (air quality) improvement, with a focus on an electric felt and EV Charging point infrastructure. Longer term this should include hydrogen fuel cell technology*".

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

TfGM Response:

4.9.43 Consideration has been given, in the depot strategy, to the future needs of depots in relation to changing technology, for example, to a move to electric vehicles. Consideration has been given to the extent to which the strategic depots could be adapted for electric vehicle charging and other relevant infrastructure requirements. This is both in the context of current depots acquired from Greater Manchester bus operators, and any depots constructed in the future for the steady-state solution. This and the same in relation to small franchise depots is considered at section 6.3.32 – 6.3.37 of this report.

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

4.9.44 A number of comparative comments were received during both the first consultation and the second consultation from the perspective of clean air, some favouring the various partnership proposals put forward by operators and some favouring the Proposed Franchising Scheme.

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

- Arriva stated that "*partnerships, voluntary or statutory, have been proven to deliver significant investment and improvements in city-wide bus networks, [amongst other things] reducing fleet age and emissions. We feel this has been overlooked throughout the assessment*"; and
- Transdev stated that Operator Proposed Partnership option will "*increase investment levels rolling out new low emission buses faster than otherwise with resulting air quality benefits*".
- First stated that "*investing even a fraction of this sum through partnership working could deliver quicker and more consistent bus journey times with significant fleets of zero emissions buses*."
- Confederation of Passenger Transport suggested that "*a partnership between Greater Manchester Combined Authority and Bus Operators would not only deliver improvements to the bus network, but would also help Greater Manchester achieve Clean Air Zone targets and improve public health*."

4.9.46 Favourable comments regarding the Proposed Franchising Scheme include:

- Abellio stated that "*the environmental benefits of a franchising scheme (e.g. increasing use of sustainable modes, managing emissions from the bus fleet, and increasing public transport access to new areas of employment and housing) are likely to exceed those that any partnership option could deliver*"; and
- Manchester City Council stated that the Proposed Franchising Scheme is "*likely to lead to a more stable network which can be marketed on a consistent basis to new customers and to visitors to Greater Manchester, thereby encouraging patronage growth. This growth can in turn help to drive healthier revenues while also tackling car dependency, emissions and transport congestion as more people choose to make use of an integrated transport network along with higher levels of walking and cycling*".

TfGM Response

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

4.9.48 Proposals that have been put forward in relation to fleet age and emissions have also been considered as part of the Partnership Plus and Stagecoach's South Manchester Partnership proposals within this report. Section 10.2.24 to 10.2.25 of this report consider the Partnership Plus proposals, although these do not differ from those considered in the Assessment under the Operator Proposed Partnership. Section 11.2.29 to 11.2.36 of this report consider the proposals put forward by Stagecoach under their South Manchester Partnership proposal. The conclusions drawn in relation to this proposal are consistent with those for the main Operator Proposed Partnership, in that the Euro VI commitment from Stagecoach is dependent on Government funding being available and agreed terms for retrofitting. It has been concluded, therefore, that these proposals do not bear a significant difference to what could be achieved under the Do Minimum option.

4.9.49 In reference to First's comment regarding the extent to which partnership can support the Clean Air agenda, as explained in section 12.2.7, First's proposals were not expected to represent a significant step change in investment compared with what would be expected. In terms of their implication that any funding for the Proposed Franchising Scheme could be put to alternative uses, section 4.12.42 explains that the business case process allows such decisions to be taken.

Other comments received

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

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

4.9.52 Also regarding concerns with the cost involved, in response to the Covid-19 Impact Consultation, Bolton Council stated that "*we would welcome further reassurance on liabilities and implications of wider clean air and climate change reform*".

4.9.53 Stockport Metropolitan Borough Council's response to the second consultation noted the need to consider the impacts of other interventions such as the GM CAP, when assessing the impact of Covid-19 on bus services, stating that "*As bus travel is only one part of the transport network, it is important that the impacts of other interventions and investments in the transport network (i.e. through delivery of the MCF programme and Clean Air Plan)* *be considered as part of the scenarios when looking at the potential impacts of Covid-19 on bus services.*"

4.9.54 Several operators stated concerns that the current CAZ proposal excludes private cars, which the 10 districts in Greater Manchester should reconsider, as this would have a much more positive result in achieving the clean air plan than only applying the CAZ to buses.

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

TfGM Response

4.9.56 The comments received are not directly relevant to the Assessment or any decision on whether or not to introduce the Proposed Franchising Scheme. They are expected to be addressed in the GM CAP, which is currently in development. TfGM is working with operators in relation to the Clean Air Plan and retrofitting of vehicles. TfGM has factored the risk around any future reduction in BSOG through its risk provision. TfGM recognises that BSOG is under review, and that in the future, should there be investment into electric vehicles, the implications of BSOG would be part of the analysis. In terms of the CAZ proposal excluding private cars, there has been extensive work done to determine the best performing option; and this has been validated by Government and a direction to implement a CAZ C has been received in a Ministerial direction.

Conclusion

4.9.57 Although consultees were not asked any questions in relation to the GM CAP, a range of respondents provided comments, both favourable and unfavourable, on this subject.

4.9.58 A number of unfavourable comments were received regarding the lack of detail on the GM CAP contained in the Assessment. Given that TfGM is separately coordinating the development and implementation of a GM CAP on behalf of the 10 districts in Greater Manchester, and that this is neutral as to whether the Proposed Franchising Scheme is introduced or not, TfGM remains satisfied that the approach adopted (i.e. to consider each of bus reform and the implementation of a GM CAP separately) is the appropriate approach.

4.9.59 Similarly, TfGM does not consider it is necessary to postpone the commencement of the Proposed Franchising Scheme (should any decision be taken), as suggested by Go North West, in order to achieve the objectives of the GM CAP.

4.9.60 A number of comments were received regarding the implications of the GM CAP on fleet, in particular from a cost and funding perspective. However, as future clean air requirements will be determined by the Clean Air Plan (which is neutral as to whether the Proposed Franchising Scheme is introduced or not) rather than the Assessment, the Proposed Franchising Scheme is not anticipated to impact either the cost or funding of compliance with the requirements of the GM CAP. In respect of the cost to the taxpayer of decarbonising fleet, conclusions drawn by TfGM, based on operator proposals and responses to the first consultation, are that the fleet commitments that would benefit clean air are dependent on Government funding being available. Therefore, it has been concluded that operator proposals do not bear a significant difference to what could be achieved under the Do Minimum option.

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

4.10 Theme 8: Consideration of partnership proposals

Introduction

4.10.1 During the first consultation, a number of responses were received that suggested that TfGM had not given sufficient attention to the partnership proposals presented by operators, and a number of alternative proposals were set out. Responses to the second consultation suggested that more consideration should be given to the prospect of 'recovery partnerships' (though these are not specific proposals, but rather potential arrangements around the use of any further Government and/or local funding for the bus service) or that, as there were no current partnership proposals, a proper comparison had not been made. These are discussed in detail in section 10, section 11, section 12 and section 14, and also in the 'recovery partnerships' section 13.

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

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

4.10.3 It is important to note that the partnership proposals do not contain any further measures to address congestion than would be pursued by GMCA under a business- as-usual or the Do Minimum option. The Ipsos MORI report noted operators' support for partnership in their answers to Question 38, including repetition of the points about how the partnership would come at less cost and risk to GMCA (at Section 12.4.1).

Operator engagement on partnerships and completeness of the option assessed

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

4.10.5 The Act requires the assessment of a proposed franchising scheme to compare the making of the scheme with one or more courses of action. Various options in addition to 'Do Minimum' were considered in the Assessment. In particular, two options were considered in detail throughout the Assessment for the partnership option. One option was referred to as the "*Operator Proposed Partnership*", which reflected the propositions that had been discussed with operators whilst TfGM was in the process of preparing its Assessment on behalf of GMCA, which was proposed to take the form of a Voluntary Partnership Agreement (VPA). The other option, the "*Ambitious Partnership*," was one that reflected a more ambitious partnership and was modelled by TfGM to show what it believed could be delivered under a partnership and under an Enhanced Partnership Scheme (EPS).

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

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

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

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

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

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

Partnership cost development

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

4.10.13 TfGM began by looking at the governance structure proposed by operators (including working groups looking at different issues, monitoring and data requirements, and senior level governance including a Partnership Delivery Board and a Partnership Strategy Board), along with the input into the cost and resource implications provided by the operators, to cost the resource TfGM believe is required to deliver the Operator Proposed Partnership. This includes resource consideration of people (for example, in terms of full-time equivalents (FTE)) and also systems. This estimate was then looked at in terms of currently available resource, to understand the incremental resource necessary. TfGM is confident we have allocated the appropriate costs to the Operator Proposed Partnership, based upon the information received from operators and the logical process followed.

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

4.10.15 It is worth noting, in response to Question 31 with regards to comments on the affordability of the partnership options, Go North West reference a bond being part of the terms under the Partnership Plus proposal. They state, "*under the terms of this bond, any operator that sought to exit the partnership would be contractually obliged to make a payment that would be financially very significant*" with the intention of providing confidence to GMCA that the operators will deliver their commitments under Partnership Plus. There is, however, no bond being proposed under Partnership Plus. The Partnership Plus proposal has been analysed and considered in further detail later in this report and it has been made clear through engagement with operators that a bond is not intended to be used as a mechanism under Partnership Plus. Go North West, in their response to the consultation, also refer to the Nexus VPA as being an example of how this mechanism works in practice, although there is currently no bond being used under the Nexus VPA.

Justification of partnership costs

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

4.10.17 In response to Question 34 of the first consultation, some of the statutory consultees acknowledged the need for resource in order to implement and continually manage the partnership. Rotala recognise that there would be no major procurement phase required under a partnership, and there would be costs involved in developing the partnership model fully and introducing the necessary systems for implementation. Abellio, in response to Question 34, note that "*if GMCA did decide to pursue a partnership option, the proposed approach for TfGM to implement and manage that option is reasonable*".

4.10.18 The Operator Proposed Partnership could have more than 10 members all with their own competing commercial pressures. The risk of failure of the partnership is therefore high. The financial and other resources, such as the six full-time equivalents, are required to help seek to ensure that the benefits are enduring. Without such investment, it is more likely than not that any benefits of partnership would disappear. Without the investment, TfGM would not be able to monitor the performance of the partnership against its commitments, actively take part in the governance of the partnership (including the proposed working groups), or take part in decision making. Without this active engagement, the benefits of the partnership would definitely fall away to some extent and would be more like to reduce significantly.

General lack of appreciation of partnerships

4.10.19 A number of operators argued that the Assessment had not taken sufficient account of the potential for partnership to deliver passenger benefits and patronage growth; for example, Rotala, in response to Question 36 of the first consultation, felt that the Assessment had understated the partnership option. In particular, the following partnerships were cited as positive examples of what could be achieved:

- Brighton and Hove (Rotala);
- Greater Bristol (OneBus, Go-Ahead, Rotala);
- Lothian (Rotala);
- Merseyside / Liverpool City Region (OneBus, Arriva);
- Nottingham (Rotala);
- South Yorkshire Sheffield (Go-Ahead, Rotala) plus Rotherham, Barnsley and Doncaster (Rotala);
- Tyne and Wear (Go-Ahead);

- West Midlands (Go-Ahead, OneBus, Rotala); and
- Go-Ahead also referred to the benefits of guided busways in Bristol, Cambridge, Greater Manchester, Gosport/Fareham, Luton/Dunstable and Fastway (Crawley, Gatwick Airport and Horley) (Go-Ahead); however, guided busways are infrastructure and therefore not necessarily linked to the partnerships.

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

4.10.21 TfGM has used various forms of partnership to attempt to improve the bus network and service quality on behalf of GMCA. This shows that TfGM and GMCA do not undervalue partnerships, but have historically tried to use partnerships to achieve transport objectives. In particular, amongst other things:

- Using powers given in the Part II, sections 135 to 138, of the Transport Act 2000, Greater Manchester introduced a statutory Ticketing Scheme in 2003. This protected multi-operator travelcards offered voluntarily by operators through Greater Manchester Travelcards Ltd (GMTL) from an existing operator, leaving GMTL or a new operator entering the market and deciding not to join the GMTL;
- During work on the Transport Innovation Fund (TIF) in 2008, TfGM worked with operator representatives to review the bus network. Although congestion-charging, a crucial element of the TIF required by the Government, was rejected by a local referendum, discussions with operators on implementing the TIF network took place with operators, albeit with limited success. Although there have been no further wholesale network reviews, TfGM’s service planners regularly engage with operators with the aim of maximising the effectiveness and synergy of the commercial and subsidised networks and ensuring that commercial opportunities are not missed;
- The introduction of a Punctuality and Reliability Monitoring System (PRMS), using heavily revised roadside monitoring from 2009, combined with regular meetings with operators and agreed performance improvement plans, has helped operators to monitor and improve punctuality and reliability;
- A countywide VPA and Code of Conduct for bus operators was introduced in October 2010 to raise service delivery standards. Seven operators at that time collectively delivering 86% of Greater Manchester’s network mileage, including Arriva, First and Stagecoach, committed to VPAs embracing this Code of Conduct. Under the agreement, TfGM undertook to work with the Greater Manchester Authorities to resolve highway performance and infrastructure issues, and to maintain publicity and bus stop infrastructure. There were also operator undertakings covering driver training and behavioural standards, customer complaint handling and fares and information display;
- In April 2012, following negotiations with Stagecoach, a statutory Quality Partnership Scheme (QPS) for the Manchester – Hazel Grove (A6) was introduced. The QPS was underpinned by a complimentary VPA, setting out the framework for how all stakeholders would work in partnership to deliver the objectives of the QPS;
- Delays caused by opposition from a small operator meant that plans for a QPS on the Bolton – Leigh (A579) corridor were abandoned, since the age of infrastructure went

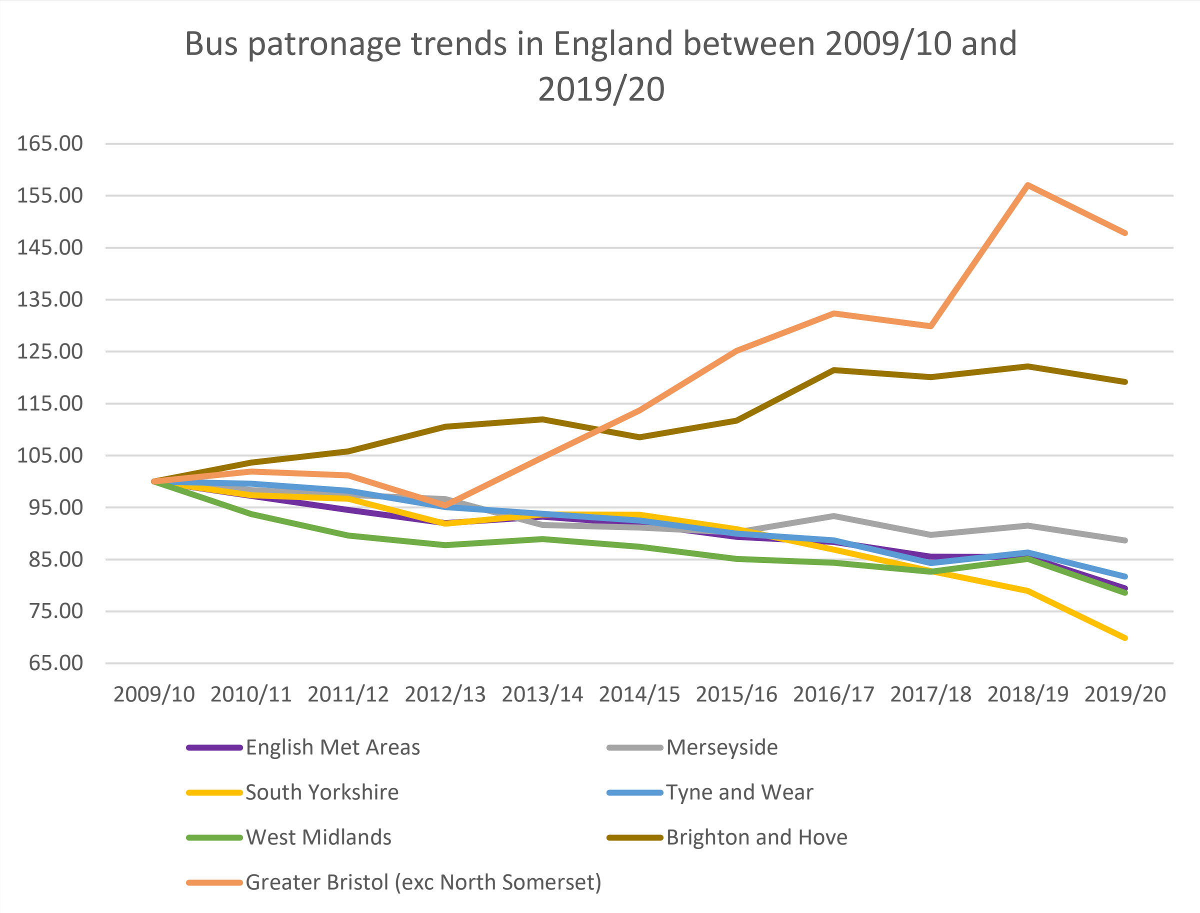
over the 10-year limit for a statutory QPS. Nevertheless, in 2013 a VPA was implemented in its place, covering many of the same performance criteria as the A6 statutory QPS;

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

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

4.10.23 We have summarised this data from DfT into the graph below to show the change in passenger journeys between 2009-10 and 2018-19. The table below also shows when partnerships were introduced in these respective areas:

Chart 4: Bus Patronage Trends in England between 2009/10 and 2019/20



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

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

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

4.10.26 It is difficult to isolate the many factors affecting bus patronage, but it is worth noting the high population density of Brighton & Hove and the City of Bristol (although not the surrounding area). A significant number of people in both areas also have a green ethos, meaning that many residents will be favourably disposed to public transport, even if they belong to a demography that would, in other areas, be less favourably disposed. Nevertheless, it seems likely that partnership has been beneficial in Brighton & Hove and Greater Bristol. However, it is worth noting that there has been considerable public investment in Bristol, for example, in 'Metro' services and in university bus services for the two universities. There has been over £230 million of public investment in metrobus. In Brighton, there has been implementation of extensive limitations on car use. Both of these are drivers of change, rather than the partnership itself, although partnerships can be useful and can help leverage such public investment.

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

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

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

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

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

4.10.32 Another factor that makes it difficult to assess the success of partnership is that different areas start from different positions. As noted earlier, there has been partnership working in Greater Manchester for over 20 years, whereas in some areas such initiatives are more novel. Many of the partnership initiatives elsewhere have also been implemented or tried in Greater Manchester: investment in bus priority and the waiting environment (most partnerships); simplified ticketing and fare reductions (Bristol, Liverpool City Region); network reviews (West Midlands, South Yorkshire); and safer travel (West Midlands).

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

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

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

Responses relevant to the advantages and disadvantages of the assessed partnerships

4.10.36 Sections 5.4 and 5.5 below look at the challenges posed to the economic analysis of monetised benefits in the Economic Case of the Assessment. This section notes challenges to how those potential benefits and disadvantages of the assessed partnerships were described in the Strategic Case. The Economic Case in the Assessment, at section 13.3.10 to 13.3.12, notes that the benefits of any partnership option are significantly more fragile and subject to erosion over time, because they require multiple parties to enter VPAs. As has frequently been seen elsewhere, such as Sheffield, these agreements can erode relatively quickly over time.

4.10.37 It is acknowledged in the Assessment at section 8.5 and also in the section below on Partnership Plus (which considers the latest version of the Operator Proposed Partnership option, submitted by OneBus as part of their first consultation response), that one of the benefits of a partnership is that it would offer less risk to GMCA. This is mainly due to operators retaining revenue risk and therefore GMCA assuming less direct financial risk. Transition costs under a partnership would also be lower than the Proposed Franchising Scheme. A number of consultee responses from operators and others have also correctly pointed this out. For example, Stockport Metropolitan Borough Council "*recognises the limitations of the partnership options but also notes the lower financial risk that would be incurred should these approaches be taken*".

4.10.38 A number of consultees set out that a partnership would be easier to implement. OneBus, in response to Question 34, note that the "*implementation of the Partnership would not be as complex as for the Franchising Scheme and not require the major procurement phase*". Tameside Metropolitan Borough Council recognise that, although it would not "*offer the full range of benefits which the document states will come from Franchise Contracts*", a partnership would "*appear easier to implement*". Bolton Council, in response to Question 38, note that the partnership option would result in little change and therefore would have limited impact on the operators as services, timetables and ticketing would continue to be decided by the operators, also highlighting that it would be easier to implement.

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

4.10.40 First claim in their answer to Question 3 that franchising does not provide significant benefits. In their answer to Question 16, First argue that there are restrictions on the potential of a partnership – namely legal constraints on cooperation on fares and constraints on the ability to run routes that are not profitable. They then argue that these are not changes that the bus market "*should*" make: that there should not be integrated fares, and routes that are not financially successful should not be funded.

4.10.41 They then argue that a partnership has the necessary levers to make improvements to the bus service. They argue that there is no constraint on what an operator could offer in terms of changing the network. On fares they note the only constraint is that operators would need to keep their own single fares. They argue much could be delivered on customer service and that aspects of branding (livery on buses) could be delivered by a partnership. First also claim that the idea of modelling the Ambitious Partnership is arrogant on behalf of TfGM. In their answer to Question 42, First somewhat contradict their earlier statements and assert that there is no constraint on what could be agreed as part of a partnership.

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

4.10.43 Rotala, in their answer to Question 14, set out some of the details of the Partnership Plus offer and claim that this is able to achieve GMCA's objectives for the bus service. In addition to setting this out, they make some further points in terms of these objectives. In terms of network, they claim that a partnership would achieve a great deal of change and cite the example of the West Midlands. They note that punctuality targets are enforced because of the enforcement of the Traffic Commissioner. They note that they have ordered new buses and that a CAZ could be implemented without franchising. On fares, Rotala cite the two-year fares freeze that is part of the partnership proposal, and on customer service would be able to put branding in place that would help customers. They also point to the profit share mechanism set out as part of Partnership Plus.

4.10.44 In response to Question 28 of the first consultation which considered the commercial implications of the partnership options, Stagecoach, Rotala and Go North West were amongst those that left favourable comments. Amongst the favourable non-statutory consultees were OneBus and Transdev. OneBus did not agree that the interoperability benefit would be reduced under a proposed partnership scheme, stating: "*There is a range of multi-operator and multi-modal tickets available now and under the partnership proposal the operators have agreed that these products will be the prime products for targeted marketing*". Transdev stated that *"We believe the partnership can achieve similar levels of benefits at a lower risk to the public purse*".

4.10.45 Some of the points made by operators with respect to the Proposed Franchising Scheme are discussed above. Arguments, adduced by operators, that the transition to franchising would be more costly than a partnership as set out in the Assessment and are discussed in the Commercial Case and the Management Case. The Commercial Case considers the operators' challenges in relation to depot related costs, the proposed RV mechanism and the procurement of intelligent transport systems (ITS) at sections 10.1.57, 10.1.74 and 10.1.101 of the Assessment respectively. These sections conclude that the Financial Case in the Assessment includes a prudent estimate of the costs associated with acquiring control of strategic depots including an independently obtained valuation and a quantified risk assessment. It concludes that different courses of action by incumbent operators in relation to the RV mechanism are likely to have a neutral effect on franchise cost implications. The Commercial Case also concludes that the strategy described in the Assessment, in relation to ITS equipment, is not based upon a conclusion that GMCA would be able to negotiate contracts with greater value, given the operators' challenge that the private sector is able to do this. The response on the Management Case, at section 8.3, considers the challenge that the costs associated with the transition to franchising had been underestimated in the Assessment. It concludes that while the transition timescales are ambitious, GMCA believe that they are achievable and do not underestimate the cost. GMCA are satisfied that the approach taken in the Assessment balances risk with the need to implement timescales that benefit customers and minimise the uncertainty for the operators.

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

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

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

4.10.49 In response to the points made by Stagecoach that TfGM have only considered the minimum that a partnership could do, the partnership that is assessed in the Strategic Case and is modelled in the Economic Case in the Assessment was one that emerged from the discussions with operators and was not an ‘minimum’ assumption. The potential longevity of the benefits under such a partnership are discussed in the Assessment, and it is noted that all such arrangements are subject to the commercial influences on operators and have changed in other places, such as Sheffield. In this context, it was appropriate in the Assessment to point out the lack of certainty about the long-term nature of benefits from a partnership, and for decision-makers to take this into account. In the Economic Case, the benefits of the partnership are nonetheless assumed to last as long as those for the Proposed Franchising Scheme.

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

4.10.51 In terms of what network changes are possible under a partnership raised by First, Transdev and Rotala, it is important to note that as well as the difficulty of co-ordinating a set of networks that continue to compete with each other, operators set out limits to this process. As set out in the Assessment (see Sections 8.5 and 9.2), operators did not agree to redeploy resource between operators or between different areas, and it is much harder in a deregulated network to achieve these types of changes. They also rejected the idea of a statutory EPS, which would allow more cooperation on network design than would be permissible under competition law under a VPA or an informal partnership. The assessment of what could be achieved in the Strategic Case (and the value ascribed to this in the Economic Case) in the Assessment was therefore based on the reality of how operators would approach this question.

4.10.52 The detail of the Partnership Plus offer has been assessed in a separate section, below (Section 10). The conclusion is that this does not offer a greater degree of benefit than the Ambitious Partnership examined in the Assessment. In some areas it is anticipated to perform better and in others less. For example, additional benefits would be gained from the additional revenue protection and customer service staff operators have committed to provide, the provision of 30 additional buses to the existing network and the proposal to allow acceptance of an operator ticket on a subsidised service for a surcharge of £1.00 (although in many circumstances this would offer no saving to passengers over and above buying a System One ticket). This is offset against a reduction in the commitment to provide driver training, with the assumption in the Assessment under both partnership options being an additional day of training per driver per annum, whereas under Partnership Plus this would form part of the annual CPC driver training. The assessment of the profit share mechanism that has been proposed under Partnership Plus shows that this is unlikely to be of great value to GMCA or in enhancing bus services. The amounts arising from the profit share scheme would be dependent on the level of funding available to make specific highway interventions in the first instance (as it is proposed that the share of profits would be derived from the increased profits as a result of specific interventions into the bus network, e.g. infrastructure). It would be extremely difficult to ascertain whether any increase in profit was down to an intervention; were some funds to be agreed, only 50% would be able to be put toward new schemes. By contrast, under franchising all further income would be able to be deployed on further measures, if this were the best way of using the funds.

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

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

Positive statements on partnership from local authorities

4.10.55 There were some further positive statements on partnerships made by other respondents to the consultation. Stockport Metropolitan Borough Council also acknowledge some of the benefits that partnership would bring, noting in response to Question 16 that "*previous partnership working has provided improvements in the borough on key routes*".

4.10.56 As Lancashire County Council also point out in their response to Question 36, "*the partnership approach may have less risk of a negative impact on neighbouring authority cross boundary services than the franchising scheme, as there would be no permitting process in place – status quo*". Although some of the current pressures may remain which have seen some services cut or being alternatively run as a subsidised service, with a partnership there would be no change to the ability to operate cross-boundary services under a partnership.

Speed of the partnership proposal

4.10.57 A number of the large operators currently operating in the Greater Manchester bus market set out, in their responses to the first consultation, that a partnership could be implemented, and in turn deliver benefits, more quickly and efficiently than the Proposed Franchising Scheme. TfGM fully support the need to ensure benefits are delivered as quickly as possible in order to improve the customer experience; this is evident in the Vision for Bus objectives set out in the Strategic Case of the Assessment, whereby the majority of the objectives are to be met within one to three years of intervention. However, it is not just about delivering change quickly, but also ensuring a quality service is delivered and maintained, offering long-lasting benefits.

4.10.58 Amongst the operators' first consultation responses, some of the comments in relation to partnership include Go North West in response to Question 15 who feel that a "*Partnership Plus VPA would enable GMCA to achieve its objectives, more quickly and at much lower risk*". This was also echoed in their response to Question 36 where they stated that a partnership would deliver benefits at a lower cost and lower risk. OneBus also state in response to Question 45 that under a partnership "*the customer improvements needed to make buses better can be delivered much quicker*". Stagecoach, in paragraph 1 of their response, as noted above, have also made it clear that their view is that a "*partnership offers a more economic, efficient and effective alternative to franchising*". First, in response to Question 41, state that a partnership-based approach would allow "*greater advantages to be gained, more quickly and at lower cost and risk*". CPT, in response to Question 36, state that the partnership approach would allow for timescales to be expedited. These views that any benefits would be realised quicker under a partnership were reflected in the Assessment and the Economic Case assumptions.

4.10.59 Although a VPA (i.e. the legal mechanism for a partnership put forward by operators) could be entered into relatively quickly on a practical basis, given where the VPA drafting has got to, the engagement with operators suggested otherwise. TfGM engaged extensively with operators to discuss how a partnership could be used to meet GMCA's objectives, since October 2017. As of June of 2020, there were a number of commercial aspects still to be agreed, and a number of commitments that are in effect 'commitments to commit'. This means that many commitments will not be agreed upon when entering into the VPA and that there remains some significant doubt as to exactly what would be delivered and when. Subsequently, the operators clarified that because of the Covid-19, they could no longer confirm the commitments in the original partnership. It is not possible to say when a new partnership might be possible

Comments on partnership and employees

4.10.60 Rochdale Borough Council and Stockport Metropolitan Borough Council state the effect that bus reform may have on employees involved in the bus public transport system across Greater Manchester. Stockport Metropolitan Borough Council acknowledge the lower impact of partnership on staff but that any form of bus reform needs to focus on protecting staff. First, in response to Question 29, note that "*a partnership-based approach led by shared objectives will better guarantee the long-term future of operator employees as it helps reduce the potential "shocks" to the system that Franchising would deliver*".

4.10.61 As noted at section 9.12 of the Ipsos MORI's June 2020 Consultation Report, 26% of the 174 consultees that responded to Question 29 (the potential impact of partnership options on the employees of operators) responded with favourable comments. This included many statutory consultees agreeing that a partnership would not impact employees and would not affect job security. For example, Abellio state in their response to Question 29 "*Abellio does not believe there would be any major impact on employees from a partnership or the Proposed Franchising Scheme. In both cases, employees would work for private suppliers*".

4.10.62 In response to Question 29 in relation to the impact of the partnership options on employees of operators, the majority of unfavourable comments came from members of the public (87 out of 92 unfavourable comments), whose main concern was around job security under a partnership approach, with one member of the public stating "*Under a partnership scheme, employees would still be subject to the bus operator's commercial whims. If one of the operators pulls out of bus operations, there wouldn't be the same safeguards you get from transitioning to another operator, as under a franchised structure*".

Comments on disadvantages of partnership

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

4.10.64 Bolton Council, in response to Question 38, consider that very little would change under a partnership: "*The Partnership options will have a limited impact on the operators as they will continue to run services and retain farebox profits. They will also continue to determine the timetables, ticketing, etc. meaning that very little would change*." This highlights the fact that GMCA would have less control under a partnership. Manchester City Council state that "*an enhanced partnership model is unlikely to alter the current situation*".

4.10.65 Question 28 of the first consultation asked consultees whether they have any comments on the Assessment of the commercial implications of the partnership options as set out in the Commercial Case. As noted at section 9.11 of the Ipsos MORI's June 2020 Consultation Report, of the 166 consultees that responded to this question, 30% answered favourably towards the partnership option. The majority of the statutory consultee responses were unfavourable. Bolton Council felt that: "*The partnership options do not offer the same controls as the proposed franchise scheme in terms of services to be run, uniform and integrated ticketing that can be used across all modes of transport*". Amongst other non-statutory consultees that left unfavourable comments in their response to the first consultation were The Chartered Institute of Logistics and Transport and Steady State Manchester Collective. As mentioned at section 9.11.2 of the Ipsos MORI report, Steady State Manchester Collective note the limitations of the partnership options, stating that they would "*deliver less of the needed systemic change than the franchising option [and] … are based on incumbent operators and could, paradoxically, be anti-competitive in that they could act as a barrier for new entrants*".

4.10.66 Rochdale Borough Council, in response to Question 28, note "*the Partnership Options offer few new ideas that enhance current service provision under the existing tender processes and there are few promises of step-change service improvements*". The amount of change possible under a partnership would be limited. As noted by Salford City Council in response to Question 16, the network would not be considered as a whole and therefore "*redistribution of resources that are currently in competition between operators would be limited. Opportunities for common ticketing and fare products would also be limited*". Salford City Council also note that partnership does not allow for a central planning function which is the core of developing a good bus network. Stockport consider that the economic benefits are greater under the Proposed Franchising Scheme and a partnership would not "*provide the flexibility to manage the network to support the wider Greater Manchester Objectives*".

4.10.67 Other consultees acknowledged that the partnership option did not address the demands and priorities that passengers want to see and agree with the conclusions reached in the Assessment on partnership. Rochdale Borough Council note in response to Question 16 that *"the Partnership Options offer less appeal to potential new passengers or those people considering a switch from less sustainable modes. The chance to integrate bus services with those of other sustainable modes of travel are also less deliverable through the Partnership Options."* Rochdale Borough Council note that although the partnership options are considered affordable, they do not generate sufficient benefits in terms of service improvements for passengers.

4.10.68 Question 16 of the first consultation asked respondents for comments on how a partnership option might contribute to GMCA's objectives for bus services as set out in the Strategic Case. The response was mixed. Of the participants that responded, section 7.3 of the Ipsos MORI report indicates that more than twice as many participants answered with unfavourable comments compared with those that answered with favourable comments. The positive statements about partnership by the operators involved have been set out above. Other statutory consultees favoured the Proposed Franchising Scheme, this included TravelWatch NorthWest and Bolton Council who, in response to Question 16, felt that "*a partnership agreement is unlikely to bring about the changes required to improve the system*". In relation to the responses from a total of 25 non-statutory consultees, 18 responded with unfavourable comments in response to Question 16. With regards to members of the public, 110 responded with favourable comments compared with 261 responding with unfavourable comments. 52 of the unfavourable comments were due to thoughts that the Proposed Franchising Scheme would be a better option than a partnership and 41 respondents stated that a partnership would not result in objectives being realised. As noted at section 7.3.3 of the Ipsos MORI report, one member of the public stated "*I don't feel partnerships will offer the best value for buses as operators still dictate routes, fares etc*".

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

4.11 Alternative proposals

4.11.1 As part of the responses to the first consultation, GMCA received three separate partnership proposals. Stagecoach submitted a proposition for consideration envisaging a partnership in the South of Greater Manchester while a franchising scheme would be implemented in the North of Greater Manchester; OneBus submitted their Partnership Plus proposal, which would see the whole of Greater Manchester operating under a partnership via a VPA, and First put forward a proposal to pilot a partnership in Oldham. These proposals are considered in further detail at section 10, Section 11, and Section 12 of this report (although Partnership Plus and Stagecoach's proposals are not now available).

4.11.2 A summary of OneBus' Partnership Plus, Stagecoach's South Manchester partnership proposal and First's proposal is provided below. The continued engagement with OneBus and its members, and the resulting consultee responses from the large incumbent operators, illustrated that the operators did not come together to offer the best possible partnership, as GMCA had three different and mutually exclusive partnership offers coming from the first consultation. Since that point, correspondence with operators has demonstrated that the effects of the Covid-19 pandemic means these partnership proposals are no longer available. Nevertheless, consideration of their key aspects is set out below.

Partnership Plus

4.11.3 Between October 2017 and November 2019 there was ongoing, extensive engagement with the operators in order to consider what could be achieved under a partnership option. As part of their first consultation response, OneBus have now come forward with "*an improved Partnership offer,*" referred to as Partnership Plus. This was an updated version of the partnership offer previously discussed with TfGM. TfGM reviewed the Partnership Plus offer in detail, which has involved consideration of the Partnership Plus commitments against each of the five cases in the Assessment. TfGM also sought clarification on a number of matters, given that, in the main, the level of detail provided for the new commitments was relatively low and a number of the commitments at best could be described as 'commitments to commit'.

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

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

- OneBus to recruit a total of 14 additional staff – primarily staff that will both provide revenue protection and customer service.

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

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

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

Stagecoach South Manchester Partnership Proposition

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

4.11.9 The proposals can be summarised as follows:

- Operations & fleet investment – Investment in fleet to deliver a reduction in the average age of Stagecoach's fleet in the South of Greater Manchester to seven years, investment in fleet to deliver Euro VI compliance by September 2021 (subject to funding from Defra).

- Network planning & performance – Improved consultation on changes made to services including the provision of additional data on unprofitable routes, the establishment of key performance indicators, including a performance regime. Stagecoach notably also propose to commercialise a portion of the currently subsidised services in the South of Greater Manchester and have calculated that this would represent a saving of approximately £1.8 million to GMCA per annum.

- Customer – Various initiatives to improve customer experience (11 in total) including a proposed unified brand and a proposed single point of customer contact.

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

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

4.11.10 Section 11.2 of this response analyses whether the proposals would enable GMCA to achieve the Vision for Bus as part of its Greater Manchester Transport Strategy 2040. The Strategic Implications section finds that overall, whilst Stagecoach intends that its proposal will create a "*seamless*" market in Greater Manchester, under the scenario proposed, GMCA is likely not to be able to achieve its objectives on simplicity, integration and in a number of other key areas including on network (in terms of the network, GMCA would not have control to be able to make its own decisions for the South of Greater Manchester (unlike in the North). Furthermore, there remains a risk around the longevity of any intervention (one of GMCA's objectives) as the partnership is voluntary in nature. The value of the profit share mechanism is also in doubt.

4.11.11 The Economic Implications (section 11.3) of this response concludes that the net present value (NPV) and benefit-cost ratio (BCR) of the Stagecoach partnership and a franchise in the North, both when considered individually and when combined, are likely to be substantially lower the Proposed Franchising Scheme. The NPV of the Stagecoach's partnership, as well as the combined franchising scheme in the North, may even be lower than the Operator Proposed Partnership, as Stagecoach's proposal would not result in the existing premium between the individual and multi-operator tickets being reduced (this has been assumed and therefore modelled for the partnership despite this only being offered "*following a review*").

4.11.12 The implications of the proposals from a commercial perspective are considered at section 11.4 of the Commercial Implications section: that whilst in theory Stagecoach's proposals result in a combination of two options already considered in the Assessment, the proposal would mean allowing two different regulatory frameworks for the bus network in Greater Manchester and this leads to some complications (particularly for services at the boundary between the North and South of Greater Manchester) and potential inefficiencies in managing the network. This means that, as the Management Implications section at section 11.6 explains, whilst the incremental operating costs of operating a combined partnership and franchising network could be less than operating the Proposed Franchising Scheme, it is likely that the overall scenario would be less efficient to manage, as TfGM would effectively be monitoring the bus network in Greater Manchester under two different regulatory frameworks.

4.11.13 The impact on affordability for GMCA is considered at section 11.5 of the Financial Implications section. It analyses how the overall funding requirement would likely change, and finds that funding needed for franchising the North only would not reduce in proportion to the scaled-down revenues and costs in a franchised area, and there would be costs to manage the partnership. There also remains a risk that the smaller franchise area in the North would be commercially weaker, as the North is currently commercially weaker than the South.

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

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

First Proposal

4.11.16 As part of the first consultation, TfGM received a proposal from First to adopt a pilot-based approach for both franchising and partnership in Greater Manchester. More specifically, First have proposed that a local partnership (LP) should be run as a trial in one area, in parallel to any new franchising or similar scheme being piloted in another. First consider that the LP approach would be "*particularly amenable*" to the local circumstances in Oldham where First have their operational base and depot in Greater Manchester.

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

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

Conclusion on the alternative partnership proposals

4.11.19 GMCA considered the alternative partnership proposals received as part of the first consultation. The level of detail provided within the Partnership Plus and Stagecoach proposals has allowed TfGM to perform a detailed review of these proposals against each of the five cases included in the Assessment, a summary of which is provided above, and further detail is considered at section 10 and section 11. The First pilot partnership proposal, along with the suggestions to trial franchising and the possibility of combining these proposals, for example, implementing the Stagecoach partnership in the South alongside the OneBus partnership in the North of Manchester, have also been considered.

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

Responses to the second consultation

4.11.21 Stagecoach suggested that the June 2020 report had only tested a ‘strawman’ and “*discounted the partnership option on a binary (yes / no) basis*” and that GMCA did not take an equal approach to partnership or devote equal resources to it (SC Business Response 10.4e). However, it is clear from the extensive engagement with operators before the Assessment was completed and during the first consultation with Stagecoach on their own partnership that this option was not discounted without sufficient effort being paid. The consideration of partnerships in the Assessment and subsequently (including in sections 10, 11, and 12) has been undertaken across the five parts of the business case, and not on a ‘binary’ basis.

4.11.22 In the main, responses to the second consultation on partnership accepted the fact that the partnership proposals that had been submitted previously were no longer valid because of the Covid-19 crisis. Some operators such as Stagecoach argued that any decision on franchising and any further consultation should have been delayed until operators in Greater Manchester chose to put a revised partnership offer together. These points are addressed in section 17.2.

Partnership conclusion

4.11.23 A number of the consultee responses to the first consultation raised a concern that the partnership option had not been given enough consideration in the Assessment. TfGM is satisfied that there had been extensive and meaningful engagement with the operators and other stakeholders, including over 90 meetings between TfGM and operators between October 2017 and November 2019 to discuss their partnership offer, and it is considered that operators had considerable opportunity to come forward with their best offer. Operators were aware of the timetable and had ample time to develop and agree a strong partnership proposal. The Operator Proposed Partnership, appraised in the Assessment, was a fair reflection of what TfGM understood to be the potential for the partnership then proposed. Subsequent proposals (assessed in section 10 onwards) have been carefully considered by TfGM in the context of the first consultation, and appear to be reactive to the Assessment. They cannot be taken as evidence that the partnership proposal included within the Assessment was insufficiently developed by TfGM.

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

4.11.25 The arguments that the Proposed Franchising Scheme does not deliver the benefits that are set out in the Assessment are dealt with above. The conclusion of this analysis is that the analysis of how effectively the Proposed Franchising Scheme would achieve GMCA's objectives in the Assessment was appropriate, and that the Proposed Franchising Scheme remains the option that has the better chance of achieving those objectives.

4.11.26 As set out at section 64.1.4 to 64.1.7 of the Assessment, the cost of the Proposed Franchising Scheme is higher, and the associated risks were also higher than the partnership options then available. Points made that the Proposed Franchising Scheme comes at greater risk (particularly during transition) are dealt with in the examination of the Management Case in section 8 of this response. Other than simply asserting that the risks exist, operators have not shown that they were underestimated in the Assessment or that the mitigations set out were inadequate. Whilst there is greater cost and risk with the Proposed Franchising Scheme, the clear difference in the ability of the two interventions to achieve GMCA's objectives mean that it can be an appropriate choice to implement the Proposed Franchising Scheme in preference to a partnership.

4.11.27 This remains the case in the context of the Covid-19 pandemic and the different scenarios set out in the Covid-19 Impact Report, particularly because at this stage, the operators have confirmed that the partnership offers do not stand. Discussion of responses to the second consultation on this point is at the sections regarding partnerships below (section 10, 11, 12, 13 and 14).

4.11.28 Having considered the responses to consultation, TfGM is satisfied in the robustness and quality of the assessment in the Strategic Case of the advantages of a partnership, and the extent to which they would achieve GMCA's objectives. Such an assessment needs to be made on the specifics of the partnership proposed by operators, and none of the points made by operators on how this would affect the network, fares or customer service show that the analysis made in the Assessment of how effectively these achieve the relevent objectives was flawed. It is also the case that the Assessment did not ignore the fact the partnership could be put in place more quickly than the Proposed Franchising Scheme, and this is accounted for the in the benefits set out in the Economic Case. Whilst partnerships can be positive and can be particularly useful where there is extensive public investment in deregulated markets, there is no evidence that without such investment they have a dramatic effect on patronage. Further analysis of the improved option put forward by operators during the consultation period (set out below in section 10) shows that this was not likely to deliver a far greater level of benefit. As set out below at section 4.12, TfGM do not consider that implementing a partnership would create more scope for anti-congestion measures. By contrast, the Proposed Franchising Scheme would enable a wider range of 'Phase 2' measures and would improve their VfM.

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

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

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

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

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

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

4.12.6 Some of the measures that can be implemented are also better VfM when undertaken under the Proposed Franchising Scheme. Where an authority invests public money, and this results in increased patronage, the resulting profits are realised by operators in a deregulated market, but would revert to GMCA under the Proposed Franchising Scheme and benefit the people of Greater Manchester, and facilitate further investment, as well as benefitting GMCA and the people of Greater Manchester (a discussion of profit share mechanisms proposed by operators during the first consultation period as part of different revised partnership proposals are set out at section 10 and Section 11). Table 4 below reflects the analysis set out in the Strategic Case of the Assessment at section 8.7.

Table 4: Investment in Bus under Alternative Market Structures

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

4.12.7 Whilst it is not possible nor appropriate to count on positive benefits from 'Phase 2' measures in the forecasts of improved patronage under the Proposed Franchising Scheme, it is right to point to the potential benefits they could bring. TfGM remains satisfied that its Assessment adequately accounts for 'Phase 2' interventions, given the flexibility in the implementation of the Proposed Franchising Scheme to allow for those interventions to be developed in a variable policy and economic environment. The case underpinning the Proposed Franchising Scheme is not dependent on any realisation of some or all of the 'Phase 2' interventions, but it is right to highlight that particular 'Phase 2' interventions may give rise to future opportunity, and therefore realisation of future potential value.

4.12.8 In response to the second consultation, the Association of British Commuters commented that they believe that regulation also gives Government and local authorities better incentive to invest, knowing that they will not only be in charge of strategic planning, which supports the point above that it is important to point to the potential benefits franchising could encourage for 'Phase 2' measures.

'Phase 2' measures and the opportunity cost of franchising

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

4.12.10 Some operators, in their responses to the first consultation, contend that it would be better to address congestion before addressing bus reform. For instance, First Manchester, in their answer to Question 16, state that "*surely the correct approach, as adopted in many areas of the UK already, is to address these issues first, thereby providing an environment where bus operators are able to maximise their operational efficiency and provide a higher standard of service that passengers need*".

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

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

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

4.12.13 GMCA have a view of what bus schemes should be taken forward irrespective of the decision on the Proposed Franchising Scheme, and franchising has not been viewed as an alternative to such a capital programme. The Greater Manchester Transport Strategy 2040 Delivery Plan 2021-26 (GMCA, January 2021) established a forward programme through the establishment of Quality Bus Transit Corridors, particularly along core routes between adjacent town centres. Such schemes will need a positive VfM case to be made to be taken forward.

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

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

4.12.16 These full options to reform the market were considered because there was a case for change, identified in the Assessment, to reform the market and not continue with the current market. GMCA has invested historically in bus priority, but there is a need to make broader changes; hence the consideration of the Proposed Franchising Scheme and a partnership that addressed issues across Greater Manchester. For this reason, there is not an either/or decision to choose between continuing to invest, as GMCA have done, in measures to reduce congestion versus implementing the Proposed Franchising Scheme. The programme can and will be pursued regardless of any decision to proceed with the Proposed Franchising Scheme, but is likely to be stronger under the Proposed Franchising Scheme.

4.12.17 In response to the second consultation, Trafford Metropolitan Borough Council commented that an improved transport system will support economic activity and reduce congestion, which supports TfGM conclusions that reforming the bus market will allow GMCA to tackle congestion.

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

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

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

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

4.12.20 Alternative views will always exist with regards to where best to spend public money, in this case, specifically, the potential opportunity costs of spending more money on congestion relief. However, the issue of opportunity cost is inherently considered when doing any economic appraisal. If the VfM rating for a project is poor, the implication is that the 'potential benefits to society of alternative options foregone (the DfT definition of an opportunity cost) could well be expected to be higher for alternatives. The Covid-19 Impact Report presented a set of 'what if?' tests looking at the effects of the Covid-19 pandemic on the VfM of the Proposed Franchising Scheme:

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

4.12.21 After the reduction in benefits from steps one and two, the rating for the Proposed Franchising Scheme was over 2:1 under three of the four scenarios. This suggests that there are few alternative spending options that would return greater value per pound spent. Taking into account further reductions of benefits under step three – the VfM is good under Scenarios 2 and 4; less good but positive under Scenario 1 and poor under Scenario 3. It should be noted that alternative proposals would now have extremely poor VfM (because there are no commitments that would create benefits). The Covid-19 Impact Report gives decision-makers the information, both in terms of monetised benefits and other benefits and effects, to understand the VfM of different interventions and make spending choices. It is not typical, nor would it be appropriate or reasonable, to seek to 'level up' the financial cost of each option under consideration in a business case assessment study of this type. Solutions considered in business cases almost always have different costs and different benefits, and they are considered against common standards of strategic fit and VfM in order to determine the best way forward.

4.12.22 Stagecoach's contention that, if a partnership were to be pursued rather than franchising, GMCA could "*save*" £134 million which could be devoted to 'Phase 2' measures, is in any event flawed. The Assessment found that in the transition period up to 2024-25, there would be forecast net costs of £122 million for the Proposed Franchising Scheme and forecast costs of £13.8 million for the Operator Proposed Partnership; a difference in the transition costs of approximately £108 million in cash terms (less than the £134.5 million identified by Stagecoach). But this comparison only relates to the transition period. It ignores the period after 2024-25 and the ongoing costs of partnerships, which the Assessment found would be approximately £83.6 million for the Operator Proposed Partnership, compared with a forecast cumulative net surplus for the Proposed Franchising Scheme of £94.4 million over the same period. The spending for the different options over the full appraisal period is in cash terms and is incurred over different timeframes, and so cannot be directly compared on a pound for pound basis. However, a high-level exercise to 'discount' the cash costs of the Proposed Franchising Scheme and the Operator Proposed Partnership to current, approximately 2019-20, prices would result in a cost difference or 'saving' to GMCA in the order of £56 million in current prices , significantly less than the £134.5 million referred to by Stagecoach, which could potentially be spent on 'Phase 2' measures over the relevant appraisal period. In practice, any spending and funding availability would also depend on (i) the balance of capital and revenue funding required for bus priority interventions (and whether GMCA would be liable for any ongoing lifecycle costs) and (ii) the timing and associated funding profile for the same proposed interventions. It would also depend on whether there were other projects, not necessarily related to buses, that GMCA might choose to spend any 'savings' on.

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

4.12.24 Stagecoach has not proposed any specific interventions for which any savings could be used. Its claim that investing any savings from introducing a partnership, rather than franchising together with a partnership, would produce better VfM than franchising is purely an assertion, with no explanation as to what would be funded, over what period or with what benefits.

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

2040, which requires wider considerations to be taken into account. It would also be necessary to take into account the needs of other road users and the overall effect any schemes could have on congestion.

4.12.26 It is obviously impossible to carry out an economic assessment of Stagecoach's contention in the same way as franchising and the partnership options were considered in the Assessment, in the absence of any details about, for example, the specific schemes in any programme of measures and when they might be carried out. Given the amount that GMCA would 'save' is in the order of £56 million in current prices with a partnership rather than a franchising scheme, it is likely that the number of bus priority schemes that could be progressed using this money would only cover a relatively small subset of the overall bus network. The range of parameters that could apply to such schemes means it is very difficult to make any reliable assumptions as to their likely value. There is no reason to assume, as Stagecoach appear to do, that, when their value is added to that of a partnership, it will exceed the likely value of franchising. If it were to be assumed that the economic performance of such a programme of bus priority would be consistent with the programme averages quoted by a Greener Journeys report and if the full allocation of the £56 million 'saving' was spent on bus priority measures, for example, then the resulting derived NPV when added to that of the partnership option would be likely (under three of the four scenarios) to be less than that of the Proposed Franchising Scheme over the appraisal period – particularly because no benefits could currently be ascribed to the partnership option.

4.12.27 The VfM of any 'Phase 2' measures taken in conjunction with a partnership is also likely to be lower than such measures taken in conjunction with the Proposed Franchising Scheme, as there would be a narrower range of options available for spending, and those that could be undertaken under either option would be likely to have poorer VfM with a partnership than with franchising, because revenue generation associated with the improved service would not accrue to GMCA to offset investment costs.

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

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

Opportunity cost in the context of the Covid-19 pandemic

4.12.30 In their responses to the second consultation, some operators have made similar points. Go North West suggest that "*given the inevitable pressures on Treasury funding it is paramount that we prioritise passenger recovery (without regulatory distraction) to help ensure a sustainable network that then forms a viable franchising proposition for the longer term*" (p.2). As a consequence, they suggest a different path to franchising via direct award of contracts (this is considered in section 14). They suggest that there may be a funding gap during transition, and that would need to be met by central government, local taxation or changes to the service (p.4).

4.12.31 Stagecoach note the increased pressure and the fact that the £134.5 million transitional cost is not to be spent on network, fares or new buses, saying that there may be competing pressures for the money. (SC Business Response 5.1, 5.2) Stagecoach go on to cite some specific pressures such as Manchester Airport, a report of GMCA's Audit Committee of January 2021 (and cite some specific shortfalls and risks from GMCA documents), and say that there would be lower farebox and less money available from business rates (SC Business Response 5.3-5). This point is repeated in 7.1 in considering the impact on GMCA of the Proposed Franchising Scheme.

4.12.32 Go North West, in their answer to question 3, argue that the use of local funding would have an "*associated opportunity cost*" and that it is unclear whether this cost has been accounted for in the updated VfM statement. In their answer to 9B, Go North West assert that the identified funding in the Financial Case is not sufficient to cover the costs of the Franchising Scheme.

4.12.33 First, in comparing the Proposed Franchising Scheme to partnership state that say that "*The need for costs to be underwritten by local taxpayers at a time when local economic conditions are both unfavourable and uncertain also weighs heavily against franchising*." CPT quote from a You Gov poll from 2020 (the poll was actually commissioned by OneBus and reported in April of 2019), which reported a figure of 76% not wanting increases in Council Tax to pay for better public transport.

4.12.34 Bolton Council suggest that the proposal should be subject to a full business case, and that they wish to consider both how the investment will represent VfM and how it fits within Local Authority and GMCA priorities.

4.12.35 Local authorities are likely to be facing additional pressures and some reduction in local tax revenues following the Covid-19 pandemic. In this context, district local authorities and GMCA will continue to make spending decisions in the same way as at present, which includes consideration of the strategic, economic and financial aspects of projects or programmes. GMCA has set out its priorities in the Greater Manchester Strategy and supporting documents such as its local transport plan. Using the powers in the Transport Act 2000 (as amended) and considering franchising was part of that strategy. Decision-makers are aware of the respective financial pressures and the need to balance competing priorities, and any decision that they take will be done so with an understanding of the budgetary issues that GMCA and the local authorities face. However, the process for implementing the Proposed Franchising Scheme does not, and need not, include a 'Full Business Case' following a Mayoral decision. There will be continual reviews of the VfM, affordability and efficiency of spending on bus reform through the tendering process and the commissioning of services annually, as part of the budget setting process; and on an ongoing basis via budget monitoring reports, all of which will be monitored by GMCA via the Committee and its sub-committees. Ongoing governance and scrutiny through GMCA will examine the value of TfGM spend on bus (as it does currently in other areas) on an annual basis.

4.12.36 It is not clear what Go North West mean when they say that it is unclear whether the cost has been accounted for in the material presented on VfM – opportunity cost it is inherent to a VfM assessment. The response on the Financial Case sets out the sources of funding and concludes that the funding is available and sufficient to cover the costs of the Proposed Franchising Scheme. It also sets out the increased uncertainty and the possibility that (particularly in a situation more like Scenario 3 than the others) further mitigations would be necessary.

4.12.37 There is no suggestion that implementing the Proposed Franchising Scheme would take priority over or would have the effect of inhibiting efforts at supporting the recovery of the bus market. Some operators have suggested that taking advantage of Government support for the market through 'recovery partnerships' should take precedence over implementing the Scheme, but as set out at section 13, such arrangement would be pursued irrespective of the choice to implement the Proposed Franchising Scheme or not, and would potentially (as suggested by Go North West) provide some support before the implementation of the Scheme.

4.12.38 Operators have not collectively proposed a specific viable partnership offer for the longer term, or any other particular use of any resources that could be assessed in terms of their VfM compared with the Proposed Franchising Scheme. Go North West, as discussed in the section on 'recovery partnerships' (section 13) suggest a range of things that could be part of 'recovery partnerships', but as set out there these would either be part of plans whatever the market structure (e.g. a publicity campaign, support for infrastructure or electrification), or would require agreement among operators that has not so far been forthcoming (such as universal travel on one operator's ticket). The measures that might support the bus service in a recovery period would not be different from those Phase 2 measures that would support the service at any other time. The same considerations apply to them in in terms of VfM during a period of recovery as at any other time. Thus, the conclusion set out above, that the VfM of any 'Phase 2' measures taken in conjunction with a partnership is also likely to be lower than such measures taken in conjunction with the Proposed Franchising Scheme, would remain the case despite the effects of Covid-19 as this would not affect the . Given the lack of a partnership offer from operators (beyond a willingness to take advantage of Government funding that would be available in any case), it is more likely than previously the case that this will remain the case.

4.12.39 In the immediate recovery period and beyond, the increased proportion of public money going into support the bus service in Greater Manchester means that getting VfM from this is ever more important. The analysis in the Assessment set out above at section 1.12.5-7 demonstrates that the VfM of 'Phase 2' measures to support the bus service would be better under franchising than under a partnership and more extensive support for the bus service would be possible.

Conclusion

4.12.40 Franchising is not proposed as an alternative to 'Phase 2' measures but as a reform of the bus market which will enable a greater variety of 'Phase 2' measures to be implemented. The need for reform demonstrated in the Assessment means that it would not be appropriate, as First Manchester suggests, to invest in bus priority measures before considering the Proposed Franchising Scheme. This would be to continue with the current policy of implementing bus priority measures without reforming the market, which the Assessment shows has left significant challenges unaddressed. Investment in such measures and reform are complementary measures as the Greater Manchester Transport Strategy 2040 sets out.

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

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

4.12.43 Second, the figure quoted by Stagecoach in its response to the first consultation, of the money available (£134 million) does not take account of the costs of the different options over the appraisal period. In cash terms, the figures quoted in the Assessment show that the partnership would cost GMCA more than franchising over the whole period. On a discounted basis, taking account of the greater value of spending in the near term, the figures in the Assessment imply there would be a 'saving' of not introducing the Proposed Franchising Scheme in the order of £56 million (ignoring any forecast surplus from franchising after the end of the transition period). This may be different in a post-Covid world, but there would be long-term costs of a partnership option to be weighed against the longer-term balance of cost and income under the Proposed Franchising Scheme.

4.12.44 Third, efforts to develop schemes with operators did not yield a viable set of schemes by June of 2020 and further progress has been inhibited by the Covid-19 pandemic. Even if schemes had been identified, then where more significant intervention is required, there would be a need for engagement with many stakeholders, including operators and the relevant highway authorities, who would need to be involved in the development of such schemes. The types of intervention that would aid recovery Covid-19 do not differ in type from those proposed as part of Phase 2 – such as bus priority infrastructure or investment in electrification.

4.12.45 Fourth, because there is no detailed programme specifying which measures would be carried out and when to appraise, it is not possible to make confident predictions about the value of such schemes. There is no reason to assume, as Stagecoach appear to do, that, when their value is added to that of a partnership, it would exceed the likely value of franchising. Thus, even if the money were spent on schemes that achieved the high VfM set out for such schemes in the Greener Journeys report, the assessed NPV over the appraisal period for the Proposed Franchising Scheme is likely, under three of three of the four post-COVID-19 scenarios, to remain higher than that of the partnership over the appraisal period. Currently there are very few benefits that can be ascribed to a partnership. Even under the Scenario 3, where the monetised benefits of franchising are low, the benefits of any additional scheme would also be very low, as they would benefit fewer passengers.

4.12.46 Fifth, the VfM of any 'Phase 2' measures taken in conjunction with a partnership is likely to be lower than such measures taken in conjunction with the Proposed Franchising Scheme, as there would be a narrower range of options available for spending and those that could be undertaken under either option would be likely to have poorer VfM with a partnership than with franchising, because revenue generation associated with the improved service would not accrue to GMCA to offset investment costs. This would remain the case despite the Covid-19 pandemic, as it would not alter the dynamics in terms of the comparison between the Proposed Franchising Scheme and a partnership.

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

4.13 Insight from the qualitative research on Strategic Case issues

4.13.1 There were two parts of Ipsos Mori's June 2020 Qualitative Research Report that are relevant to the Strategic Case. There was a discussion on the current performance of the bus network and a discussion on the options for reform. More detail can be found in a separate report on this as discussed above.

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

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

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

- There was general support for moving away from a commercial model and participants were quick to appreciate the improvements they might experience as a result of the proposed changes;
- People liked the idea of an integrated transport system where modes and connecting buses work together more efficiently to connect people in a reliable way;
- The proposed changes to a standardised pricing strategy, and simplified ticketing to be used across all buses, were welcomed by participants, who said it would make their lives easier. Alongside this, participants welcomed the potential for better routes. Businesses overwhelmingly agreed that employees would approve of the proposals and that both employees and employers would benefit from them;
- However, there were reservations from individuals about the finances and costing of the proposal. Beyond the initial reservations, participants raised concerns about how the service would be affected, the impact on the cost of a ticket and the potential for

'monopolisation' of a few operators versus the current deregulated system, as well as risk to employees of bus companies, particularly the potential for job losses; and

- Businesses expressed concerns about operators adhering to standards that they should already be aiming for under current systems. In other words, they were already starting from a low bar and providing a sub-standard service.

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

4.13.5 Qualitative research was also undertaken during the second consultation. Ipsos MORI's March 2021 Consultation Report set out some of the findings from this process, which showed that there were several reasons cited from a number of participants as to why the Proposed Franchising Scheme better meets the GMCA's objectives:

- Control - an overall 'regulator' will ensure there is a service on the less profitable routes and they will be able to ensure there is a certain standard of service across Greater Manchester;
- Integrated tickets and simplifying fares would encourage more people to use the bus service and provide them with travel options;

"Pre-Covid-19 I just used the tram, but if, with that tram ticket, I could use the bus, not for work, but if I could get a weekly ticket, I probably wouldn't take the car at the weekend, I'd get the bus." Female, 32, Oldham

- There was comparison made to the Oyster card in London and how that simplifies travel even in a city you don't know;
- Better value for money; and
- Improving the service in this way could limit the fall in bus patronage even in the most pessimistic of scenarios, and it may also help realise Scenario 2, the most optimistic outcome for bus patronage.
- There was also a general comment made about why the Proposed Franchising Scheme had not been considered sooner.

"It's not like it's not been done before, it's how they do it all over the world, so why has GM not done this before?" Female, 41, Bolton

4.13.6 Ipsos MORI's March 2021 Consultation Report also showed that there were several reasons cited from a number of participants as to why the Proposed Franchising Scheme better meets the GMCA's objectives:

- Implementation costs – a partnership option will require less investment;
- A question mark as to whether it will be affordable at this moment in time;
- A worry that bus travel may become more expensive;
- That a change in the current system could affect bus operators' jobs; and
- There was concern that bus operators may not want to bid for the less profitable routes or bid more generally, given their profit margins will have fallen during the pandemic.

4.13.7 Although perhaps not explicitly negative, there was a question mark from some as to whether TfGM were confident that the changes to the bus service were doable in the current climate. There was also a question around whether such an arrangement could favour larger operators.

4.14 Conclusion to Strategic Case issues

General Market Update

4.14.1 The General Market Update at section 4.2 demonstrates that the loss of patronage in the Greater Manchester bus market has continued in the latest figures available, from 189.1 million in 2018-19 to a provisional 185.4 million in 2019-20. Commercial mileage run by operators has also declined significantly by a further 5.2% between 2018 and 2019, and subsidised mileage has declined by 2.2% over the same period. This means the bus network in Greater Manchester is nearly 5% smaller than a year previously.

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

4.14.3 An update following the second consultation shows a marked reduction in mileage due to Covid-19 for 2020, and the bus network is now supported by public funding through the CBSSG. Since the Covid-19 Impact Report was published in November 2020, there have been further restrictions imposed across the UK and a national lockdown imposed on 6 January. These interventions have resulted in a decline in bus patronage since November 2020, when recovery was at c.60% of pre-Covid levels, with bus patronage recovery compared to pre-Covid-19 levels falling to c.35% in February 2021.

Responses to the First Consultation

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

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

4.14.6 Whilst there were many stakeholders and members of the public who were supportive of the analysis presented in the Strategic Case, and the conclusion that implementing the Proposed Franchising Scheme would best meet GMCA's objectives, there were also challenges. These principally came from incumbent operators in Greater Manchester. They argued that the main cause of problems with the bus market was not how it functioned but externally from increasing congestion and from competition from the expanded Metrolink service. They concluded from this that the Proposed Franchising Scheme would not solve the main problems with the bus service and so a partnership with operators should instead be implemented, along with a public spending to reduce the effects of congestion on the bus service. The following sections set out the conclusions from the first consultation, noting if the analysis would substantively change because of the Covid-19 pandemic. The section following sets out the conclusions following the second consultation.

Causes of Decline

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

Congestion

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

Metrolink and cuts to subsidised mileage

4.14.9 However, TfGM is confident that is has set out effects of the key factors of congestion and Metrolink abstraction adduced by operators in the Assessment; the figures quoted in the Assessment on abstraction from bus to Metrolink are an overestimate of the likely effect of new lines and increased patronage. Operators' discussions of the role of the expansion of Metrolink, and cuts to funding of subsidised services, do not reflect the scale of those challenges, and the basis of their calculation in this regard is flawed. Cuts in subsidised mileage are far less than those in the commercial network – 1.2 million against 5.9 million.

Operators challenge that decline is caused almost entirely by Metrolink expansion and reduction in subsidised mileage do not stand up to scrutiny.

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

Competition, network inefficiency and fares

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

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

Objectives

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

Competition and the change to a franchised market

4.14.14 Some respondents commented on the change from a deregulated to a franchised market, where the public authority takes revenue risk and specifies the service. There was support for a franchised model from a variety of stakeholders and also members of the public. Two reports that argue in favour of a franchised bus model were cited as part of statutory consultee responses. Abellio referenced a report published by Centre for Cities in November 2019, entitled "*Delivering change – improving urban bus transport",* which provides analysis that supports Abellio's view that a franchised scheme would deliver the greatest benefits to GMCA. Unison cited a report by Transport for Quality of Life, "*Building a World-class Bus System for Britain*", which supports their view that franchising enhances service provision through increased public control.

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

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

4.14.17 Some operators criticised the record of London since the market there was franchised rather than deregulated. In fact, over the long term, London has been the only place in the UK to buck the trend of declining patronage. In recent years, while there have been cuts to the subsidy offered to London, performance has held up. DfT note that between 2008-09 and 2018-19 numbers fell in London by 1.4% whereas in England outside London they fell by 11.9%, contradicting operators' suggestions that the franchised market in London has performed less well than deregulated markets.

Franchising: network

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

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

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

Franchising: Customer service

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

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

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

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

Franchising: Fares

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

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

Cross-boundary Services

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

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

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

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

Consideration of partnership proposals

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

4.14.31 Operators challenged the costs ascribed to partnership in the Assessment, arguing that it could be absorbed as business as usual. However, the governance proposals require a great deal of active participation and engagement in order to work. This is appropriate – to be confident of any benefits arising, a partnership would require commitment of resources. The partnership costs were developed based upon information received from the operators, the proposed governance structure and by following a logical process.

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

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

4.14.34 There have been subsequent (mutually exclusive) partnership proposals, and the potential for these to deliver greater benefit than that considered in the Assessment is considered elsewhere (see Section 10 and Section 11 of this report) and none of these proposals were found to bring significantly greater benefits or achieve GMCA's objectives to a much greater extent than the partnership in the Assessment.

4.14.35 Although it is recognised that a partnership could be entered into relatively quickly, there remains doubt over what could be delivered and when. It is not just about delivering change quickly, but also about offering long-term benefits. There is little assurance that the benefits would continue to be delivered over the long term, given the initial term of the partnership would be five years. As set out at section 64.1.4 to 64.1.7 of the Assessment, TfGM were aware that the cost of the Proposed Franchising Scheme is higher, and the associated risk is also higher than the partnership option. It is also the case that the Assessment did not ignore the fact the partnership could be put in place more quickly than the Proposed Franchising Scheme, and this is accounted for in the benefits set out in the Economic Case.

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

4.14.36 Franchising is not proposed as an alternative to 'Phase 2' measures but as a reform of the bus market which will enable a greater variety of 'Phase 2' measures to be implemented. The need for reform demonstrated in the Assessment means that it would not be appropriate, as First suggest, to invest in bus priority measures before considering the Proposed Franchising Scheme. This would be to continue with the current policy of implementing bus priority measures without reforming the market which the Assessment shows has left significant challenges unaddressed. Investment in such measures and reform are complementary measures as the Greater Manchester Transport Strategy 2040 sets out.

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

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

4.14.39 Second, the figure quoted by Stagecoach of the money available (£134 million) does not take account of the costs of the different options over the appraisal period. In cash terms, the partnership would cost GMCA more than franchising over the whole period. On a discounted basis, taking account of the greater value of spending in the near term, there would be a 'saving' of not introducing the Proposed Franchising Scheme in the order of £56 million (ignoring any forecast surplus from franchising after the end of the transition period). This figure is likely to be different under following the Covid-19 pandemic, but the different between the schemes is not represented by the £134 million figure but by their relative performance over the 30-year appraisal period and beyond which does not necessarily favour a partnership option.

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

4.14.41 Fourth, because there is no detailed programme specifying which measures would be carried out and when to appraise, it is not possible to make confident predictions about the value of such schemes. There is no reason to assume, as Stagecoach appears to do, that, when their value is added to that of a partnership, it would exceed the likely value of franchising (this remains the case in the context of three of the four Covid-19 scenarios; under scenario three it will be very difficult to predict the VfM of any interventions in the bus service in quantified terms, given the small number of passengers). Thus, even if the money were spent on schemes that achieved the high VfM set out for such schemes in the Greener Journeys report, the NPV over the appraisal period for the Proposed Franchising Scheme would remain higher than that of the partnership.

4.14.42 Fifth, the VfM of any 'Phase 2' measures taken in conjunction with a partnership is likely to be lower than such measures taken in conjunction with the Proposed Franchising Scheme, as there would be a narrower range of options available for spending and those that could be undertaken under either option would be likely to have poorer VfM with a partnership than with franchising because revenue generation associated with the improved service would not accrue to GMCA to offset investment costs. This would remain true under the Covid-19 scenarios. The assessed NPV over the appraisal period for the Proposed Franchising Scheme is likely, under three of three of the four post-COVID-19 scenarios, to remain higher than that of the partnership over the appraisal period, especially as currently there are very few benefits that can be ascribed to a partnership. Even under Scenario 3, where the monetised benefits of franchising are low, the benefits of any additional scheme would also be very low as they would benefit fewer passengers.

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

4.15 Responses to the Second Consultation

4.15.1 There were a variety of responses to the second consultation on the Strategic Case, and the conclusion of the Covid-19 Impact Report. There was support from members of the public and from a variety of stakeholders for the conclusions of the report that the challenges of the bus market remained and should be addressed, and that the Proposed Franchising Scheme still performed better against the alternatives in achieving GMCA's objectives for the bus market.

4.15.2 In response to the second consultation, most of the responses critical of the Proposed Franchising Scheme focused on the effects of Covid-19 rather than issues of the competition, and the analysis of the market set out in the Assessment that were the subject of much attention during the first consultation. They challenged TfGM use of scenarios and the analysis based on that in the economic and financial cases. There were comments on the appropriateness of proceeding now given that public finances are likely to be under greater strain because of the effects of Covid-19.

Challenges for the bus market and GMCA's Objectives

4.15.3 In response to the second consultation, operators did not challenge the specific accounts given in the Assessment on individual challenges facing the bus market. A number of incumbent operators argued in their responses that the impact of Covid-19 meant that the bus market faced a different set of challenges, and hence that the Proposed Franchising Scheme would no longer be an appropriate solution. They argued that there had been a shift in how people travel, and that more significant challenges had emerged such as how to restore public confidence in bus travel. In addition, some point to new challenges such as those to town centres that they say were not fully evaluated in the Covid-19 Impact Report.

4.15.4 Other respondents felt that the previous challenges still remain, such as Manchester City Council, Bolton Council (answer to Question 2) and Salford City Council (response p.1). Manchester City Council point out: "*However, in any scenario that emerges out of our hopeful transition out of the pandemic, the Council considers that all of the pre-existing problems with the current deregulated bus services will require to be fixed*."

4.15.5 The effects of COVID-19 can be thought of in terms of new challenges – such as the need to persuade potential passengers to use the service again. As set out at section 13, TfGM intend to work with operators and take advantage of any Government support under any market structures available to build back the bus market as strongly as possible. The additional challenges of Covid-19 do not change the need to reform the market to address these challenges. They also make the need to meet existing challenges, such as co-ordinating the network to best effect, more urgent to help the market to recover better.

4.15.6 There was support for the conclusion of the Assessment with regard to challenges and objectives in the light of the challenges of Covid-19. Whilst some operators suggested the challenges facing the market were now different, and therefore the objectives should shift, these new challenges do not mean the previously identified challenges are no longer relevant, and nor do they invalidate the objectives identified by GMCA. Whilst the context is different and potentially more challenging, the objectives of improving the network, simplifying fares, and improving customer service and achieving VfM remain the right ones. A revised version of the Transport Strategy 2040 was recently adopted by GMCA in the light of Covid-19 (January 2021) that contained the same high-level objectives (the Vision for Bus) for the bus market as in the original (published in 2017).

The options performance against the objectives

4.15.7 The Covid-19 Impact Report set out some conclusions on the performance of the different options against GMCA's objectives (for network, fares customer service and VfM) under the different scenarios. This section of the Covid-19 Impact Report concluded that 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. The analysis showed that the Proposed Franchising Scheme remains the best way to meet GMCA's objectives.

4.15.8 The partnership option is now less certain (as operators have indicated they can no longer hold to commitments made in previous proposals).

4.15.9 In response to the second consultation, there was some endorsement for the conclusion that the Proposed Franchising Scheme would be better at achieving those objectives from respondents, and that the benefits are still important to achieve. Operators critical of the scheme did not focus on the achievement of these objectives other than (as set out above) to argue that immediate recovery should take precedence: this is addressed in the section considering whether it is appropriate to make a decision now, in the Overall Conclusion section (section 17.2).

4.15.10 It can be concluded that conclusion of the Assessment that the best option for reforming the bus market in Greater Manchester remains true, and it remains a better option than the Do Minimum.

4.15.11 It is noted that the Economic Case in the Covid-19 Impact Report shows the Proposed Franchising Scheme to be VfM under all but the least likely scenario. While the Proposed Franchising Scheme would increase the risk GMCA would take when compared with a Do Minimum course of action, it would be positive in terms of value for money in three of the scenarios considered, and still deliver benefits to Greater Manchester. In the event that patronage fell to a level similar to that set out in scenario 3, the monetised benefits of the scheme would accrue to a far smaller number of passengers and their value may not exceed the costs. However, in this eventuality it may be beneficial for GMCA to be able to support the market to maintain essential services. Whilst uncertainty affecting the market, as the Financial Case points out, could mean that (particularly in an outcome that looks like Scenario 3) unwelcome mitigations will be necessary, the funding sources identified in the Assessment are still available and thus the Proposed Franchising Scheme remains affordable. GMCA would also face financial risks following a Do Minimum course of action as they may need to intervene in the bus market to support services and deliver on broader objectives.

Cross-boundary Services

4.15.12 In response to the second consultation, some local authorities repeated their support for cross-boundary services and the need to mitigate risks in how GMCA administers the permit regime, to ensure services can run as well as possible, and options can be considered for replacing services if they are withdrawn.

Consideration of partnership proposals

4.15.13 Operators did not submit partnership proposals as part of the second consultation, and in correspondence indicated they can no longer hold to commitments made in previous proposals. As set out above at section 4.11.21 operators did suggest that GMCA should wait until such a time as a new partnership option should emerge. However, it would not be appropriate to wait an indefinite amount of time for a new proposal, especially when there is no reason to believe it would represent a significant improvement on previous proposals that were found wanting.

4.15.14 There was criticism that in the Covid-19 Impact Report consideration has not been given to partnership as an option, or that a 'binary' assessment had been undertaken. This is, however, not the case – they were considered in the Assessment against objectives in the light of the different Covid-19 scenarios, and TfGM explored alternative options to the Proposed Franchising Scheme. The conclusion of the Assessment on the preferred course of action remains true in the light of the alternative options available to GMCA.

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

4.15.15 Whilst not in the detail of responses to the first consultation, responses to the second consultation argued that there would be competing pressures on public spending. Concerns about local taxation were raised by some operators and also by local authorities.

4.15.16 Local authorities are likely to be facing additional pressures and some reduction in local tax revenues following the Covid-19 pandemic. In this context, district local authorities and GMCA will continue to make spending decisions in the same way as at present, which includes consideration of the strategic, economic and financial aspects of projects or programmes.

4.15.17 In the context of Covid-19, operators have not collectively proposed a specific viable partnership offer for the longer term or any other particular use of any resources that could be assessed in terms of their VfM compared with the Proposed Franchising Scheme. They have proposed that TfGM focus on 'recovery partnerships' instead of franchising. Section 13 on 'recovery partnerships' sets out that such measures are not an alternative to any of the options, and these are considered in detail at sections 10, 11, and 12. The measures that might support the bus service in a recovery period would not be different from those Phase 2 measures that would support the service at any other time. The same considerations apply to them in in terms of VfM during a period of recovery as at any other time. Thus, the conclusion set out above, that the VfM of any 'Phase 2' measures, taken in conjunction with a partnership, is also likely to be lower than such measures taken in conjunction with the Proposed Franchising Scheme, would remain the case despite the effects of Covid-19 as this would not affect that comparison.

4.16 Overall conclusion on the Strategic Case for franchising

4.16.1 Considering the responses, including both support for the evidence and arguments presented in the Strategic Case and the Covid-19 Impact Report, as well as challenges and comments from consultees from both consultations, TfGM are confident in the evidence presented in the Assessment and the conclusions it came to. Much of the analysis concerning the challenges faced by the bus network was endorsed by respondents to the consultations – both individuals and statutory consultees – as well as the assessments of how effectively the different options for reform were likely to perform in terms of meeting GMCA's objectives.

4.16.2 The greatest challenge came from incumbent operators, who in the first consultation argued that TfGM had underplayed the importance of congestion in terms of the current decline in bus services, and consequently should have given greater consideration to partnership options, accompanied by greater spending on anti-congestion measures. Partnership does not achieve GMCA's objectives, however, as effectively as the Proposed Franchising Scheme. This does not change even considering the higher cost of the Proposed Franchising Scheme and its opportunity cost – this is included within the VfM assessment. Rather, while partnership would help to improve the efficacy of some measures to reduce the effects of congestion on bus services, more and greater value could be achieved together with the Proposed Franchising Scheme. In the second consultation such operators challenged TfGM's objectives for the bus service and argued that GMCA should enter into a 'recovery partnership' and wait for further partnership options to emerge before making a decision in order to improve recovery of the bus market and make a better comparison to the Proposed Franchising Scheme. However, they did not offer an alternative longer-term partnership nor did they provide sufficiently strong arguments showing why the conclusion of the Assessment, that the Proposed Franchising Scheme would achieve GMCA's objectives better than the alternatives, should not stand.

5. Economic Case

5.1 Introduction

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

First Consultation

5.1.2 In the first consultation, consultees were asked to consider the following question in relation to the Economic Case of the Assessment:

Question 17: The Economic Case concludes that the Proposed Franchising Scheme provides the best value for money compared to the partnership options because it would:

- Offer a 'high' ratio of benefit to the cost to GMCA, which is broadly comparable with the partnership options;
- Provide the most economic value (Net Present Value), and
- Create the best platform from which further economic value could be delivered.

Do you have any comments on this?

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

Question 35: Do you have any comments on the impacts of the Proposed Franchising Scheme on passengers as set out in the sub-section Impacts of the different options?

Question 36: Do you have any comments on the impacts of the partnership options on passengers as set out in the sub-section Impacts of the different options?

Question 37: Do you have any comments on the impacts of the Proposed Franchising Scheme on operators as set out in the sub-section Impacts of the different options?

Question 38: Do you have any comments on the impacts of the partnership options on operators, as set out in the sub-section Impacts of the different options?

5.1.4 Responses in relation to Questions 35 and 36 from the first consultation are in general included under the Strategic Case section of this report. However, many of the comments received on the impacts on passengers from the first consultation were the same points made in response to Question 17 (on the Economic Case) and, as such, they are addressed in this section, with appropriate references made within the Strategic Case section.

Responses to Questions 37 and 38 are addressed in the legal section of this report, which can be found in section 16.

5.1.5 From the first consultation, Ipsos MORI's *"Doing Buses Differently: Consultation on a Proposed Franchising Scheme for Greater Manchester"* report (which is referred to throughout this section as Ipsos MORI's June 2020 Consultation Report) concluded that for the Economic Case, overall, there were 2,693 participants who provided comments about the conclusion of the Economic Case of which 2147 (80%) were favourable. The most frequently-cited favourable comments were general support/agreement with the conclusion of the Economic Case (1,119). Participants from the first consultation tended to reiterate comments made elsewhere in the consultation, which focused on the outcomes the Proposed Franchising Scheme would deliver, with cheaper and better value bus fares one of the most commonly mentioned positive outcomes (266). Specific to the Economic Case, the opinion that bus services should serve the public and not be run for profit (133), and that the Proposed Franchising Scheme provides best overall VfM of the options presented (130), were other commonly cited favourable comments.

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

5.1.7 As noted by Ipsos MORI's June 2020 Consultation Report, most statutory consultees, who provided a response to the Economic Case, made a favourable comment in support of the conclusions of the Economic Case. Positive comments were generally received from local authorities and unions, plus a minority of bus operators. Negative or unfavourable comments were received from bus operators, bus industry groups and some customer representation groups.

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

Second Consultation

5.1.9 This Section also addresses issues raised by respondents to the Covid-19 Impact consultation following the Covid-19 pandemic and the Covid-19 Impact Report which was published alongside it.

5.1.10 In the second consultation, consultees were asked the following specific question:

Question 3: Do you have any comments on the consideration of the impact of Covid-19 on the value for money of the Proposed Franchising Scheme and the partnership option?

5.1.11 The discussion of Covid-19 issues looks at responses to this question and other relevant material raised in answers to other questions and separate submissions and letters.

5.1.12 The Ipsos MORI March 2021 report notes that there were 381 participants in the second consultation who made comments about the Economic Case. These comments were equally split between participants made positive (104) or negative (93) comments.

5.1.13 Most of the positive comments agreed with the conclusions being reached in the report that the Assessment remained valid, noting that the Proposed Franchising Scheme offered value for money, and that the current system does not.

5.1.14 Those making positive comments agreed that the Economic Case is comprehensive and thorough in the detail it presents, and that the Proposed Franchising Scheme performed better when assessed against other, alternative options for bus reform. Others felt it provided better value for money for the long-term and that the case in favour of the Proposed Franchising Scheme has actually been strengthened by the impact of Covid-19.

5.1.15 Some responses were neither positive nor negative but constituted a suggestion. In relation to the Economic Case suggestions included: that the case should be periodically reviewed and updated (if necessary) according to developments as the UK moves out of the pandemic; that GMCA cost effectiveness and value for money should be made more clear and apparent; and that any consideration about value for money should be secondary to environmental concerns.

5.1.16 A small number of comments were received concerning the partnership options. These included the opinions that the Operator Proposed Partnership would provide better NPV and therefore be better value for money, whilst other comments felt the Ambitious Partnership would also provide better value for money.

5.1.17 The negative comments made by the public regarding the Economic Case in the second consultation were similar in number to the positive comments, but covered a greater range of points. These included concerns about the validity of conducting such analysis during a pandemic and that there was a lack of good evidence to back it up, making comments lack ‘guesswork’ and ‘speculation’. Others pointed to the declining net economic benefits in the analysis as an indication that value for money under Covid-19 would be poorer, with related comments regarding increased economic pressure and declining patronage reducing the relative value for money of the scheme.

5.1.18 Some consultees raised specific concerns of a general nature that relate to such as:

- A concern from Bolton Council that the scheme may not represents best value in the immediate years ahead;
- Bus Users UK had reservations about the financial pressure that the Proposed Franchising Scheme could place of the public;
- TravelWatch North West pointed out that the worst-case scenario (Scenario 3) could be even worse given the stated market failure in the bus market;
- The Northern Care Alliance Group expressed concern that the economic appraisal in the Assessment is not well suited to dealing with structural changes in travel behaviour as a result of the pandemic; and
- The Confederation of Passenger Transport raised a concern about the possible fare increase under the Proposed Franchising Scheme and stated that any fare increase under the partnership model will be invested into improving the customer experience of travelling by bus.

5.1.19 As with the first consultation, negative or unfavourable comments were received from the incumbent local bus operators, bus industry groups and some customer representation groups. Of note, NERA and Oxera were employed by Stagecoach and Rotala respectively to review the Covid-19 impact analysis. Their respective reports raised issues regarding the overall robustness of the analysis and the compliance with national guidance. Both Stagecoach and Rotala stated that a new Assessment was required to be prepared to meet the requirements of the Act as a matter of law in any event and given the standards required by the Act.

Structure of Section

5.1.20 This section responds to the main themes identified from TfGM's analysis of responses to both consultations and of both of Ipsos MORI's consultation analyses. In relation to the Economic Case, while some reference was made in the Covid-19 Impact consultation responses to the questions from the first consultation, the majority of the responses focus on the Covid-19 Impacts. This section has therefore been structured to first respond to the themes from the first consultation, and then consider the Covid-19 consultation. Cross-referencing is made where appropriate.

5.1.21 The remainder of this section is grouped into the following sections.

5.1.22 Themes first raised in the first consultation:

- Section 5.2 – Appraisal Specification Themes. This section sets out those issues raised that relate to the way the forecasting and appraisal has been undertaken;
- Section 5.3 – Reference Case Themes. This section sets out those issues raised that relate to the Reference Case forecasts;
- Section 5.4 – Partnership Option Themes. This section sets out those issues raised that relate to the economic performance of the partnership options;
- Section 5.5 – Franchise Option Themes. This section sets out those issues raised that relate to the economic performance of the Proposed Franchising Scheme;
- Section 5.6 – Risk Analysis Themes;
- Section 5.7 – Wider Economic Impact Themes.

5.1.23 Additional themes raised in the second consultation:

- Section 5.8 – Gives an overview of the themes raised in the second consultation;
- Section 5.9 – Application of Scenario Analysis to Value for Money. This section adds to the discussion on Scenarios presented at section 2 of this report by setting out the issues raised with regards to the approach to Scenario Analysis for the 'what if?' testing as presented in the Covid-19 Impact Report, including alignment with DfT Guidance.
- Section 5.10 – The use of the 'what if?' analysis.

5.1.24 Section 5.11 presents the insight from the qualitative research on Economic Case issues from both the first consultation on the Assessment and the second consultation on the Covid-19 Impact Report.

5.1.25 Section 5.12 summarises the themes raised in both the consultations regarding the conclusions reached in the Assessment in respect of VfM.

5.1.26 The final section, 5.13, gives overall conclusions from both the consultations.

Consistency with Ipsos MORI's findings

5.1.27 There is consistency between the themes identified by TfGM and the themes identified in both of the Ipsos MORI reports. TfGM, in this report, have categorised the themes into groups that are in line with the structure of the Economic Case section of the Assessment, whilst both Ipsos MORI reports aggregated comments by the type of consultee. For a particular theme, this report draws relevant comments from all types of consultees together, including relevant comments from members of the public.

5.1.28 In general, the Ipsos MORI reports go into more detail on positive or favourable comments than is the case in this report, which focuses on providing responses to the substantive themes and issues raised that challenge the conclusions reached in the Assessment and Covid-19 Impact Report.

5.2 Appraisal Specification Themes

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

5.2.2 In Ipsos MORI's June 2020 Consultation Report, they note that "*on the whole, commentary from local authorities accepted the methodology used to arrive at the Economic Case conclusion without challenge and in line with best practice*", indicating that the responses received from local authorities were supportive of the approach to appraisal specification.

5.2.3 Responses to the first consultation received from Greater Manchester bus operators were not favourable. These are summarised in this section by theme.

Fares growth assumption

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

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

5.2.5 All of the respondents listed above claimed that the growth rate of RPI+1.4% was too high, unrealistic, or out of line with historic evidence. None of the respondents suggested an alternative assumption, although Stagecoach and Jacobs did claim that since 2004-05 fare increases have increased at a rate below RPI. To support this claim, Jacobs made reference to the DfT Bus Statistics which they claimed showed that *"average fare yield growth"* has been at a rate below RPI. The definition of this term, and how it differs from actual ticket prices, is explored below. No further evidence was offered to support either the claim that RPI+1.4% is unrealistic, nor that historically fares have increased at a rate below RPI.

5.2.6 The fares growth of RPI+1.4% was derived though an iterative calibration exercise that took account of historic rises in Greater Manchester fares, though this was not the only factor under consideration and the rate of future growth has not simply been selected based on historic precedent alone. It also depends on the forecast changes in revenue and costs into the future and the implications of these on operator Earnings Before Interest and Taxes (EBIT). Further details were provided in the Economic Case Supporting Paper (or "ECSP", which was published during the consultation as one of the supporting papers to the Assessment) at section 4.5.6. Nevertheless, contrary to the view expressed by some consultees (that fares have grown at a rate of less than RPI since 2004-05), a review of DfT data series BUS0405a shows that non-concessionary fares in UK Metropolitan areas (excluding London) have increased on average by 93% between 2005 and 2019 whilst RPI has increased by 50%. Fares have therefore increased at a rate significantly more than RPI+1.4% over this period.

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

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

- It is sensitive to the proportion of passengers in each passenger group – for example, the proportion of concessionary trips has increased since 2004-05 which means that average revenue per trip has decreased, but this does not mean that the fares charged for a particular ticket type have reduced;
- It is sensitive to the mix of tickets purchased – for example, on a per trip basis daily and weekly tickets offer a cheaper fare per trip than single tickets, so if the proportion of trips made using period tickets has increased then the average revenue per trip will reduce – but this is not the same thing as ticket prices reducing; and
- The revenue per trip index includes Bus Service Operators Grant payments ("BSOG" – payments made to operators from Government to help recover some of their fuel costs) which have not increased in line with fares.

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

5.2.10 Jacobs also state that RPI+1.4% should *"only be applied to single tickets and not day or season tickets".* It is not clear why they suggest that a different rate of fares growth should be applied to the different ticket types. The fares index reported in DfT table BUS0405a (as discussed above) represents an average across all ticket types, and the historic data presented in the Strategic Case of the Assessment (Section 6.3, charts 7 and 8), which demonstrates historical above RPI fare increases for Greater Manchester, is based on daily and weekly ticket prices, and not single ticket prices. There is no evidence that future fare increases should be assumed to be different for period and single tickets.

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

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

5.2.13 Given the evidence presented above, it is concluded that the contention, made in response to the first consultation, that the rate of fare growth is inconsistent with historic rates of fares growth is not well founded, nor that the approach taken could bias the outcome of the economic analysis in the way that the consultees suggest.

5.2.14 As noted above, TfGM acknowledge that there was a level of uncertainty in the assumption of future fares in the Assessment. This uncertainty will only have increased with Covid-19 and so for the impact analysis, this was taken into consideration within the narratives for each of the TfGM Scenarios as set out in section 1 of the Covid-19 Impact Report, and so informed the out-turn patronage forecasts used to inform the 'what if?' appraisals.

Historic impact of Metrolink and inclusion of future schemes

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

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

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

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

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

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

Other Miscellaneous Comments on the Specification of the Reference Case

5.2.20 Various other comments were made in the first consultation regarding the way in which the Reference Case was created. These included how:

- No quality assurance checks were carried out on the 2016-17 base year population and employment data to check that they were not outliers – Jacobs;
- The modelling appears to "*net off*" city centre dwellers – Jacobs; and
- The relationship between patronage and bus service mileage included in the modelling is not appropriate – Jacobs.

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

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

5.2.23 Regarding the suggestion that the model "*nets off*" city centre dwellers, it does not in fact do that. The ECSP explains that the growing number of people who live in the regional centre tend to walk and cycle more and take fewer mechanised trips (including by bus), and that this needs to be reflected in the bus market forecasts where significant population growth is forecast for the regional centre. A damping factor, which is applied to the city centre employment and population forecasts to reflect this impact, has been derived empirically as described in the ECSP and that adjustment is made equally in all options. This is a conservative assumption, since higher growth would give a larger bus market and therefore higher benefits for all options. This is explained in the ECSP at section 4.3.9.

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

Appraisal Period

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

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

5.2.27 Rotala, suggesting that a partnership renewal should be assumed, appear not to have recognised that the benefits of the partnership option are assumed to endure for the full 30-year appraisal period without any decay.

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

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

5.2.30 In the second consultation Stagecoach stated that, despite the importance attached to the selection and justification of the appraisal period in the Green Book and TAG, the question whether a 30-year appraisal period remains valid has not been reconsidered. A shorter appraisal period would be justified given current uncertainty. The Green Book makes clear that shorter periods are envisaged for "*administrative changes*" (10 years) and that the "*life of the public service*" is crucial. Uncertainty in the market affects the period of time over which the benefits of reforms may be realised and the life of the public service in question. Given current uncertainty it may be difficult to be certain about how bus services will be best provided in 15 years' time, let alone 30. A shorter appraisal period could generate a significantly lower VfM.

5.2.31 Guidance[3] suggests that the "*Costs and benefits should be calculated over the lifetime of an intervention*". Sixty years is suggested for infrastructure, including "*new buildings*", thirty years for "*refurbishment of existing buildings*", while for new "*administrative changes a ten-year period*" is suggested. In the Assessment of the Proposed Franchising Scheme, the main investment being made by GMCA is the purchase of depots alongside the regulatory change to the market that is intended to be long term. DfT's Transport Analysis Guidance (TAG) recommends an appraisal period of 60 years from the scheme

[3] Green Book, paragraph 2.18, 5.14 and 6.11
https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-governent

opening year for schemes expecting to have no fixed end date, and as such could be expected to apply to options to reform the bus market.

5.2.32 Having regard to such guidance, 30 years is considered an appropriate period to assess these options. TfGM consider that forecasting the bus market over a period of 60 years would not be credible, so a shorter period was proposed.

5.2.33 It is noted that the application of the discount rate does include an allowance for future uncertainty, so that benefits in the future count for less in the appraisal. Applying a discount rate of 3% means that the benefits in years 16 to 30 account for less than 40% of the total benefits (all else equal), which would be lower with declining overall demand over time. Conversely, the majority of the investment costs are at the front end of the appraisal period and hence, all else equal, they carry a higher relative weight.

5.2.34 In responding to the second consultation, Stagecoach noted that the uncertainty due to Covid-19 would suggest a shorter appraisal period should be considered given uncertainty about how bus services should best be provided in, say, 15 years time. It is a feature of the Proposed Franchising Scheme, however, that it is flexible: it can be varied under the Act if the bus services that the GMCA considers appropriate to be provided under local service contracts change. Uncertainty is always part of the investment appraisal and that this is allowed for by the application of discounting (as described above) and via sensitivity / scenario testing rather than reducing the appraisal period, which, as described above, is set based upon the expected life of the investment.

5.2.35 As set out above, the choice of 30 years for the appraisal period is not considered to involve any bias against a partnership option. A shorter appraisal period may "*increase the BCR advantage of a partnership option"* only if the differential in net benefits between options in the early years was greater than any residual asset value of the capital investment in the depots. Guidance recommends that, at the end of an appraisal period, "*an asset's residual value or liability at the end of the appraisal period should be included to reflect its opportunity cost*". The economic appraisal in the Assessment for the Proposed Franchising Scheme does not include any residual value for the purchase of the depots, and so this is another reason why the appraisal period of 30 years is appropriately conservative.

5.2.36 TfGM considers, therefore, that even with the uncertainty introduced by Covid-19, the reasoning behind the choice of 30 years for the appraisal period are still valid.

Elasticity model and/or elasticities used not appropriate

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

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

- The network benefits are overstated because the disbenefit of redeployment is not accounted for – Go North West.

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

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

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

> *"Our understanding is that the GMPTM is an elasticity-based model. The proposed services changes are significant. Where large 'step-changes' in service provision are proposed, applying the rule-of-a-half may not be suitable. An example of this is for new railway stations. The Government's Passenger Demand Forecasting Handbook (PDFH)9 clearly states that an elasticity-based modelling approach should not be used for new railway stations as it is not appropriate to use elasticities to model the impact of new services. There are clear parallels between the opening of new train stations*

and the creation of new bus routes. We would therefore recommend reconsidering the use of this approach."

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

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

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

5.2.44 With regard to the Go North West point on disbenefits not being accounted for where the proposed network changes result in an increase in journey time for some passengers, this is indeed reflected in the Assessment. As set out at section 5.2 of the ECSP, the generalised cost change of the network revisions is used to derive ridership and benefit forecasts for the interventions. This includes all generalised cost impacts and not the subset of impacts that reflect improvements. If the appraisal had been done in the way that the operators contend, it would have been biased and not fit for purpose.

Double counting of interoperability benefits

5.2.45 Several issues relating to interoperability were raised in the first consultation. These included how:

- Interoperability will benefit users by reducing journey times and ticket prices but the effect of these on demand is calculated separately. There is insufficient evidence that interoperability acts a demand driver above and beyond journey time and fare improvements. – Jacobs;
- Although the issue of interoperability is important to users as its introduction may provide public transport users with more convenient options to get to their destination,

no evidence is presented as to the number of people who currently suffer due to lack of tickets which are accepted by different operators. It is not clear how issues around double counting between the demand drivers is dealt with. – Jacobs;

- There is a lack of evidence presented to describe the volume of passengers likely to benefit from interoperability – Jacobs;
- It is not clear how interoperability has been included in the analysis, how it is separate from changes to service frequency, fares or improved accessibility, and in what form the benefits of interoperability materialise – OneBus; and
- The approach to forecasting interoperability may double count benefits – Stagecoach.

5.2.46 The Proposed Franchising Scheme includes the following interventions:

- Unification of period fares at the level of the current major operator own fares, i.e. no premium for System One fares;
- With the exception of discount corridor tickets (which would remain valid on the routes they are currently valid), all standard period tickets would be valid on all operators' buses across Greater Manchester;
- A set of network improvements with changes to some service frequencies and routes; and
- A set of service quality improvements including accelerated roll out of Wi-Fi on all buses, improved driver standards, increased presence of ticket inspectors and a unified brand for buses in Greater Manchester.

5.2.47 The concerns raised in the first consultation by Jacobs, OneBus and Stagecoach noted above appear to relate to items 1 to 3 in this list and specifically how these are related and whether they overlap and double count some impacts. The impacts due to each intervention and how these are modelled is documented in the ECSP at sections 5.2 to 5.4 which fully describe the fares, network and interoperability impacts on passengers. These sections are summarised below with an emphasis on describing how each impact is separate and unique.

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

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

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

5.2.51 Given the distinct nature of the different interventions modelled, as described above, it is clear that there is no double counting of interoperability benefits.

Use of Willingness to Pay (WTP) values

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

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

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

5.2.54 With regards to the use of a 50% scaling factor for the WTP value applied to driver related benefits, this was applied based on professional judgment and considered to be commensurate with the cost of the programme envisaged to improve matters in this area.

It is also the case that identical costs and benefits were assigned to both partnership and the franchise options. Therefore, whilst the professional judgment applied could reasonably be questioned, it is the case that any alteration to this part of the case would affect all options in a broadly equivalent way (i.e. – it is not a differentiating issue between options). Finally, it is worth noting that, as part of their review at section 4.6.4 of their report, Jacobs stated that they considered the 50% figure to be a conservative assumption:

> *"A conservative approach has been taken in monetising these [service quality] benefits (e.g. only 50% of benefits accruing from improved driver standards and have been included in the assessment, and benefits from Wi-Fi provision are assumed to taper away from 20% of passengers benefitting during the implementation period down to 0% of passengers benefitting after 10 years of franchising."*

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

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

Accounting for Environmental and Social Impacts

5.2.57 Several comments were received in the first consultation from members of the public, who raised the point that the appraisal should place more weight on environmental and social impacts as well as economics.

5.2.58 Section 8.4 of Ipsos MORI's June 2020 Consultation Report states that of the 366 suggestions made by members of the public, 79 suggested that "*Consideration should be given to more than just economic value or the cheapest bid*" and 31 suggested that "*Further consideration should be given to the environmental value*". It also reports that of 158 comments in relation to the conclusion of the Economic Case, the main comment (56 responses) "*concerned the priority given to social value within the Proposed Franchising Scheme, and the need to focus on the contribution of the bus network to community cohesion*".

5.2.59 With regards to the priority given to the appraisal of societal impacts beyond those that impact the financial bottom line of public and private sector business, the appraisal has been undertaken in line with DfT guidance. It seeks to understand the full societal impacts of our actions on the quality of life of citizens and their environment, as well as their economic wellbeing, using a 'welfare economics' approach to the quantification of economic value. Environmental benefits are calculated using the method set out in DfT's Transport Analysis Guidance (TAG) unit A5.4, Marginal External Costs. In summary, this method involves using the difference in bus trips between the Reference Case and scheme options, to calculate a change in car kilometres relative to the Reference Case for each option. This change in kilometres is used to calculate economic benefits under the following headings:

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

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

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

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

5.2.62 It would appear from the comments in Ipsos MORI June 2020 Consultation Report that in responding to the first consultation, members of the public interpreted the economic benefits to be representative only of actual monetary impacts due to the different options. As noted above, it is actually the case that many of the elements that make up the total economic benefit are in fact 'social' benefits that accrue directly to passengers in the form of journey time savings, fare reductions or service quality improvements, or to wider society in the form of reduced congestion and improved air quality. With regards to the emphasis placed on the different elements, particularly the environmental aspect, the methodology to apply in order to carry out the cost-benefit analysis is documented in DfT guidance with appropriate valuations provided, and adherence to this guidance was necessary in order to carry out a fair and robust appraisal.

Other Issues Relating to the Specification and Approach to Forecasting and Appraisal

5.2.63 Other issues raised by consultees in responding to the first consultation included that:

- GMCA has inappropriately modelled its analysis on TfL's approach, as Manchester is not London: trip density and complexity is substantially greater in London (where the benefits of integration are likely to be greater) and it is also "*not a particularly drivable city*" (which makes the value of better integrated public transport much greater) – Go North West;
- Uncertainty over whether 'Phase 2' benefits are included in Economic Case – Jacobs;
- Request for information as to why fare evasion, operational performance of buses at rush hours, frequency and reliability and bus capacity across the service route have not been included in the modelling – Jacobs;
- Question regarding whether reliability is included within the GJT formulation – Jacobs;
- Assuming that bus journey times increase in line with car journey times has the potential to underestimate the level of future bus demand, given proposals in the Greater Manchester Transport Strategy 2040 to introduce bus priority measures – Jacobs; and
- The baseline model for cost and its calculation require modification as they do not properly reflect recent increased employment costs (pensions, apprentice levy, minimum wage, and recent pay increases) – Rotala.

5.2.64 The proposed interventions are focused on the Greater Manchester market, and the analysis is entirely driven by a detailed local assessment that seeks to understand the best market reform option for Greater Manchester. In many key respects, the specification of the Proposed Franchising Scheme is very different from the London model, for example, the approach to defining franchise contracts. Whilst comparisons have been made to the London market and several references occur throughout the Economic Case, no evidence from London has been used directly within the modelling, other than the application of the brand WTP value, which is addressed at section 5.2.52. It is therefore not correct to say that GMCA has modelled its analysis on TfL's approach.

5.2.65 Section 15.4 of the Assessment explains that 'Phase 2' benefits are not included in the core appraisal presented in the Economic Case. However, the extent to which the market structure enables further 'Phase 2' investments into the bus system is material to the decision to reform (or not reform) the bus market. For this reason, the 'Phase 2' discussion has been included in the Assessment.

5.2.66 With regards to the additional explanatory factors that Jacobs felt should be included in the analysis:

- Passengers recorded in the CPS survey as not paying a fare when boarding the bus due to a miscellaneous reason are included in a separate demand segment in the model labelled "*Other Free*", which has no fare attached. These trips are therefore included in the total patronage but contribute no revenue, as would be expected;

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

5.2.67 Regarding the comment on bus journey times increasing in line with car journey times, as noted in ECSP at section 4.4.10, the forecast change in bus journey times due to congestion is assumed to be different to car journey times. However, this is not due to additional bus priority in the future, but rather due to the inherent difference in how congestion affects each mode. Regarding future bus priority, no specific improvements have been assumed, since, as noted in relation to the incorporation of future Metrolink schemes, such schemes are currently neither defined nor funded and therefore, as explained at section 5.2.16 of this report, should not be included in the core Reference Case. If any such schemes were included, this would have a positive impact on bus patronage in all options and would therefore improve the level of benefits for all options.

5.2.68 Finally, regarding the Rotala concern on the cost model raised in responding to the first consultation, this is dealt with in the Financial Case at section 7.2.33.

Release of Models for first consultation

5.2.69 Some bus operators (specifically, OneBus and some individual operators in their individual consultation responses) suggested, in responding to the first consultation, that the models that underpin the economic and financial appraisal should have been released. TfGM consider that consultees had sufficient information at the start of the consultation exercise to allow them to take part in the consultation in an informed and intelligent manner.

5.2.70 Specifically, GMCA published all the documents that it was required to do under section 123E(2) of the Act and TfGM is satisfied that the First Consultation Document met the requirements of section 123F, and the Consultation Document also identified where anyone who had questions could e-mail for further information.

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

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

5.2.73 A similar concern was also raised by Go North West at the end of the first consultation period, who stated that there would have been benefit from *"the economic model"* being shared with consultees.

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

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

5.2.76 TfGM is also satisfied that it was not required to disclose models sought by OneBus that it requested in order for it to provide a proper and informed respond to the consultation. The ECSP contains considerable detailed information on how the modelling framework was constructed, as well as listing and providing details of how each input was prepared. Where practical, a copy of the relevant values used is also included. The paper explains how each variable has an impact on bus patronage, and how the relationships in the modelling suite function. The responses provided throughout this section provide references to the relevant section of either the Assessment or the ECSP; where further detailed information is provided that allowed consultees to have sufficient knowledge to meaningfully respond to the consultation.

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

Release of Models for second consultation – Stagecoach

5.2.78 On 21st December 2020 GMCA received a written request from Stagecoach for disclosure of additional information "*in order to respond adequately to the Second Consultation*". In relation to the Economic Case, the information requested falls under the heading in the request of i) fully executable copies of the financial models and ii) GMCA's modelling and scenario planning.

5.2.79 The request for the information was, according to Stagecoach, to allow them specifically to:

- "*test the inputs which have been used, evaluate the assumptions which have been made, and assess whether the methodology is appropriate*", especially "*as no external audit or assurance has been conducted over these models (at least in the form used to support the analysis in the Covid Impact Report)*";
- "*adequately assess the approach taken by GMCA when evaluating the different options and proposing franchising as the best way forward" and to potentially suggest "an alternative option*"; and
- "*offer intelligent comment on these matters and may be able to improve GMCA's analysis*".

5.2.80 The models requested related to the Economic Case sought were the Demand and Revenue Model, the Greater Manchester Public Transport Model, the Cost-Benefit Analysis Models, and the Wider Economic Benefits Analysis Models.

5.2.81 TfGM responded to this request on 31st December 2020.

5.2.82 In relation to the first point GMCA restated that:

- The inputs, model structure and logic for each of these models had not been updated since the Assessment nor had there been any systematic refresh of the model inputs.

- These models were all the subject of review by the auditor in conducting its audit in accordance with section 123D of the Transport Act 2000.
- The models have not been re-audited for the Covid-19 Impact Report because they had not changed.

5.2.83 It was considered that that Stagecoach had not required disclosure of all the models to enable it to respond to the first consultation on the Assessment, and did not need access to them to respond to the analysis in the Covid-19 Impact Report. Nonetheless, to assist Stagecoach, TfGM provided, insofar as it was possible to do so, versions of the models given redactions for commercially sensitive or confidential information, including information provided under section 143A of the Transport Act 2000. TfGM provided the following information;

- Spreadsheet versions of the Demand and Revenue Model forecast for the Reference Case, the Proposed Franchising Scheme and the partnership options, with non-Stagecoach patronage and revenue data redacted; and
- The corresponding Cost-Benefit Analysis and the Wider Economic Benefits Analysis Models related to these DRM forecasts.

5.2.84 TfGM hosted a technical session with Stagecoach staff to clarify how the models act in a framework, and how this framework had been used to support the Assessment and the subsequent Covid-19 Impact Report. Following the technical session, TfGM responded to ten questions from Stagecoach regarding the applications of the models, and provided the spreadsheet analysis underlying the 'what if?' tests with a supporting technical note.

Release of Models for Covid-19 Impact consultation – Rotala

5.2.85 As further set out at section 16.4.17, on 6 January 2021 TfGM received a written request from Rotala for similar access to the "*Financial Models*" as provided to Stagecoach.

5.2.86 As with Stagecoach, it was considered that that Rotala had not required disclosure of all the models to enable it to respond to the first consultation on the Assessment, and did not need access to them to respond to the analysis in the Covid-19 Impact Report. Nevertheless, GMCA responded to this request on 14 January 2021, providing the same model information as provided to Stagecoach (subject to appropriate redactions), and made a similar offer for a technical session to respond to any questions. Rotala did not take up the offer for a technical session and made no additional requests for information.

5.2.87 It was considered that that Rotala had not required disclosure of all the models to enable it to respond to the first consultation on the Assessment, and did not need access to them to respond to the analysis in the Covid-19 Impact Report.

Use of Models for responses to Covid-19 Impact consultation

5.2.88 Having reviewed the responses from both Stagecoach and Rotala to the second consultation, TfGM confirm our view that this additional release of model information was not directly used by either party in their responses, and hence TfGM confirm our view that they did not need access to them to respond to the analysis in the Covid-19 Impact Report.

5.3 Reference Case Results Themes

5.3.1 The Economic Case describes the economic performance of each option against the Reference Case or the 'business as usual' situation. From the first consultation, there are two broad themes raised by consultees with regards the Reference Case forecasts.

Congestion

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

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

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

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

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

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

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

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

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

5.3.9 A discussion of the calculation of reimbursement associated with ENCTS trips is included within the Financial Case at section 7.2.12.

5.4 Partnership Options Themes

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

Partnership offers a higher benefit-cost ratio (BCR)

5.4.2 Several consultees to the first consultation noted that the BCR of the partnership options was higher, and felt that result indicated that the partnership options represented better VfM or a less risky option than the Proposed Franchising Scheme. As noted in Ipsos MORI's June 2020 Consultation Report, this concern was also raised by a small proportion of the public consultation responses (42 out of 2626).

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

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

5.4.5 Comments were again raised in the second consultation that the partnership options offered better value for money, especially in the context of Covid-19. These comments are addressed at section 5.10 of this report.

Soft factor benefits could be achieved through partnership

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

- No benefit has been afforded to the operator proposal of a single sub-brand unlike the significant benefit afforded to the suggested franchise brand – OneBus;
- The brand value ascribed to franchising can also be achieved through partnership by requiring all private operators to rebrand under a common 'TfGM' brand perhaps with an 'operated by X' addition – Go North West;
- The same brand benefits should be assigned to partnership given the commitment to a unified brand in the OneBus partnership proposal – Rotala;
- Apart from Wi-Fi and better driver training, all other 'soft' initiatives are unreasonably not included in the partnership options as they could be introduced either through

negotiation or unilaterally by operators and soft initiatives can be implemented through the Ambitious Partnership option – Jacobs; and

- Soft initiatives can be implemented in the TfGM proposed Ambitious Partnership option, which would increase benefits and VfM – Stagecoach.

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

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

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

Other issues raised regarding partnership

5.4.10 Other issues raised in relation to the partnership option in the first consultation were that:

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

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

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

5.4.13 Nevertheless, TfGM have reviewed the content of the Partnership Plus proposal and have determined that, whilst there is insufficient detail to appraise the proposals in many key areas, full implementation of the proposal would be unlikely to alter the relative economic performance of the two reform options presented in the Assessment. This analysis is documented in full in Partnership Plus atsection 10.

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

5.4.15 The comment from Manchester City Council is a supportive one, suggesting that the lack of transparency of VfM for public investment in the bus industry would be maintained under a partnership and would only be addressed via franchising. This point is noted.

5.5 Proposed Franchise Scheme Themes

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

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

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

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

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

General comments on the assessment of the Proposed Franchising Scheme

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

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

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

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

5.5.9 The explanation of, and justification for, the proposed timeline for implementation is included within the Commercial and Management Cases of the Assessment, as is the description of the mechanisms of delivery. The Economic Case is consistent with the other cases in the Assessment. Several other consultees made similar comments regarding the timescales for implementation of the Proposed Franchising Scheme, in response to the Commercial and Management Case sections of the Assessment. A detailed response to these comments is provided in the Commercial Case at section 6.7.

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

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

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

5.5.13 The approach to network planning that has been used to assess network changes, and that will be used to plan the network on an ongoing basis, is the model of network planning used by TfL London Buses. Far from allowing a network to "*ossify*", TfL systematically and continuously draw in data and insight to a planning process that makes several hundred network changes within any given year, the aim of which is to continuously fine-tune the supply of bus services to the demand for bus services, taking advantage of new opportunities (such as new land use developments) while reallocating resource to optimise the efficiency of the network.

5.5.14 It has been suggested that the impacts on operator margins will be worse than expected – for example, Stagecoach suggest margins much lower than the 7.5% assumed in the Assessment. Jacobs also state that the rates of return for operators may be lower under the Proposed Franchising Scheme, compared with the current status quo, meaning that fares may need to increase by more than RPI+1.4% in order to attract franchisees into the market. This comment seems to suggest that Jacobs assume that operators would retain some level of revenue risk under franchising. The rates of return for operators would be determined by the franchise payments and this return is assumed to be 7.5% in the Assessment. Fares would be set by GMCA and revenue retained by GMCA, meaning that changes in fares would have no direct impact on operator revenue. A discussion on the appropriateness of the 7.5% margin assumption is included in the Financial Case section of this report at section 7.2.

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

Brand value is not appropriate

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

- The brand value of 4.1p per trip benefit to users comes from a study in 1996 of hail and ride services only; what work has been undertaken to verify that users in Manchester would value a branded service at 4.1p per trip; and could any such value be a proxy for user appreciation of better service quality captured elsewhere and involve double counting – Jacobs;
- Relying on a study 23 years old based on stated preference surveys in London when there may have been many unbranded small operators not necessarily operating a fixed timetable or predictable route is questionable; even if there is a common brand benefit over and above other brand benefits, it is not clear that this would persist on a permanent basis whereas other, potentially more important soft factors, are scaled back after year seven; and any benefits will be initially overstated given unbranded buses crossing Sub-Area boundaries. NPV for franchising reduces to £121.4 million (versus £80.6 million – £103.1 million for the partnership) if brand is removed. This would remove almost entirely all the benefit of the Proposed Franchising Scheme in NPV terms and would substantially lower the BCR for franchising to 2.10 – Go North West;
- The evidence presented in support of brand value does not withstand scrutiny – Rotala; Stagecoach; and
- A brand is about improving the complete customer experience and it is difficult to see how the financial benefit attributed to it will be delivered without enhancements to the end-to-end customer experience but, under franchising, much will remain as now in terms of onboard experience, the network will not be radically altered and fares will increase above inflation – Stagecoach.

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

5.5.18 Nonetheless, there is much evidence in the literature to confirm that these aspects of service delivery are of great importance to passengers, for example, in the DfT 2009 report "*The Role of Soft Measures in Influencing Patronage Growth and Modal Split in the Bus Market in England*". Table 5.11 in that report is one example of research that clearly show passengers expressing the view that simplified fares and networks are bus system attributes that they value.

5.5.19 When compared with some values available in the literature, such as Table 6.15 from the same DfT report on soft factors where average WTP values of between 12p and 46p per trip are reported for fares simplification interventions, the value accredited to brand in the

Assessment is low and is therefore considered to be conservative and reasonable in light of available research and evidence.

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

5.5.21 Go North West also challenge whether benefits are overstated in the earlier years of the modelled period, since there would still be some unbranded buses running between franchised and non-franchised areas. As noted in the ECSP at Appendix 2, benefits in the initial years of the appraisal period are factored by the proportion of trips that are made within a franchised area, to ensure that benefits are not overstated during the transition period. Further to this, and as noted elsewhere in this section, the branding benefit represents more than just the livery of the buses.

5.5.22 The contention set out within the Assessment that this component of franchising is valued by passengers is supported by Ipsos MORI's June 2020 Qualitative Research Report, which states that:

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

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

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

Lack of confidence in benefits relating to congestion and time savings

5.5.25 Concerns were raised in the first consultation relating to benefits from decongestion and time savings in the Assessment. Some consultees commented on:

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

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

5.5.27 The £299 million time-saving user benefits are due to a combination of the network changes, which have an impact on average Generalised Journey Time (GJT), and interoperability and quality improvements, which are modelled as a willingness to pay value, which are converted to units of time for appraisal purposes and which also change the GJT for passengers. This is documented fully in the ECSP at section 5. As noted above, the benefits are calculated based on the difference between the Reference Case and scheme forecasts. Whilst Stagecoach and First make generic statements about a lack of confidence in the results, they do not give any more specific reasons or justification for their position and it is therefore difficult to respond in any more detail here. A similar issue was raised in response to the second consultation, and this issue addressed at section 5.10 below.

Concerns relating to fare benefits

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

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

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

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

5.5.30 Regarding the calculation of benefits in a declining market, as noted above, the benefits in any appraisal (as advised in DfT guidance) are calculated based on the difference between a reference case and the option being appraised. The fact that patronage is declining does not remove the difference between the options, and this would still be the case in the Scenarios presented in the Covid-19 Impact Report.

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

5.5.32 The 81 million additional trips due to interoperability improvements under franchising arise due to the improvement offered to operator own ticket holders, who gain the benefit of being able to use all buses at no additional cost. This benefit therefore applies to a different set of users and results in a separate demand uplift.

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

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

Patronage continues to decline under franchising

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

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

5.5.36 Ipsos MORI June 2020 Consultation Report notes that the issue of patronage continuing to decline under franchising was also raised by a small number of members of the public (14), and this issue is further highlighted in Ipsos MORI's June 2020 Qualitative Research Report, which stated in the Summary of Key Insights that "*The forecast for patronage was met with a mixed response. Some groups responded to the figures with great surprise, while for others the drop in patronage was in line with their expectations*".

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

5.5.38 However, TfGM believe that the types of interventions from ongoing investment proposed for 'Phase 2' could well stabilise the market and, in combination with other public policy measures, help to substantially improve the market position of bus by investing in its quality. As documented in the description of the importance of 'Phase 2' interventions at section 15.4 of the Assessment and considered in the response to the Strategic Case (see

Section 4.12 of this report), TfGM believe that the best platform from which to deliver the further investments is the Proposed Franchising Scheme.

Franchising scheme does not offer immediate benefit to passengers

5.5.39 Many consultees in the first consultation raised the concern that the Proposed Franchising Scheme may not deliver any tangible benefits to passengers, particularly in the short term.

5.5.40 This was raised predominantly as part of the qualitative research and is reported in Ipsos MORI's June 2020 Qualitative Research Report at section 6. This report states that: "*Participants were sceptical about whether the price of tickets would decrease, and that cost savings would not necessarily be passed on to them*". A similar point is made regarding the length of time that proposals would take to materialise – "*The length of time the proposals would take to implement was an issue for some. Although they acknowledged it is a long-term vision, they wanted to be able to see a difference quicker. They particularly wanted to see short-term benefits that would make a tangible difference to them*". Questions were also raised around whether concessionary fares would be impacted.

5.5.41 The Assessment assumes that benefits are realised in line with the franchising implementation programme, and the method by which this is modelled is documented in the ECSP at Appendix 2. Whilst some aspects of the interventions would be rolled out over a number of years, for example, improvements to the network, some impacts would be experienced immediately by passengers once the area they begin and end their journey is franchised, including:

- A unification of period fares – meaning that a former System One ticket holder will experience a reduction to the price of operator own fares – referred to as fares benefits in the Assessment;
- A change in ticket validity – meaning that a holder of a former operator own ticket would be able to use any bus at no extra cost – referred to as interoperability benefits in the Assessment;
- An improvement to service quality including improved driver standards and additional ticket inspectors – referred to as service quality benefits in the Assessment; and
- A more coordinated, easy-to-use network with single point of contact and single brand – referred to as branding benefit in the Assessment.

5.5.42 Regarding concessionary fares, no changes were proposed to the current concessionary fare arrangements as part of the Proposed Franchising Scheme as defined in the Assessment.

5.5.43 On a similar theme, in response to the first consultation question regarding impacts on passengers, several consultees raised concerns regarding the small number of passengers that would be faced with an increase in fare from the Proposed Franchising Scheme. The Chartered Institute of Logistics and Transport noted that: "*73% of bus users are likely to experience no change in fares in Phase 1, whilst still being subject to inflation-related increases. It is unclear how the objective of more 'affordability' is to be met*". Similarly, 16 members of the public raised concerns over potential increases in fares. An example is given in section 12 of Ipsos MORI's June 2020 Consultation Report – "*Who are the small* *fraction who would experience an increase in fare? Are they likely to be low income groups?".*

5.5.44 As noted in table 13 of The Assessment (at section 16.1), it is true that some small fare increases would arise for a small number of passengers due to the harmonisation of standard Greater Manchester-wide operator own period tickets at the level of the major operators. This issue is addressed in the Strategic Case at section 4.7. In summary, the fare increase would be relatively small (for example, using today's prices a Rosso 'GM Weekly Saver' would increase from £15 to £16) and, as noted in Table 13, there are no increases of more than 10 pence per trip. However, it should also be noted that this would give the holder access to the whole of Greater Manchester rather than just the network of a single operator, which may mean that the passenger might no longer need to buy a separate single ticket for a one-off journey with another operator, or may be able to make additional journeys that previously did not warrant the additional cost of a System One ticket. These benefits are reflected as part of the interoperability benefit. In addition, there are also network and service quality improvements under the Proposed Franchising Scheme, which may compensate for the small fare increase and result in an overall reduction in the total generalised cost of travel, despite the fare increase.

5.5.45 To answer the specific question in the example provided in Ipsos MORI's June 2020 Consultation Report regarding the small group of passengers gaining an increase in fare, this would not affect passengers on low incomes or any other specific groups disproportionately. These small disbenefits are included in the appraisal, and are far outweighed by the benefits from fare reductions, due to the more significant fare drop for former System One ticket holders.

5.5.46 Regarding the CILT point that 73% of users experiencing no change in fares – this represents holders of major operator own period tickets and all single ticket holders. Whilst users of major operator own period tickets in the Reference Case would not experience a reduction in fare for their ticket with the move to Franchising, the 'value' of the ticket would increase as for this option the ticket would be valid on all services, since the premium associated with a multi-operator tickets in the deregulated market would be removed.

5.5.47 Following the consideration of the impact of Covid-19 on the Assessment, the proposals discussed have not been revised and so the explanation set out above still holds.

Franchising cost is too high and could be spent on infrastructure

5.5.48 The following points were made in the first consultation:

- The Proposed Franchising Scheme will absorb public money for no ascertainable improvement in journey time or quality – Stagecoach;
- It is noted that congestion will continue unless adequate investment in infrastructure is made, and therefore the £299.1 million ascribed to travel time savings is considered high/not credible – TravelWatch NorthWest;
- What are the opportunity costs of Franchising? – First;
- Investing the money into infrastructure schemes via a partnership would be a more optimal investment – Stagecoach;
- The implementation of the Proposed Franchising Scheme will not include any infrastructure or other strategic measures to facilitate more efficient bus operation by addressing congestion problems – First; and

- Franchising is not an optimal use of public funds – Stagecoach.

5.5.49 Operators have made challenges to TfGM's analysis of the causes of decline, and in doing so focused on the issue of congestion as the key challenge facing the bus service. As set out in the Strategic Case of the Assessment, it is wrong to say that congestion is the only issue facing the market. This is to ignore the issues that arise from the market itself such as the efficiency of the network and complexity and level of fares, to name but two. Operators have also put forward a set of arguments that then argue that instead of pursuing franchising, GMCA should spend the money that would be spent on the transition cost of franchising (the 'opportunity cost') over the first five years (£134 million) on bus priority measures to reduce congestion in conjunction with pursuing a partnership. To address these issues, it is important to consider some of the consultation points raised by operators to the Strategic Case.

5.5.50 Some operators contend that it would be better to address congestion before addressing bus reform. For instance, First, in their answer to Question 16, state that "*surely the correct approach, as adopted in many areas of the UK already, is to address these issues first, thereby providing an environment where bus operators are able to maximise their operational efficiency and provide a higher standard of service that passengers need".*

5.5.51 Some operators also suggested that measures that would be part of 'Phase 2' should be considered alongside a partnership. They commented that the benefits of a partnership, together with the benefits that could be secured with 'Phase 2' measures (by using the money saved in the costs of implementing franchising), is a better option than the Proposed Franchising Scheme (with its attendant transition costs). This is linked to their arguments on the primacy of congestion as a cause of the current decline in bus patronage, which is discussed at section 4.3 of this report.

5.5.52 Stagecoach's overarching view is that the Proposed Franchising Scheme will absorb £134 million of public money, with no ascertainable improvement in journey times and service quality or provision, and that it seems evident that investing that amount into infrastructure projects, alongside a partnership with bus operators, would be a more optimal investment for taxpayers. These arguments are considered below when considering the choice between franchising and a partnership.

5.5.53 These issues are addressed in the Strategic Case Response Themes section of this report.

Other matters from the first consultation

5.5.54 Other matters raised by consultees to the first consultation include:

- What if the Proposed Franchising Scheme fails? – Bus Users UK (similar comments were also made by the CMA in response to the Commercial Case);
- There are concerns that there will be a negative impact on the bus industry beyond the Greater Manchester border – Cheshire East Council;
- Metrolink appears to benefit from removal of parallel services – Stagecoach;
- The claim at section 15.4.9 of the Assessment that only TfL Buses have achieved a major improvement in the provision of local bus services in recent history across a large city region, seems to ignore passenger growth and trips/population levels achieved in areas of the country (such as Merseyside), where support for bus has been forthcoming from the local authority, without franchising – Stagecoach; and

- Chart 19 (of the Assessment) suggests you need an additional £10 million in subsidy to generate 3 million to 3.5 million trips. We would be interested in understanding how this is considered to be VfM – Stagecoach.

5.5.55 The economic assessment includes a cost associated with risk, which is documented in the Risk and Optimism Bias Supporting Paper published prior to the consultation. It is expected that risks of failure have been adequately addressed within this risk analysis component of the Assessment. Specific queries and comments from consultees relating to risk are address in the risk analysis section. The points raised by the CMA are addressed in the Commercial Case section of this report.

5.5.56 A detailed response on the subject of cross-boundary risks and mitigations is provided in the Strategic Case section of this report at section 4.8.

5.5.57 Regarding Metrolink, the option specifications for both the partnership and franchising options do not include network changes to remove parallel bus services from Metrolink corridors. The line labelled "*Metrolink Revenue Change*" in Table 9 of the Assessment contributes to the total cost of each option and as such is a positive number, i.e. it represents a loss of revenue to Metrolink as a result of each option (due to abstraction of Metrolink trips to bus relative to the Reference Case), which is a cost to GMCA.

5.5.58 TfGM recognise that there has been growth in passenger demand in areas outside of London in the recent history, and that achieving demand growth (or reducing decline) is a complex function of many interacting factors. However, no town or city or city region has achieved the same sustained level of success as has been seen in London over the last 20 years, nor is it clear from the evidence in those places where growth has occurred (such as Brighton, Bristol and Reading) nor what the causes for that growth are. Of note, DfT data for Merseyside does not support the assertion that bus travel in the Liverpool area is growing – in fact it shows an almost identical rate of decline since 2010 as that experienced in Manchester. The basis of a contention to the contrary is not fully understood but may be the result of looking at data reflective of a subset of the overall market.

5.5.59 With regards to the use of public funds to improve the quality of the bus system in a 'Phase 2' additional funding scenario, the VfM proposition would be based on an approach to governance and decision making used by TfL as described in the ECSP. This approach assumes only interventions that exceed a VfM threshold are progressed. This pass mark is typically set at a level of £2 of benefits to £1 of costs to ensure good use of available funds. It is upon that basis that Chart 19 was derived.

Favourable/positive comments first consultation

5.5.60 Other favourable comments made by consultees in responding to the first consultation with respect to the Economic Case for the Proposed Franchise Scheme included:

- The Proposed Franchising Scheme will resolve concerns regarding the VfM in the use of substantial public sector funds/subsidy and will provide a better platform for further investment – Manchester City Council;
- More needs to be made of the Proposed Franchising Scheme providing a platform on which to progress 'Phase 2' proposals that will tackle the rate of decline in bus usage which the partnership options do not – Rochdale Borough Council;

- Public control should improve the way public money currently spent on the industry is used, with more money available for socially necessary routes at the expense of private sector profits – Unison;
- The forecasts for the Proposed Franchising Scheme are considered conservative to avoid overstating the benefits of this option – Wigan Council; and
- A conservative approach has been taken in monetising soft factor benefits – Jacobs.

5.5.61 As noted at the beginning of this section, Ipsos MORI's June 2020 Consultation Report notes that the majority of the public (2091 out of 2626) also provided favourable comments.

5.5.62 These comments from the first consultation are noted by TfGM.

Positive comments from the second consultation

5.5.63 Positive comments made by consultees in responding to the second consultation with respect to the Economic Case for the Proposed Franchise Scheme included:

- Several local governments took the view that the impacts of Covid-19 are likely to be similar for all options and supported the conclusion that the Proposed Franchising Scheme remains the best value (Bury Council, Salford City Council, Oldham Council, Tameside MBC);
- Stockport council didn't think that the pandemic should pause a decision on the Proposed Franchising Scheme whilst the Association of British Commuters thought there should be no more cause for delay and that the Proposed Franchising Scheme is far more robust;
- Wigan council noted that the forecasting is purposefully conservative to avoid overstating benefits;
- Abellio considered that GMCA are the appropriate body to make decisions about the bus network and agreed with the conclusion that the Proposed Franchising Scheme value for money was resilient enough to cope with the uncertainty created by Covid-19;
- Oxford Road Corridor felt that the scenario testing had been conducted in good faith;
- The Christie NHS Foundation Trust and Bruntwood supported the intention of the Proposed Franchising Scheme to produce an integrated ticketing system, provide consistency between operators and offer better value for money; and
- The Chartered Institute of Logistics and Transport (NW Region) noted that the pandemic has strengthened the case for the Proposed Franchising Scheme because commercial operation of services is no longer possible.

5.5.64 These comments from the second consultation are noted by TfGM.

5.6 Risk Analysis Themes

5.6.1 Risks are relevant to each of the five cases in the Assessment, and therefore specific references are made throughout this report to individual risks where appropriate (e.g. risk around the acquisition of depots and during transition). This section addresses the methodological comments raised relevant to the Economic Case – the majority of which are contained within the Jacobs paper referred to by several bus operators and OneBus. In addition to referring to the Jacobs report, operators also made some specific statements in response to Question 17 of the consultation about their views on the relative risk of options considered in the Assessment, the schedule of sensitivity tests undertaken, and other various comments on risk which are also considered below.

Jacobs Report on Risk Assessment

Methodological Approach

5.6.2 The Risk Assessment section of the Jacobs report (Section 3.11) states that TfGM has conducted a risk assessment "*that appears consistent with HMT Green Book guidance on identifying and quantifying risk*", and in respect of the Quantified Risk Assessment (QRA) accepts that: "*the methodology for this as set out in the 'Risk and Optimism Bias Supporting Paper' appears consistent with the HMT Green Book and DfT Web TAG guidance on Quantified Risk Assessme*nt".

5.6.3 In terms of the quantification of revenue risk in particular it notes that TfGM has used a scenario-based approach to model endogenous revenue risks and concludes that "*The methodology for the risk assessment seems reasonable in terms of assessing and modelling these by scale of impact and length of duration, combined with probabilities of scenarios occurring*".

System One Risk

5.6.4 The Jacobs report notes that a "*System One risk has also been modelled using the Monte Carlo approach using ticketing data from the DfT's National Travel Survey (NTS) regarding the proportions of different ticketing types sold in Manchester*" and goes on to conclude that "*This seems a reasonable approach but there is no information presented on the specific Monte Carlo modelling scenarios undertaken, only the parameters of the triangular distribution used*".

5.6.5 The Jacobs report endorses the approach taken to modelling the risk. In respect of their request for information on the specific Monte Carlo scenarios modelled, these were set out at section 2.1.25 of the Risk and Optimism Bias Supporting Paper.

Optimism Bias

5.6.6 The Jacobs report considers the approach taken to the assessment of Optimism Bias in the Assessment. The report notes that "*The methodology broadly appears sound and is consistent with the HMT Green Book supplementary guidance on optimism bias, with the key rationale for the specific values explained with reference to the values provided in the*

*Green Boo*k". This provides endorsement for the approach taken by TfGM in respect of optimism bias.

Clarification questions on methods and approach

5.6.7 Whilst no requests for information in relation to the non-quantified risk analysis were made during the consultation period, a variety of issues were raised by Jacobs in its report seeking clarification of approach as follows:

- "*There is not a clear methodology on how the criteria were established for the impact and probability of each risk in the Non-Quantifiable Risks section*" and that "*The tables presented in Appendix B would benefit from setting out how the very low to very high impact and probability scores have been derived, for example if there were set criteria established for these scores*";
- "*Is it a fair reflection to suggest that the Transition Risk in F071a would be scored low, if the underlying cost of running the network were to increase*?";
- "*Would risk F018 be minimised if engagement with operators focused on an initial implementation period (and transition) through a negotiated contract arrangement, thus giving existing operators confidence in their existing business models and giving the authority some confidence in continued collaborative working?*";
- "*Is there a link between F029 and F069 which hasn't been included? Advances in technology have in the past been linked to vehicle and fleet specifications, and it appears slightly at odds that F029 is scored low, particularly if contract requirements place the need for improved technology in contract specifications and it can't be delivered in time – because of manufacturer timescales – by successful operators*";
- "*Reiterating the point above where there appears to be 'technology' links between Risk F069 (critical) and F82 (medium).*"; and
- "*Should the same (or a version of the same) risks have flowed through the Assessment for each 'model'? There is, for example, no account for the impact of franchising on small operators, but a reputational risk is included in the partnership model*".

5.6.8 Regarding the risk register contained within Appendix B of the Assessment, Section 46.7 of the Assessment explains that the main method for identification of risks during the preparation of the Assessment was through workshops held with stakeholders, to capture input and themes from all areas of the organisation. For each risk, its impact and corresponding mitigations were identified, with these being monitored and updated over time to manage and reduce the likelihood and/or impact of each risk. All risks were assigned a risk owner, who updated the risks and led on developing the detailed mitigations and quantification of impact value. The risk register was then reviewed on a periodic basis during the production of the Assessment to enable development, review and challenge. TfGM's Risk Management Policy and Strategy was followed to determine how to score the qualitative risks. (TfGM Risk Management Policy and Strategy is set out in the Assessment at section 46.7 and at 46.7.7 onwards).

5.6.9 In relation to risk F071a, this captures the risk that: "*incumbent operators require a price higher than anticipated for their fleet to enter the Residual value mechanism*". The risk is scored as 'low' on the basis that residual value mechanism is designed on solid commercial principles, including paying cognisance to operators' existing depreciation policies (as set out in the Commercial Case), and as an alternative, new vehicles would be procured to source vehicles for the RV mechanism. This has no relationship to the underlying cost of running the network as this concerns capital costs rather than running costs.

5.6.10 In terms of the query on risk F018, TfGM agree that transition to the Proposed Franchising Scheme is required and have proposed a phased approach to transition, to manage the risk of any disruption to bus services during this period. However, the award of contracts is constrained by applicable legal frameworks. Franchise contracts would have to be awarded under the Utilities Contracts Regulations 2016, under which TfGM is obliged to procure the relevant services competitively such that a direct award to existing operators without competition is not possible. The procurement of these contracts is also subject to compliance with EU Regulation 1370/2007 and (in a post-Brexit scenario) The Regulation (EC) No 1370/2007 (Public Service Obligations in Transport) (Amendment) (EU Exit) Regulations 2019. The ability to award service contracts directly on a medium-term basis, as proposed by the query, to manage transition, is not something that is envisaged by the above legislation, save on an emergency / specific basis. The Act did not facilitate, nor does it appear to envisage, such a model.

5.6.11 Risk F029 captures the risk that the fleet specified within franchise contracts is not deliverable by the market. TfGM considers that this is not linked to Risk F069, which captures the risk of there being an "*Inability to respond to changes in technology*", because TfGM would not specify vehicles that it did not consider feasible to deliver – it would consult with operators and manufacturers ahead of specifying the contracts. In addition, the procurement process would be designed to enable bidders to raise queries if they consider aspects of the specification are unlikely to be deliverable.

5.6.12 As indicated, Risk F069 captures the risk of there being an "*Inability to respond to changes in technology*". Risk F082 captures the risk that the specification of systems (e.g. Automatic Vehicle Location (AVL), Electronic Ticketing Machines (ETM) and Real Time Passenger Information (RTPI)) does not meet requirements for managing and monitoring franchise services. Such systems are well established in the market and would be future proofed. TfGM therefore considers that these risks are not linked.

5.6.13 In terms of the query about how risks are dealt with for each of the options in the Assessment, Section 2.2.2 of the Risk and Optimism Bias Supporting Paper explains that there was a separate risk register created for each of the options for reform, as well as the Do Minimum. The risks faced under each of the options are different and thus have different risks associated with them. It would not be appropriate to assume they were the same under each of the options. In terms of the specific raised query about small operators and any potential reputational impact of the effects on them not being appropriately considered, Risk F016 in Appendix A of the Assessment does recognise that there could be reputational and political risk if small operators are not bidding on a level playing field; however, the impact on smaller operators is considered more generally in the Commercial Case of the Assessment.

5.6.14 Based on posing these questions Jacobs asserts that "*some risks are interlinked with one another*" and that "*it seems that there are some risks that would flow through each of the scenarios but are not captured in each*". Jacobs also suggest that an approach that groups risks by broad category, rather than by scenario, may ensure each risk is captured.

5.6.15 However, points made by Jacobs do not demonstrate links that TfGM has not accounted for, and do not in any way justify the point that there are risks common to each of the Scenarios not captured in the risk assessment undertaken. TfGM have categorised risks in the risk register to help ensure that all are captured and to help the process of developing the risk register. Ultimately, as set out above, the risks are different for each option and it is entirely appropriate to group them in this way. This enables them to feed into VfM analysis in a transparent way.

Other matters raised by Jacobs and their conclusion

5.6.16 The Jacobs report suggests that it would be helpful if they could obtain detailed outputs for the Monte Carlo analysis and understand the Scenarios used for the revenue risks modelling. These are provided in Tables 49 and 53 of the Financial Case for the franchising and partnership options (respectively) and the results for the Economic Case are provided in Table 21. These tables also provide a breakdown of the provision amounts relating to cost risks, the output from the revenue risk modelling and the value of the System One risk, i.e. each of the risk categories outlined in the Risk and Optimism Bias Supporting Paper.

5.6.17 Jacobs general conclusion in relation to the risk assessment is that "*in general terms TfGM has underestimated the risks related to the scheme*". It is not clear what "*in general terms*" means, and this conclusion is not supported by the analysis presented by Jacobs. In a number of areas, they support the methodology employed, and the Assessment includes careful consideration of a full range of potential risks as well as an appropriate approach to quantification.

Statutory Consultees

5.6.18 Comments were received suggesting that TfGM has underestimated risk associated with the Proposed Franchising Scheme (Go North West, Rotala and Stagecoach).

5.6.19 The responses from these consultees include various statements around franchising being riskier than partnership. As explained in the Assessment, risk registers were developed for each of the options considered (the Proposed Franchising Scheme, both partnership options and the Do Minimum). Appendix A in the Assessment contains these risk registers, where it can be seen that the franchising risk register contains more risks than the partnership risk register. In Tables 49 and 53 of the Financial Case and Table 21 of the Economic Case in the Assessment, it can also be seen that the quantified risk value is higher for franchising than the partnership option, demonstrating that TfGM recognises the differing risk profile for GMCA between partnership and franchising. Overall, TfGM believe that risk has been treated appropriately as presented in the Assessment.

5.6.20 Some of the responses from operators also reiterated points made by Jacobs that have been described above.

5.6.21 Go North West comment specifically that the Risk and Optimism Bias Supporting Paper is limited in scope; that it only covers two points (revenue risk that would be faced by GMCA in the event of adverse macroeconomic shocks and optimism on costs that GMCA would incur); and that does not carry out sensitivity analysis on the key inputs that generate the benefits case. Go North West contend, therefore, that it cannot be used to demonstrate, therefore, that the benefit-cost case is sufficiently robust to appropriate sensitivity analysis. The Risk and Optimism Bias Supporting Paper is not limited as suggested but supports the analysis of all the items to which optimism bias has been applied and also how all of the risks, not just the specific revenue risks, have been assessed. Sensitivity analysis is described in the Economic Case and points on the robustness of the benefits case and other aspects are discussed below.

5.6.22 TfGM's approach to revenue risk and why this is reasonable is explained in response to Stagecoach's query under theme 1 of the Financial Case section of this report. TfGM note the positive feedback received in respect of the approach to Optimism Bias (also provided in the Jacobs report).

5.6.23 A query was also raised by Stagecoach in respect of the risk mitigation plans in place as follows: "*There is not a risk mitigation plan, which could therefore lead to higher-than-expected costs*". However, Sections 46.7 and Section 48.4 of the Management Case of the Assessment summarise how ongoing and transition risks would be managed under franchising respectively and these sections contain a table summarising the risks and sets out the mitigations.

5.6.24 Stagecoach also sought clarification and justification for the conclusion that appraisal inputs regarding optimism bias rates have minimal impacts on the economic performance of the franchising option. It is not clear what conclusion is being referred to; the inputs have an effect to the extent that optimism bias appears as a cost in the analysis. The sensitivities applied to these rates have a minimal impact on the economic performance of the scheme, because they do not increase or decrease the costs to the extent that this would make a great difference. This is clear from the analysis set out at section 15.5 of the Economic Case of the Assessment.

5.6.25 A variety of issues were raised which suggest TfGM is carrying risk due to the underestimation of costs. For example, some consultees said that:

- Baseline employment costs are too low – Rotala;
- The baseline model for cost and its calculation require modification as they do not properly reflect recent increased employment costs (pensions, apprentice levy, minimum wage, and recent pay increases) – Rotala;
- Whilst increased annual costs for achieving a fully Euro VI fleet have been taken into account, additional costs of AdBlue and exhaust maintenance do not appear to have been considered – Rotala;
- When considering wage bills to calculate driver costs, TfGM has not taken into account incremental driver wages that increase with length of service – Rotala;
- TfGM has not included a sufficient number of Revenue Protection Officers when compared with the number of such officers employed in Greater London – Rotala;
- TfGM has not allocated sufficient funds for managing the franchise contracts efficiently especially in circumstances where TfGM predicts that the franchising will give rise to 1.4 million more passengers per year by 2040. This will also require bus operators to invest in additional service control staff – Rotala;
- TfGM estimates costs for "*on-bus equipment and branding – Wi-Fi, driver radio, telematics, CCTV*" at approximately £3,850 per bus. However, an assessment for bus franchising in Wales suggests that the figure should be closer to £15,000 per bus – Rotala;

- Contracts will cost more than forecast due to involvement of public authorities during the award process, leading to political pressure for higher operated kms – Stagecoach / Jacobs;
- Bus replacement rates will slow in the lead up to reform, adding cost in the early years of reform – Stagecoach / Jacobs;
- Bus replacement costs may be underestimated due to enhanced specification of franchise and due to anecdotal industry evidence that costs of fleet are increasing above the assumed RPI level contained in the Assessment – Stagecoach / Jacobs; and
- Cost of acquiring depots may be underestimated – Stagecoach / Jacobs.

5.6.26 The full basis of our approach to costings and our response to the issues raised can be found in the Financial Case and Commercial Case sections of this report at sections 7.2 and 6.8. In general, TfGM would agree that there is uncertainty surrounding many of the costs of implementing the Proposed Franchising Scheme. These uncertainties are addressed via the inclusion of quantified risk in the scheme costs and sensitivity testing.

Responses to the second consultation

5.6.27 In response to the second consultation, two operators made comments about the work done on updating the quantified risk assessment for the Covid-19 Impact Report.

5.6.28 Stagecoach commented that *"Not factoring risk appropriately now could lead to a need to review and consequent upheaval later: We are surprised that in re-revisiting the Quantified Risk Analysis assumptions produced as part of the Original Assessment, the quantum was re-assessed but no new risks were introduced, as various new risks have arisen since the Original Assessment was first conducted, some of which we have highlighted in section B on the impact of the pandemic."*

5.6.29 In response, TfGM note that, as explained at section 5.2.14 and 5.2.15 of the Covid-19 Impact Report, there was a review of risks identified during the Assessment, which were then discussed in a workshop with the risk owners to determine if any new risks should be introduced to the quantified risk assessment (QRA) in light of Covid-19 or if any existing risks should be modified, either as a result in anticipated changes to probability or impact. The review identified that Covid-19 was an additional factor in the causes of existing risks within the QRA, rather than introducing new risks. This was partly due to the fact that the risk register contains a comprehensive range of risks covering all aspects of implementation and operations. Therefore, changes to probability and impacts of a number of risks were considered across the four scenarios. The 'what if?' analysis performed in the Economic Case of the Covid-19 Impact Report considered the effect of larger exogenous risks such as patronage decline, which were outside the scope of the QRA, as explained in the Risk and Optimism Bias Supporting Paper published alongside the Assessment.

5.6.30 Go North West commented that *"Section 6.2.64 notes that "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." Again, this risk falls to GMCA,* *but it is not evident whether there is a robust quantification of this risk presented because details of the revised quantified risk assessment ('QRA') have not been provided."*

5.6.31 The Scenarios developed take into account the potential decreases in the size of the market throughout the transition period, and therefore the risk of operators deregistering services during this period is captured within the Scenarios. Furthermore, as set out at section 6.9.103 the commercial packaging strategy is one that flexes to the size of the network and provides a mechanism to set the number of franchise packages in a manner that adapts to future changes to the sizes of network. TfGM have also considered how 'recovery partnerships' could potentially be used during the transition period to prevent significant service withdrawals during this period at section 13 of this Consultation Report.

5.6.32 Go North West go on to discuss the analysis of risk in the Covid-19 Impact Report, commenting that *"Section 6.2.57 suggests that there are two types of risk for the ongoing operation of the Proposed Franchising Scheme – namely, 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)."*

5.6.33 In terms of the former, section 6.2.58 acknowledges that *"An exogenous risk has already occurred in the form of the Covid-19 pandemic – in other words, this risk has already been realised and so can be discounted. This fails to recognise the potential for medium to long term structural changes to the market, as well as changes in demand, by time of day, type of user and frequency of use, that are likely to occur as part of any 'new normal'".*

5.6.34 TfGM reiterate that the larger exogenous risks outside the direct control of TfGM / GMCA have been considered as part of the work done to create the Scenarios, which take into account medium to long-term structural changes to the market and associated demand, including type and frequency of users. This was not included in the QRA as these risks are not specifically quantifiable and therefore it would not have been appropriate to include them in the QRA.

5.6.35 Go North West conclude their analysis of the risk work done in the Covid-19 Impact Report by commenting that *"Considering that it is in the treatment and understanding of risk and uncertainty, where GNW has the most significant concerns over the Proposed Franchising Scheme, it seems a major flaw for such little attention to have been paid in the report to the understanding around, implications of, and the quantification for, risk. Insufficient consideration of risk and uncertainty relating to the Proposed Scheme leaves significant risks for:*

- Bus passengers who would experience disruption to their services;
- Operators who would have to terminate services with minimal notice, which could quickly result in a significantly smaller network and periods of operation as a mitigation measure to offset reductions in revenue;
- Employees with uncertainty over employment tenure and terms and conditions; and
- Residents of Greater Manchester who could face increased fares if the identified risks to the public finances materialise.

To minimise transition risks and accelerate timescales for starting the development of franchise network for Greater Manchester, GMCA should consider an alternative proposal from GNW as outlined in more detail in the response to Q12."

5.6.36 TfGM disagree with the assertion that "*such little attention*" has been paid to understanding the implications and quantification of risk in the Covid-19 Impact Report. As outlined above, there was an exercise undertaken to assess the impact of Covid-19 on the risks within the QRA from the Assessment, as well as consideration of whether any new risks should be introduced to the QRA. This involved extensive discussions with the relevant risk owners, a risk workshop, as well as a review by GT as part of their assurance work. Furthermore, the four significant risks outline by Go North West above, whilst not being considered in the QRA due to the fact they cannot be directly quantified, have been considered throughout the rest of the Covid-19 Impact Report, through the use of Scenario planning and then within the Economic, Financial and Management Cases.

Sensitivity testing

5.6.37 A number of comments were raised in the first consultation regarding the schedule of sensitivity tests presented in the Assessment. Some consultees said that:

- The sensitivity tests have not used assumptions that sufficiently reflect the range of potential outcomes and have excluded some sensitivity tests that are typically carried out – Jacobs;
- The sensitivity tests vary input assumptions by a smaller proportion than would be expected in an economic case such as this – Stagecoach;
- In some cases, the results were counter-intuitive (e.g. reduced population growth improved the case for reform) – Stagecoach / Jacobs; and
- The Economic Case does not appear to demonstrate adequate sensitivity testing on key inputs that generate the benefits case – Go North West.

5.6.38 The sections below respond to these issues regarding the sensitivity tests in the Assessment from the first consultation. Analysis of the responses to the consideration of risk and uncertainty on the Economic Case in response to the second consultation and the Covid-19 Impact Report are presented at section 5.10.

5.6.39 The range and scope of sensitivity tests reported in the Assessment were been designed to reflect the likely range of the risk under consideration. That does require use of pre-existing data were available or alternatively a level of professional judgment to determine an appropriate range estimate. Jacobs accepted that "*the range of sensitivity tests included seems reasonable*". In all cases, the values are intended to be representative of the risk we are carrying and are not arbitrarily selected. For example, population and employment sensitivity tests make use of already established higher and lower growth scenarios, fuel cost tests reflect the higher and lower fuel cost forecasts published by the Department for Business, Energy and Industrial Strategy, and interoperability tests use upper and lower bound values from the research study based on 95% confidence intervals.

5.6.40 Jacobs have not listed in their response to the first consultation what sensitivity tests they would have expected to see other than an example of a change in capital expenditure. The risk associated with this is captured via the quantified risk assessment mechanism. Regarding Go North West's point that adequate sensitivity testing on inputs that generate the benefits case has not been demonstrated, tables 10 and 11 in the Assessment document the list of sensitivity tests which includes a section of tests labelled "*Scheme Impacts*". Tests 19, 20 and 21 directly change the value of the interventions that drive benefits. Tests 6 to 11 vary how responsive patronage is to those input changes, and therefore vary how many additional passengers are generated. Other tests, focused on inputs that affect both the Reference Case and scheme forecasts (e.g. exogenous inputs like population and employment), result in changes to the size of the bus market and the number of existing passengers gaining benefits – another key input in the derivation of benefits.

5.6.41 TfGM therefore considers that adequate sensitivity testing of key inputs was carried out in the Assessment. The onset of the Covid-19 pandemic caused GMCA to request further assessment of its potential impacts on the Assessment, and hence the Covid-19 Impact Report was produced and consulted upon.

5.6.42 Regarding counter-intuitive results, sensitivity tests 1 (lower population growth), 3 (lower fuel cost increases) and 5 (active travel investment) all reduce the size of the bus market, but the interventions remain the same. We would therefore expect a reduction in NPV, which is what we get. However, this reduction is made up of an increase in Present Value of Benefits (PVB) and increase in Present Value of Costs (PVC). Whilst at first glance this seems odd, the reason for the result is due to the following logic chain:

- Lower population growth, lower fuel costs and more investment in active travel all result in lower patronage and lower revenue in the Reference Case. The subsequent loss of revenue to private operators under the Proposed Franchising Scheme is therefore less than would occur if Reference Case patronage was higher (as per the central forecast);
- But the value of franchise payments received by operators (which is linked to operating costs) is the same as has been assumed within the central forecasts for this option, due to a sensitivity test assumption not to vary any other variable, hence the overall disbenefit to operators is lower than is the case in the central forecasts for this option;
- Therefore, the PVB goes up, because the impact on private operators is included within the PVB;
- Meanwhile the TfGM revenue gain (from ticket sales) is smaller than for the central forecasts for the franchise option, due to the smaller market size, whilst the expenditure on franchise payments is assumed to be the same (because operating cost is not altered). So there is less revenue to offset the scheme costs; and
- Hence PVC also goes up.

5.6.43 Of course, the user benefits are reduced (in line with the smaller market) but this is outweighed by the change in revenue. It is considered that the results of the sensitivity tests are correct given the specification of the test, for the reasons set out above.

5.6.44 TfGM's view is that the uncertainties around benefits in the Assessment were assessed sufficiently via the suite of sensitivity tests presented, and that, taking them into account, the Proposed Franchising Scheme remained good VfM in all cases.

5.7 Wider Economic Impacts Themes

5.7.1 Comments were received from statutory consultees in response to the first consultation on the approach to the basis of the Wider Economic Impacts (WEI). Most of the issues were raised in the Jacobs report for OneBus, with similar issues raised independently by Stagecoach and Go North West, and related to the application of WEI tools to the analysis of bus reform options and the overall scale of benefits reported.

5.7.2 Jacobs suggested that the values for WEIs in the Assessment were larger than might be expected for this type of scheme. They cited an SDG Report from 2011, "*WEI's of Transport nvestments in New Zealand*", which surveyed assessments finding that WEIs increased the value of appraisal by 25% on average rather than the 58% suggested for the Proposed Franchising Scheme. They suggested that WEIs are more typically associated with major infrastructure projects, so the level claimed for bus provision optimisation is unexpected, and evidence is provided to justify the claim that they will be achieved is minimal.

5.7.3 Go North West stated that the most important source of benefits is labour supply improvements that result from bringing more individuals into the labour force, by reducing time and/or cost of getting to a place to work, as a result of changes in the bus network. They suggested that it was unclear how significant benefits could realistically arise from redeploying only 30 buses (equating to over £10 million of benefit per bus). If they can, then (so they suggested) the revised VPA should also do so.

5.7.4 Both Jacobs and Stagecoach challenge the assessment of agglomeration benefits. They contend that agglomeration benefits measure the net business productivity increase as a result of improvements in effective density, but they point out that the majority of business trips are typically not made by bus, on average 3.1% of such trips, and there is already a free city centre bus service, and suggest that the local impact on business to business interactions seems especially large and the level of congestion relief would be unlikely to support such a large valuation for other highway trips. They suggest that agglomeration impacts are concerned with linking businesses and not, as suggested in the Assessment and Supporting Paper, with "*linking people with opportunity*". Such effects are covered in labour supply and better job matching prospects. Go North West also considered that the agglomeration benefits were questionable, since they also arise from network changes and the scope for network adjustment seems small.

5.7.5 Stagecoach were also concerned about how the local (as opposed to national) WEIs had been calculated, as no evidence on the assumptions used had been provided and that the methodology used to calculate these local values was not transparent.

5.7.6 General questions were also raised by Stagecoach and Jacobs/OneBus about the extent to which the analysis has been peer reviewed.

5.7.7 In response, it should be noted that the science of calculating WEIs is young, and that the basic approaches to the derivation of WEIs and their importance within the evidence suite for transport projects has evolved significantly in the 15 years since they were first applied to a transport scheme appraisal in the UK, namely within the Crossrail 1 project appraisal in London circa. 2005. At that time, the use of WEI analysis was only considered applicable to very large infrastructure projects, such as Crossrail, where the approximate uplift of 30% to the standard welfare economic valuation became something of a benchmark. This thinking was still prevalent in 2011, the date of the study to which Jacobs referred. In the intervening years however, the "*toolkit*" applicable to the calculation of WEIs has grown significantly, increasing the values derived from such analysis as a proportion of the welfare economic valuations.

5.7.8 It is increasingly recognised that any transport intervention that changes generalised costs of travel (and not just large infrastructure projects) can generate WEIs. The applicability and basis of the approach adopted (and its consistency with national guidance) is set out at section 19.2 of the Assessment and in section 7 of the ECSP. It is noted that in relation to the scale of benefits, there is no available comparator, but that the WEIs are not included in the 'core' economic appraisal, and that a broadly similar scale of WEIs (when expressed as a ratio of PVB) is calculated for the partnership options. It is therefore reasonable to conclude that the issues raised could not affect the relative performance of the options.

5.7.9 Regarding the Go North West point that the WEIs are very large for the redeployment on 30 buses, firstly it is important to remember that the figure of £304 million is over the full appraisal period, not for a single year. Further, and more importantly, the benefits are calculated based on the change in generalised cost between the Reference Case and the franchising or partnership, and that this change arises not just from network changes but from the other interventions that affect generalised cost, namely interoperability, service quality improvements and fare reductions.

5.7.10 The DfT definition of agglomeration impact, in DfT TAG Unit A2.1 Glossary of terms is:

> *"Agglomeration – this represents one of the mechanisms by which transport schemes can boost social welfare by raising the productivity of businesses due to better links to other businesses and sources of labour."*

5.7.11 This formal DfT definition of agglomeration goes well beyond the productivity impacts of a scheme as a result of improvements for business travellers, as implied by Jacobs and Stagecoach. It also requires us to consider the full impact of effectively bringing people and jobs closer together through the reduction of generalised journey times (not just in vehicle journey times as implied by the consultation response). For this reason, it is expected that the additional PVR proposed within the Partnership Plus scheme, whilst very welcome, would not alter the overall conclusions of this analysis; namely that the Proposed Franchise Scheme option creates greater reductions on passengers generalised costs of travel and therefore has a significantly more positive value when measured in both traditional welfare economic terms and also using WEI (macro-economic) analysis.

5.7.12 More generally, the approach to creating the WEI analysis and the analysis itself has been the subject of peer review by Dr James Laird[4], whom TfGM is confident is a pre-eminent academic and practitioner in this field. It is therefore considered that TfGM's approach to WEI analysis was undertaken in a way that is robust and consistent with current standard practice, including the approach to deriving national versus local impacts.

[4] Dr Laird was a joint author of the important DfT commissioned report, Transport investment and economic performance: Implications for project appraisal (2014) https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/386126/TIEP_Report.pdf

5.8 Covid-19 Impact Report Consultation Themes

5.8.1 In the Covid-19 Impact consultation, consultees were asked the following question in relation to the Economic Case:

Question 3: Do you have any comments on the consideration of the impact of Covid-19 on the value for money of the Proposed Franchising Scheme and the partnership option?

5.8.2 The responses to this question have been structured around the following themes:

- Application of Scenario Analysis to Value for Money;
- The use of the 'what if?' analysis;
- Insight from the qualitative research on the Covid-19 impact on VfM; and
- Overall Conclusions on Value for Money from the consultations.

5.8.3 The following sections discusses each of these themes in turn and then ends with conclusions.

5.9 Application of Scenario Analysis to Value for Money

5.9.1 A number of the consultees make comments regarding the appropriateness and application of the Scenario Analysis used across the Covid-19 Impact Report. Section 2 above presents TfGM's response to many of these comments.

5.9.2 Rotala (Oxera) state "*that implementing a major change (franchising) in the context of a market where there is no baseline, and forecasting models cannot be calibrated to reflect potentially significant changes in key determinants, such as drivers of bus demand in the DRM, undermines the entire set of numbers being relied upon by GMCA*".

5.9.3 As the impact of medium to long-term impact Covid-19 is uncertain, TfGM consider that the Assessment, as tested for robustness via the Scenario Analysis, represents the best available evidence to inform decision-making on the market reform options at this time.

5.9.4 Covid-19 has not invalidated all the information used to develop the Assessment, but it has called into question the trajectory of future levels of demand for bus travel. The uncertainty and potential for structural change quoted by Rotala (Oxera) above are the very reasons why TfGM decided to adopt a Scenario Analysis approach - rather than develop a whole new Assessment based on a weaker evidence base. Oxera partly recognised this by stating that, given the large number of potential changes that could be observed in a post-Covid-19 recovery, a single revised model is unlikely to be helpful and considering a range of different scenarios is broadly appropriate. By developing a wide range of plausible futures/scenarios for the trajectory of bus travel, TfGM have been able to assess the validity of the conclusions from the original Assessment. It is the validity of these conclusions, in particular, their robustness to a wide range of potential bus travel projections, that is of primary importance, not the projections per se.

5.9.5 An advantage of the application of Scenarios and the 'what if?' testing over the simpler, one variable at a time, sensitivity testing, is that this approach facilitates exploring the resilience of options in face of uncertainty, and section 4.2.84 of the Covid-19 Impact Report sets out the commercial levers through which GMCA can mitigate the risk of uncertainty.

5.9.6 Go North West state that schemes being promoted through the DfT have been the subject of sensitivity tests, including one using updated economic parameters that align with the forthcoming change to the TAG Data Book, which reduced the overall BCR of schemes by 20%–25%. There is no evidence that such a sensitivity test has been applied, undermining the conclusions on VfM, and that suggests the approach used is not in line with that expected of a scheme of this type and value.

5.9.7 Sensitivity tests of the kind suggested by Go North West have been previously been undertaken and were reported in the Assessment. The specific test of using the revised economic parameters that align with the forthcoming change to the TAG Data Book (v1.14) was tested and found to reduce the aggregated bus market demand by 2.9% across the appraisal period, with demand actually being higher than the Reference Case from the Assessment in the years to 2027 (due to a lower level of income growth in the sensitivity test leading to higher bus demand), and then declining at a faster rate due to lower population growth and lower growth in car costs, so that the sensitivity test had demand 10% lower by 2050. As this level of demand reduction was well within the bounds of the reductions being considered through the Scenario Analysis, the full sensitivity test on the appraisal was not undertaken. Further to this, such sensitivity tests are focused on testing a fixed scheme against a range of potential futures. This is equivalent to the step 1 analysis in the 'what if?' analysis presented in the Economic Case. However, such tests do not test the resilience of the scheme when certain elements of the scheme are removed, as undertaken in the Step 3 analysis in the Economic Case.

5.9.8 Stagecoach considered that, in the unusual situation where guidance does not exist, it would have expected GMCA to have obtained detailed specialist advice about how TAG should be applied, and an assessment of the extent to which appraisals are likely to comply with emerging draft guidance to be provided. They consider GT's view on the work carried out was very limited. Stagecoach also suggested that a demand scenario "*with a relatively low trajectory*" would be appropriate, as it is currently impossible to forecast future demand with any certainty, and that this could generate a significantly lower VfM.

5.9.9 The approach to develop the Scenario Analysis and 'what if?' testing was developed by TfGM and their modelling and appraisal advisors SYSTRA. TfGM contend this Scenario Analysis approach fully recognises the difficulties in producing modelled forecasts, and that the Scenario 3 demand projection represents one "*with a relatively low trajectory*" as part of that. In fact, with a decline in patronage to 25% of pre-Covid levels by 2026/27, and to 20% by 2049/50, TfGM contend that Scenario 3 could be considered a floor below which it would be implausible to consider bus patronage falling while still representing a credible GM wide network. Even Scenarios 1 and 4 include declines in patronage to 56% and 64% of pre-Covid levels by 2049/50, which we note are below equivalent predictions from TfL and TfN, as discussed further in the section 3 on Scenarios. Steps 1 and 2 of the 'what if?' analysis then test the potential impact of this demand scenario on the economic appraisal, with Step 3 adding a significant downside test where benefits realisation is also negatively impacted over and above the aggregate demand effect. GT concluded that the approach in the Covid-19 Impact Report to considering the value for money of the Proposed Franchising Scheme in the light of the potential impact of Covid-19 was appropriate. (Criticisms of its approach are dealt with at section 9.3.)

5.10 The use of the 'what if?' analysis

5.10.1 The themes are:

- The Assessment does not represent a credible starting point for the analysis;
- 'What if?' analysis is not consistent with guidance;
- The basis for the 'what if?' analysis and the general approach to its treatment of benefits; and
- Comments on the Conclusions drawn from the 'what if?' analysis in the Covid-19 Impact Report.
- Other impacts included in the Assessment.

The Assessment does not represent a credible starting point for the analysis

5.10.2 Stagecoach has stated that "*the Original Assessment cannot be an adequate basis on which to make a decision to introduce the Proposed Franchising Scheme*", saying, for example, that "*plainly data from 2016/17 could not contain sufficient detail nor be of sufficient quality for the assessment of the Proposed Franchising Scheme in the light of the impact of Covid-19 on the bus market and wider-economy of Greater Manchester*" which will continue and do so in ways that are not currently predictable. Rotala (supported by Oxera) note that the approach to adjusting benefits in the What If? analysis assumes both the benefits per trip and sub-market shares remain unchanged from the original assessment. That approach is seriously flawed as neither assumption is valid: there will be a difference in both under each of the scenarios which could adversely affect the magnitude of the benefits considered.

5.10.3 The Assessment took into account data later than 2016/17. Prior to preparing the Assessment, TfGM requested information from operators in 2017 and into 2018. The most recent full financial year for which this data was available was 2016/17, and this was consistent with the most recently available financial statements used to inform the Financial Model. For this reason, the most up to date year for which complete data was available was 2016/17 and hence this was selected as the model base year. As set out in the Operator Information Supporting Paper5[5] published alongside the Assessment, the operator data were used alongside the 2016/17 data from the Continuous Passenger Sampling (CPS) surveys, within the Demand and Revenue Model to improve the accuracy of the base year demand and revenue in the DRM:

> *"the combination of information received from Packages 1, 9 and 11 with CPS data has improved the accuracy of the forecasting process by strengthening the representation of base year demand and revenue in the model."*

5.10.4 Where data was available for more recent years, the DRM used observed data to inform the inputs to the model for the years up to 2018/19 (the last full year at the time the Assessment was undertaken) to ensure that the most up to date information was used. For example, observed fare changes for this period were used rather than the standard long-term assumption of RPI+1.4% and the observed reduction in mileage of 4.1% between 16/17 and 17/18 was applied as an aggregate factor. The aggregate forecast in the

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[5] https://greatermanchester-ca.gov.uk/media/2399/12-operator-information-supporting-paper-web.pdf

Assessment for 19/20 (pre-Covid-19) has been checked with the latest data on pre-Covid-19 patronage. The forecast from the Assessment was for a decline of 7.7% from the baseline position, against an observed figure[6] of a decline of 8.0% and hence the modelled 19/20 position is considered a reasonable point from which to start the Covid-19 impact analysis.

5.10.5 It is also noted that in the summer of 2020, prior to undertaking the Covid-19 impact analysis, TfGM asked operators for permission to use the bus market information it held in relation to the CBSSG process for the purposes of developing the franchising scheme. As set out in the Covid-19 Impact Report, those data were not sufficient to re-build the base demand data in the models.

5.10.6 Compared to the Assessment, Covid-19 will change the overall level of demand at the start of the franchising period. TfGM have, therefore, used the Scenarios to develop projections of plausible alternative starting points for the appraisals. As this period from April-20 to September-21 is prior to the scheme opening dates, the patronage projections during the first years of Covid-19 have no impact on the benefits.

5.10.7 The problems with the bus network that the bus market reforms are designed to address are not expected to disappear due to Covid-19. The economic benefits within the Assessment accrue from the interventions that each of the market reform options will look to put into place to address these problems. The majority of these interventions are planned to be implemented independently of the overall patronage levels at any one time. For example, interventions such as integrated ticketing, branding, and service quality will all be part of the franchising offer. Indeed some of these benefits may in fact offer greater value for money in a smaller, more fragmented market, such as interoperability benefits. Hence the measures proposed are expected to be the same and the Assessment remains a good starting point for considering the likely future benefits in the Covid-19 Scenarios.

5.10.8 Table 5 below documents the analysis of the likely impact of Covid-19 on the benefits within the Assessment. These benefits are applied within the economic appraisal as changes to either the fare per trip or the generalised journey time per trip. These changes per trip can also be referred to as the unit benefits per trip for each intervention. The aggregate benefit in the appraisal for existing users , is, therefore, a function of the number of passengers receiving the benefit multiplied by the unit value assumed per trip. As set out in the Covid-19 Impact Report, Step 3 of the 'What If?' tests looks at potential downside impacts of changes to those benefits most likely to be affected by Covid-19, namely, the inter-operability unit values and the network design benefits. Applying a factoring approach to the Assessment, therefore, is a credible approach to demonstrating what the potential impacts of Covid-19 may be on the quantified economic benefit part of the value for money assessment.

[6] These figures are for financial years. The CPS survey was suspended in mid-Mar-21, and, as a consequence, there is not an expanded survey figure for the quarter Jan-20 to Mar-20 inclusive. This figure has, therefore, been derived by taking the CPS derived patronage figure for the 9 months to Dec-19, and factoring to a full year to Mar-20 by applying the average quarterly change in the three quarters to Dec-19 to the Jan-19 to Mar-19 quarter total.

Table 5: Assessment of how the benefits in the Assessment may be affected by Covid-19

Benefit Type	How benefit is applied	Who gets it	Proportion of total benefits in Proposed Franchising Scheme appraisal	Likelihood of being affected by Covid-19
Network changes	Adjustment to generalised journey time (geography specific)	All users (change varies by geography and time of day)	14%	High Depends upon make-up of network
Fares	Change in modelled fare for certain trips	Mainly former System One ticket holders (due to unification of period fares) Not concessions	16%	Low S2 could lead to some fares reduction, but assumption remains that a premium would be charged to multi-operator trips in the reference case
Inter-operability	Unit benefit per trip (willingness to pay value) deducted from generalised journey time	Passengers with operators' own standard period tickets varies between corridor and network wide	15%	Moderate Depends upon the level of market concentration or fragmentation. Unit benefit could be higher in a more fragmented market.
Service Quality incl. driver standards and brand	Unit benefit per trip (willingness to pay value) deducted from generalised journey time	All users	54%	Low Issues affecting driver standards, ticket inspectors, WiFi, brand assumed to remain in the reference case for all scenarios

5.10.9 It is also noted that Covid-19 has delayed the start of the Proposed Franchising Scheme by one year, but, as the majority of the costs have also been delayed by a similar amount, this, in itself, will have a negligible impact on the appraisal and so was not considered in the Covid-19 Impact Report.

5.10.10 As the local objectives for bus remain the same, and as the problems in achieving them will remain irrespective of how Covid-19 impacts the market, and for the reasons set out above, the Assessment is still considered to provide a good basis from which to consider the impact on the potential economic benefits identified in it by applying the What If tests.

'What if?' analysis is not consistent with guidance

5.10.11 Stagecoach argued that the approach in the Covid 19- Impact Report "*could be said to be inconsistent*" with one paragraph in a section on Scenario Analysis in HMT's Guide to Developing the Project Business Case.

5.10.12 Go North West states that the factoring approach is not recognisable from TAG, and no detailed explanation is provided that would allow judgment on the validity of the approach, nor whether it would meet DfT guidance or good practice.

a. Background

5.10.13 As indicated by the name, the What If? tests are designed to answer "*what if*" questions, and so go beyond normal sensitivity tests, and so add to the information being provided to decision-makers and hence improve the transparency regarding the level of robustness in the analysis underlying the value for money recommendations being made. They are a well-known technique of sensitivity analysis.

5.10.14 The Green Book provides that:

"*5.59 Sensitivity analysis explores the sensitivity of the expected outcomes of an intervention to potential variations in key input variables. It can demonstrate, for example, the changes in key assumptions required to change the preferred option on an NPSV or BCR basis or to turn the NPSV of an option positive.*

…

5.62 Scenario analysis is a form of 'what if' analysis that is useful where there are significant future uncertainties. Scenarios may be chosen to explore significant technical, economic and political uncertainties which will affect the success of an intervention. Scenario analysis must always be proportionate to the costs and risks involved.

5.63 Low cost, low risk proposals may look at simple 'what if' questions. Major policies and more expensive, higher risk options may require modelling exercises which test the impact of different states of the world on expected costs and benefits."

5.10.15 Covid-19 creates significant uncertainties that may possibly affect the success of franchising and the Scenarios have been developed to test the impact of different states of the world on expected costs and benefits using What If questions. Although compared with the full range of investment decisions to which the Green Book may apply, franchising may not be high risk[7]. But in any event, incorporating the complex narrative of each scenario into the Assessment forecasting model (the DRM) was not feasible as it would require imprecise manipulation of the inputs and of the model relationships. It was also considered that any results from such a process would give a false sense of analytical assurance to the decision-makers, with the bus patronage projections being treated with

[7] Compared against the full range of investment decisions that the HMT guidance applies, the franchising decision is considered of moderate risk as the amount of capital investment is moderate compared to other transport capital programme decisions GMCA has made in recent years; the affordability revenue risk is not a one off decision, as the actual funding required will be determined as part of the annual GMCA budget process; and as part of this annual budget process, GMCA has an existing and ongoing revenue liability for the GM bus network in terms of local concessions and the tendered network.

as much confidence as the forecasts in the Assessment. Modelling would not be feasible or necessarily desirable.

5.10.16 Bus patronage projections were developed for the Scenarios along with projections for other modes instead via a professional judgement process from a considered strategic narrative approach that for each scenario:

- Split the narrative into two main time periods: the first 18 months and then to 2026;
- Qualitatively determine what these could mean for the bus market; and
- Use professional judgement to convert these to projections of bus travel demand in terms of person trip km.

5.10.17 For the value for money Covid-19 Impact Analysis bus projections were needed for the full 30-year period. To ensure a prudent and transparent approach, it was assumed that after 2026, the impact of Covid-19 on annual changes in patronage would have largely played through and that the previous underlying drivers of demand would take over. Hence the demand was assumed to return to the projection in the original assessment. This varies by year and between market segments but on average equates to a -1.2% year on year change pivoting off the 'post-Covid-19' position in 2026. It is important to note that it is only the underlying trend from the Assessment forecast that is used, not the absolute numbers, which would be higher. This means that the aggregate impact of Covid-19 for each Scenario relative to the Assessment forecast by 2026 are then maintained throughout the remainder of the appraisal period.

b. HMT's Guide to Developing the Project Business Case

5.10.18 HMT's Guide to Developing the Project Business Case contains a section on Scenario Analysis that is very similar to that in the Green Book, but which contains an additional paragraph to which Stagecoach refers and with which it suggests that the approach in the Covid-19 Impact Report "*could be said to be inconsistent*".

5.10.19 This paragraph stated that: "*Careful consideration should be given before running the scenario analysis to the choice of circumstances, as sensitivity analysis does not simply involve changing costs, benefits and risks by an arbitrary 10 or 20%; but rather by the values that represent the most likely increases (or decreases) in cost etc. for documented reasons.*"

5.10.20 The changes applied in the What If? Tests to benefits and costs were not arbitrarily selected. They were determined by professional judgement – a technique included in the range of methods included in the GAD Uncertainty Toolkit – in order to providing a sufficiently wide range of downside outcomes and potential consequential changes to enable the validity and robustness of conclusions in the Assessment to be tested.

c. TAG

5.10.21 "*What If?"* tests are not part of TAG at the moment, though they are referenced. Currently the TAG unit M4 on Forecasting and Uncertainty provides advice on a variety of different assumptions and approaches to forecasting and to the development of sensitivity tests and a form of scenarios. The TAG unit M4 defines a Core Scenario and offers guidance in developing Alternative Scenarios, as well as the high and low growth forecasts.Currently

5.10.22 The High and Low growth 'scenarios' set out in TAG M4, are sensitivity tests around the central core scenario. They apply a generic formula to the projection of travel demand change over time to cover national level uncertainty. The prescribed sensitivity tests result in patronage varying from the core 'scenario' by an increasing amount each year, so that by end of the 30 years appraisal period, the difference is +/- 13%. This level of variation in patronage was not considered sufficient to explore the impacts of Covid-19, and offers considerably less variation in patronage than assumed in the four TfGM Scenarios. Also, unlike the TfGM scenarios, they do not attempt to represent changes in social attitudes, government policy or restrictions on travel in response to a global pandemic.

5.10.23 Similar sensitivity tests were undertaken and reported in the Assessment (table 10) by varying different inputs to the DRM to produce different underlying forecasts of bus patronage against which the scheme options could be tested. These tests all made use of appropriate alternative inputs from a source where available. Sensitivity tests 1-5 were focussed on external influences equivalent to the TAG high and low growth scenarios These tests showed the NPV for the Proposed Franchising Option varying by up to 6% and -9%, which was not enough to change the VfM classification from High.

5.10.24 The Alternative Scenarios described in TAG unit M4 are designed to pivot round the Core Scenario based upon the impacts of significant sources of local uncertainty, which is usually taken to mean variations in future, local, land use developments. As the impact of Covid-19 on the case for bus market reform is not driven by any local uncertainty, but rather by uncertainty relating to the countywide provision of bus services, the use of an Alternative Scenario based on local variations was not considered appropriate for exploring the impact of Covid-19 on the GM wide assessment of the bus market reform options and hence was not undertaken.

5.10.25 The guidance also does not specifically require any changes to be made to the scheme interventions, as has been carried out in Step 3 of the 'What If?' Analysis[8].

5.10.26 Neither of the two approaches set out in the current version of TAG M4 are considered sufficient to explore the impacts of Covid-19. TfGM has developed a more diverse set of scenarios, which adopting a wider definition of scenarios as combination of different variables changing with an overarching narrative, rather than the existing (and expected) TAG scenarios which are closer to sensitivity tests.

5.10.27 While a modelling approach to such tests would provide a higher level of consistency and might be easier to audit, the uncertainty over model inputs and uncertainty regarding the stability of the relationships underlying the models used in the Assessment, mean that such testing would lead to applying the model outside the bounds within which it was calibrated and would be likely to give decision-makers a false appreciation of the robustness of the analysis.

5.10.28 The scale of change implemented in the 'What If?' testing, using the four TfGM scenarios, is significantly more varied, and, in particular, considerably more challenging, than either the requirements in TAG M4 or the previous set of sensitivity tests undertaken for the Assessment.

[8] Sensitivity tests were in fact undertaken around the central case for the Assessment, which involved varying the extent to which the scheme interventions could be delivered. For example, two tests were carried out which made use of higher and lower estimations of willingness to pay values for interoperability benefits based on the upper and lower bounds estimated in the survey. These tests also did not lead to a change in NPV sufficient to change the VfM classification from High.

d. Conclusion

5.10.29 TfGM's approach fits within the general guidance on sensitivity tests and scenarios, but is adapted in a manner considered appropriate to the circumstances given the high degree of uncertainty over future travel demand as a result of Covid-19.

5.10.30 TfGM's approach does not use TAG unit M4, as this approach to sensitivity testing and scenarios is not considered appropriate for developing scenarios that reflect the interaction of variation in a number of drivers of uncertainty in demand simultaneously. It is also not feasible and would, in any event, run the risk of giving decision-makers a false appreciation of the robustness of the analysis.

5.10.31 Stagecoach considered that, in the unusual situation where guidance does not exist, it would have expected the GMCA to have obtained detailed specialist advice about how TAG should be applied and an assessment of the extent to which appraisals are likely to comply with emerging draft guidance to be provided. They consider Grant Thornton's view on the work carried out was very limited.

5.10.32 The views expressed by Stagecoach regarding whether TfGM should have waited for the publication of DfT's Uncertainty Toolkit are dealt with in Scenarios at section 3.6.

The basis for the 'what if?' analysis and the general approach to its treatment of benefits

5.10.33 The first step in the 'what if?' analysis considered the impact on the economic benefits of the reform options included in the Assessment if the bus trip predictions for the four scenarios were to be used rather than the Reference Case from the Assessment. As set out above, each of the Scenarios provided a top-down factoring over the period to financial year 2026/27. From 2026/27 to the end of the appraisal period, the trend in bus travel demand in each scenario was assumed to follow the trend in the Assessment (i.e. a 1.2% pa decline).

5.10.34 The main criticisms made concerned (i) the use of the economic benefits considered in the Assessment as the starting point in the analysis; (ii) the use of top-down factoring in the period to 2026; and (iii) the assumptions involved; namely, that the interventions provide the same level of benefit per trip as previously forecast and the relative market share of each sub-market segment (such as commuting, concessions and leisure travel) remains unchanged.

5.10.35 Rotala (supported by Oxera) contend that it is inevitable that there will be large errors in the BCR and NPV figures presented in each scenario, and no confidence can be placed in the results, given that they result from simple adjustments to an old modelling suite based on outdated 2016/17 data and rely on elasticity-based modelling in which GMCA has no confidence in the current circumstances. Stagecoach stated that data from 2016/17 could plainly not contain sufficient detail to be of sufficient quality for the Assessment of the Proposed Franchising Scheme in the light of the impact of Covid-19 on the bus market and on the wider economy of Greater Manchester, and the analysis in the Covid-19 Impact Report has not been carried out with the rigour expected in an Outline Business Case.

5.10.36 Go North West also state that, without examining the build-up of benefits over time, the benefits of franchising will be overestimated as the impact of Covid-19 has been shown to push the timing of patronage recovery back towards 2020 at the earliest. The benefits of the partnership option are more immediate (given evidence of them elsewhere) and with a fixed cost and, so are less susceptible to uncertainty, a matter that is not recognised anywhere in the Covid-19 Impact Report.

5.10.37 Rotala (supported by Oxera) note that the benefits in time savings (about 60-70% of the total benefit) will be affected as the values for commuting and leisure travellers are more than twice, and the value for business trips around four times, the value of leisure trips. The spatial distribution of travel could vary affecting the baseline level of congestion for any given number of trips/Kms and the impacts of policy options on decongestion effects (which account for 15% of scheme benefits in the Assessment). User charges make up 20-25% of benefits[9] in the Assessment but will differ with changes in market structure and costs effects across the scenarios: assuming they bear a constant relationship with patronage is unlikely to be correct.

5.10.38 Stagecoach state that benefits have been analysed using an unrealistic scaling approach, when there is little or no reason to believe that this will be correct. It is unsupported by clear rationale, analysis or evidence. The demand for public transport and the benefits from different ways of providing it could change profoundly. There is little reason to believe that benefits can be simply scaled in this way – at all or in the same way for the Proposed Franchising Scheme as for the partnership option. In the Assessment the benefits were estimated with detailed consideration of spatial and temporal demand factors. For example, service provision was assessed in different corridors and at different times of the day with user and non-user benefits being generated in accordance with how the proposed network changes improved or rationalised service provision in those corridors or at those times. Thus, for example, if all the generalised journey cost-benefits were concentrated in the evening period, but demand in that period was eliminated in a given scenario, roughly 20% of the total demand might disappear, but so would 100% of the previously estimated benefits.

a. *General response on 'what if?' tests*

5.10.39 The justification for using the economic benefits considered in the Assessment as the starting point in the analysis has been considered above. While Covid-19 has increased the levels of uncertainty about future bus market trends, the underlying problems identified in the Strategic Case that arise from a lack of integration and inefficient network planning between operators will remain.

5.10.40 The 'what if?' testing was purposefully simple to aid transparency in understanding by decision-makers. The GAD guidance points to the desirability of such transparency. There is no "*correct*" reduction to apply in each scenario. The reductions simply demonstrate to decision-makers the likely range of outcomes.

5.10.41 TfGM accept that the future demand patterns are likely to be differentially affected by Covid-19. Whilst speculation can be made, there is no reliable evidence, however, how this will change. Any adjustment would be equally lacking in rigour as assuming the same patterns as previously forecast. Given that arguments can be made for some of the interventions to actually deliver a larger benefit per trip in a smaller market (e.g. interoperability as discussed below), the 'what if?' tests were purposefully set up to be conservative.

5.10.42 The majority of the benefits in the Assessment (fares, interoperability and service quality) apply across all geographies and time periods. Network benefits vary by geography and

[9] Note that ECSP table 6 gives user charge benefits as 15% of all user benefits

time of day, but these make up only a small proportion of the total benefits, and, in any case, are spread across the Greater Manchester and do not all occur in any single area or any single time period. Hence, the specific example provided by NERA is not relevant in this case.

5.10.43 Interoperability benefits accrue only to operator own period ticket holders whilst fare reductions accrue mainly to System One period ticket holders. Concessions do not benefit from either of these. Hence, it is possible that a different market segmentation between ticket types and user segments could result in a different average benefit per trip. However, there are examples where this could lead to a larger benefit per trip as well as a smaller benefit. For example, a lower proportion of concessions than previously forecast, which seems likely particularly in the shorter term, would result in a higher benefit per trip since concessions do not benefit from fares or interoperability improvements.

5.10.44 Oxera contend that as the majority of the benefits accrue in terms of user time, future variations in the composition of bus demand by journey purposes will have a significant impact on overall benefits, due to the value of time varying between these purposes. The benefits classified as 'user time benefits' in Table 9 of the Assessment, are made up of network improvements, interoperability and service quality improvements. Interoperability and service quality improvements, which make up the majority of these benefits, are input into the model system in units of pence per trip, with the same value being used for all journey purposes such as commute, leisure and employer's business. Therefore, these benefits are already in money terms and so are not affected by the value of time, and hence are not affected by future variations in trip purposes.

5.10.45 Any reduction in decongestion benefits due to lower underlying congestion would be far outweighed by the increase in benefits from a larger market, since the well documented detrimental effects of congestion on patronage (due to both passenger journey times and the need to increase fares and cut mileage to cover costs) would be reduced, if not eliminated. Oxera suggesting that congestion would be lower contradicts a statement they make later in their report (section 3.2.1) that PVR may need to increase due to higher levels of congestion. Therefore, assuming that peak congestion (and the associated impacts on operating costs and ultimately patronage) remains as per the Assessment is a conservative assumption.

5.10.46 TfGM conclude, therefore, that the criticisms of Steps 1 and 2 have been made without fully appreciating that these are preliminary steps that need to be understood alongside Step 3, and when done so, the assumptions can be considered reasonably chosen.

b. *Consistency with Financial Case*

5.10.47 Go North West state that there has been no rebasing of the central estimate found in the Assessment, and points to section 3.2.7 of the Covid-19 Impact Report, which states that a new central case estimate will only be possible once the Covid-19 impacts stabilise. They go on to say that this means the results in the supplementary Assessment (Covid-19 Impact Report) must be treated with a high degree of caution.

5.10.48 They also include an example of a specific concern regarding how figures between the financial case and Economic Case can be reconciled. This is replicated below:

- For Scenario 1, step 1, shown in Table 3 in the report, gives a rebased NPV of £148 million and a BCR of 2.1, suggesting total benefits in the range of £280 million and costs in the range of £135 million.

- This is equivalent to a relative cost increase of £25 million and a benefit reduction of £65 million compared to the Economic Case presented in the original assessment.
- Table 10 in the report suggests a loss in farebox revenue of £96 million (in nominal terms) over a four-year period, and it is expected that a similar level of loss of farebox revenue compared to the original assessment would continue.
- Noting the difference in inflation and discounting, it is not clear how the significant change in farebox revenue and corresponding patronage over the 30-year assessment period has been taken into account in the factoring approach.

5.10.49 This comment compares figures in the Covid-19 Impact Report from Table 3 in the economic case (the economic appraisal results from Step 1 of the What If? Tests) with figures from Table 10 in the financial case (potential revenue impacts to TfGM under each scenario). As Go North West state, these figures are in different price bases and one is discounted and so will not be directly comparable – one is a cash figure over 4 years, while the other is a net discounted cash flow over 30 years. However, if they were measuring the same thing then it should be possible to translate one into the other; but they are not measuring the same thing. Table 3 represents a difference between the 'S1 with the Scheme' and the 'S1 without the Scheme', while Table 10 presents the difference between 'S1 with the Scheme' and the 'Assessment with the Scheme'. The latter is a much bigger differential and so the financial quantities are of a difference order.

5.10.50 In response to the final bullet point, the change in farebox revenue and patronage over the appraisal period relative to the original Assessment forecast is accounted for in Step 1 of the 'What If?' analysis by scaling patronage and revenue in line with these differences, as described at sections 3.4.7 to 3.4.9 of the Covid-19 Impact Report.

c. *Specific comments on Step 2*

5.10.51 Rotala (supported by Oxera) consider the analysis of costs in Step 2 to be very crude. No justification is provided for scaling them in the ratio of 1:2, although the impact on NPV and BCR is significant. Further, no additional adjustments have been made to account for changes in other (non-implementation) costs. These could include increased cleaning costs, or an increased peak vehicle requirement either to address increased congestion, or as a result of continued restrictions on the number of passengers per bus. Differences in capacity utilisation while social distancing remains in place is not allowed for.

5.10.52 Para 3.4.11 in the Covid-19 Impact Report sets out the reasoning for the choice of the 1:2 ratio, citing a high-level review of the implementation costs, which comprise: monitoring costs which are largely variable given that they are driven by the size of the market being monitored; and depot costs, which are move driven by one-off costs. However, it is noted that the depot costs are spread across approximately six sites across Greater Manchester, which does offer opportunities to scale in the changes in the market size when these are non-marginal and enduring, as is the case for the Scenarios. As reported in the Covid-19 Impact Report, the scaling of changes in cost to changes in demand was at least 1:2 for the three scenarios where bus travel declines.

5.10.53 The increased costs due to Covid-19 restrictions noted by Rotala were not included in the 'what if?' analysis as all four Scenarios assumed that social distancing would have been relaxed prior to the start of franchising operations and hence the appraisal period.

5.10.54 Stagecoach state that one of the situations under which it is possible that franchising would generate a significantly lower VfM is circumstances in which it will be difficult to adjust costs in line with demand, given the need to retain timetabling for customers, the difficulty in simply stopping services if and when they are empty and the contracted nature of franchised services. This difficulty has been identified by TfL where a 4% reduction in bus kilometres has contributed to a modest forecast saving of £5.6 million pa. It has stated that significant service level reductions take time to implement and be costly to reverse.

5.10.55 Any additional costs from short term Covid-19 measures such as additional cleaning or reduced bus capacity would likely to be gone by the time franchised operations begin. Nevertheless, even if they weren't, such costs are not scheme costs; they would be part of a reference case as well and therefore would have no impact on the economic case. The ‘What If?’ analysis is factoring the differences (costs and benefits) between the reference case and the two options. These examples are just some of the many factors that might lead to a different reference case position.

5.10.56 TfGM recognise the difficulties in realising the costs savings in a changing market raised by Stagecoach. The modelling in the Assessment assumed a decline in operating mileage which was related to the decline in patronage. This was necessary in order to ensure plausible Reference Case margins for bus operators in the financial model. The annual change in mileage was related to the decline in patronage in the previous year, introducing a lag to reflect the time taken for any adjustments to be made. Although the scale of decline and the relationship to the patronage decline varies by year, over the full appraisal period the decline in mileage and patronage were approximately the same, in order to stabilise bus operator margins. Crucially, the same network size and therefore operating costs were assumed in the Reference Case and all options, meaning that operating costs did not contribute to either the scheme costs or benefits. In step 1 of the What If? testing, the operating costs (and therefore the franchise payments) from the Assessment forecast are scaled in line with patronage for each scenario, effectively retaining the outcome from the Assessment that, whilst there may be a lag, and short term fluctuation, over the long term, operating mileage will follow the same trend as patronage. Therefore, as the What If? Tests are designed to be indicative analyses rather than full economic appraisals, it is considered reasonable to assume that an equilibrium would be reached in these second order impacts over the 30 year period of the appraisal in order to maintain commercial viability.

d. *Specific comments on Step 3*

5.10.57 Step 3 considered potential downside changes to individual benefits related to bus market size. Oxera acknowledge that there could be situations where a smaller market could lead to further inefficiencies and interoperability issues (and therefore higher unit benefits) but considered that only testing the downside variants was appropriate 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*”.

5.10.58 Rotala (supported by Oxera) consider that the reductions applied are very “*round*”; that there is limited justification or evidence to support them; and that, given the large effects of the adjustments in Step 3, more analysis and justification than is provided is required to provide confidence in their appropriateness.

5.10.59 The design of the What If? tests was purposefully simplified to ensure that, given the uncertainty due to Covid-19, focus was maintained on the key sources of uncertainty in a way that the decision-makers were be able to follow and to make their own judgement about its robustness. As explained at section 5.10.39 onwards above, the two key sources of uncertainty are considered to be i) the overall level of bus market demand, which is covered in Steps 1 and 2, and then ii) the ability of the Proposed Franchising Scheme to realise benefits. As sections 3.4.18-23 in the Covid-19 Impact Report set out, the approach is transparent as to what has, and, importantly, what has not, been undertaken analytically.

5.10.60 As indicated by the name, these tests are designed to answer 'what if?' questions. They demonstrate how well the options perform, in terms of economic indicators, if certain elements of the scheme interventions are either not deliverable, or only partially deliverable. There is no correct reduction to apply in each scenario, they simply demonstrate to decision-makers the likely range of outcomes. Given that arguments can be made for some of the interventions to actually deliver a larger benefit per trip in a smaller market (e.g. interoperability), these reductions are considered conservative.

5.10.61 Go North West state that similar tests should have been applied to the partnership option. Similar downside tests could have been undertaken on the illustrative partnership option, particularly given the uncertainty over what partnership options TfGM should actually be basing the analysis upon. However, as such downside tests would have only led to poorer economic performance for the illustrative partnership option, such tests were not considered necessary. This is a further example of how the analysis undertaken was very conservative.

Comments on the Conclusions drawn from the 'what if?' analysis in the Covid-19 Impact Report

5.10.62 The conclusions drawn from the 'what if?' analysis at section 3.4.36 of the Covid-19 Impact Report were 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*."

5.10.63 A number of consultees responded to the Covid-19 Impact analysis by recognising the uncertainty generated by the pandemic but stating they support the conclusion that the VfM set out in the Assessment was still sound:

- It appears not to change the fundamentals of VfM when considered in the round. The VfM could be said to be unchanged due to Covid, and to be broadly applicable across all options for buses – Warrington's Own Buses.

- Covid-19 will have an impact on all options and will create a level of market uncertainty going forward. It is important for GMCA /TfGM to monitor closely what these impacts will be in VFM terms – Lancashire County Council.
- Considering the impacts of Covid-19 on any future scenario is complex and, by definition uncertain, but the Council is satisfied with the conclusion set out at section 2.51 that even when subject to downside tests, in all reasonable scenarios, the Proposed Franchise Scheme remains preferable to any other option. The Council places strong weight on the point that it is unclear how reliable any commitment from bus operators to a proposed partnership model could be, in light of the challenges caused by Covid-19 – Manchester City Council.
- Of the three options considered it is noted that the Proposed Franchising Scheme offers significantly the most economic value, but the two partnership options have better cost-benefit ratios as they have significantly lower costs. Furthermore, the forecast for the Proposed Franchising Scheme is purposefully conservative to avoid overstating the benefits as part of this consultation – Wigan MBC
- The impact of Covid-19 on the VfM of the Proposed Franchising Scheme and partnership option appears to have been fully considered and Oldham Council agrees with the conclusion that the Proposed Franchising Scheme continues to represent VfM – Oldham MBC
- The report appears to have fully taken into consideration the potential impact of Covid-19 on the VfM of the Proposed Franchising Scheme and partnership options – Tameside MBC
- We feel Covid-19 impacts would be reasonably 'option agnostic' inasmuch as low patronage and behavioural change impact them all in some way but accept that the economic analysis is lower for the Proposed Franchising Scheme than previously. The injection of funding for bus operators as part of the Government's Covid-19 support package should not influence the original VfM assessment – Bury MBC.

5.10.64 These comments are noted.

5.10.65 Some consultees noted the impact of uncertainty on VfM but that it could be addressed in the way that bus reform was implemented:

- The Scenario analysis highlights the importance that the franchise specifications must include suitable uncertainty management strategies to address any resilience issues which may arise in respect to VfM – Stockport MBC.

5.10.66 These comments are noted.

5.10.67 A number of consultees noted that Covid-19 introduces uncertainty into the bus market, which increases the challenges that bus reform programme was seeking to address:

- It appears not to change the fundamentals of VfM when considered in the round. Whilst there is a great deal of uncertainty, that uncertainty persists in all the options – Warrington's Own Buses.
- Covid has an impact for a year or more but what is needed are decent bus services for future decades regardless of covid – Manchester Unison.

- Though we could be looking at a worst-case scenario (3) we accept that it could be even worse as you state that problems of market failure in the bus market would be more acute than those previously assumed – TravelWatch NW.

5.10.68 These comments are noted.

5.10.69 In considering of the impact of Covid-19 on the VfM of the Proposed Franchising Scheme and the partnership option, some of the statutory consultees in the Covid-19 impact consultation were not convinced of the robustness of the partnership offer:

- The Council places strong weight on the point that it is unclear how reliable any commitment from bus operators to a proposed partnership model could be, in light of the challenges caused by Covid-19 – Manchester City Council

5.10.70 The credibility of the partnership proposals was also called into question by a member of the public who noted that the "*serious existential threat to bus companies due to Covid-19*" meant that "*there is a much greater chance of discontinuity to services given the lesser capacity of GMCA to direct funding to replace or support contractors than under the franchising scheme*".

5.10.71 One operator offered support for the conclusions in the Covid-19 Impact Report. Abellio, an operator who does not currently operate bus services in Greater Manchester but which does operate rail franchises and franchised bus services in London, state that the VfM of the Proposed Franchising Scheme will have improved in relation to the new post-Covid "*Do Minimum*" whereas the partnership option is a 'busted flush', meaning a promising proposition that turns out to be unsuccessful or impossible to deliver. But it agrees that the VfM of the Proposed Franchising Scheme is likely to be robust in relation to the uncertainty created by Covid-19 in all reasonably likely scenarios.

5.10.72 This view aligns with the position taken in the Covid-19 Impact Report and is noted.

5.10.73 However, other bus operator consultees raised a number of issues regarding the treatment of the partnership option in the 'what if?' tests and felt that the analysis did not support the conclusion that the Proposed Franchising Scheme was the best performing option. Rather, the operators stated that the analysis suggests that the partnership option performs best.

- Go North West state that the partnership option shows a higher BCR than the Proposed Franchising Scheme in all scenarios (a result that is not recognised) because the costs are lower. In addition, the viability of the Proposed Franchising Scheme is highly dependent on the baseline assumptions and the level of patronage achieved over which there is a high degree of uncertainty in the short to medium term. The robustness of the VfM assessment is accordingly questionable.
- Rotala (supported by Oxera) consider that:
    - the comparison of the BCRs and NPVs of franchising with a partnership option that has not been market-tested is simply not meaningful enough to support such a major decision.
    - giving more weight to the NPV of an option than its BCR is contrary to DfT guidance and does not account for the risks associated with those benefits.
    - it is not the case that the Proposed Franchising Scheme performs at least as well as an illustrative partnership in VfM terms as in three of the four Scenarios,

the BCR for the illustrative partnership is higher than that for franchising. Based on the figures presented by GMCA, it is not the case that the BCR from franchising is always higher than under the partnership option. In fact, following the adjustments made in the Economic Case, under some of the Scenarios, franchising results in 'low' or 'poor' VfM and even negative NPV figures. This is in contrast to the reported BCR and NPV figures for the illustrative partnership proposal, which after the adjustments, continue to yield positive NPV and a high VfM.

- Stagecoach (supported by NERA) state that:
  - when considering the additional downside sensitivity, including loss of branding benefits (i.e. steps 1, 2, 3A and 3B), these results are not compared with the illustrative partnership option. As illustrated by the findings in the tables produced, it is clear that if such a comparison is made, it is apparent that the illustrative partnership option yields larger BCR and NPV values for Scenarios 1, 3 and 4. That is, in all but the most optimistic scenario, even on GMCA's logic and its own flawed numbers, the illustrative partnership option should have been accepted as the better VfM option.
  - TfGM's analysis suggests that franchising has a lower BCR than the partnership option and that it only appears preferable through a higher NPV as it unlocks greater benefits in the relatively distant future through considerably higher investments in the near term. As Covid-19 has affected the potential benefits by potentially changing the long-term demand for transport, the BCR advantage of the partnership option would increase, and the NPV advantage of the Proposed Franchising Scheme would disappear if the analysis was properly carried out and risk taken into account
  - Moreover, no effort has been made to evaluate likely partnerships available on the same basis as the Proposed Franchising Scheme: instead of considering the performance of a partnership in the different scenarios (as it did for franchising), it simply discounted it on a binary basis.

5.10.74 TfGM maintain that the economic appraisal in the Assessment and the 'what if?' analysis demonstrated that the Proposed Franchising Scheme still represents the most VfM and a better option than a partnership. This view is based upon a consideration of the key elements of VfM analysis as set out in guidance: assessment against scheme objectives and quantified assessment of costs and benefits.

5.10.75 The Strategic Case in the Assessment demonstrated that the partnership options did not meet the reform objectives and hence cannot be considered as offering VfM. The November 2020 update of the Green Book[10] advises that options that do not meet the objectives set for the scheme should not be taken forward for further analysis. The partnership option has been considered in the other four cases of the Assessment, as this

[10] Green Book Review 2020: Findings and response (HMT, Nov-20) Para 2.6, 4th bullet: "*All options must be assessed against these objectives and only those that deliver them should be shortlisted. Options that do not deliver them cannot be considered VfM, regardless of the BCR.*" https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/937700/Green_Book_Review_final_report_241120v2.pdf

was required by the Act, but this requirement may now be questioned in light of the updated guidance in the Green Book.

5.10.76 Far from a BCR being the only relevant metric for considering VfM and NPV being irrelevant, the NPV of the relevant options is the metric that is recommended as the output for the Economic Case in the statutory guidance[11]:

- "*The authority or authorities should then look to present the net present value of each option, derived from the present value of the costs and benefits of each option*." (para 1.56)

5.10.77 While the DfT Value for Money Framework[12] does state that the BCR is the 'most useful' metric, it also recommends the use of NPV, alongside BCRs:

- "*Where a standard economic appraisal has been undertaken, so that the majority of expected impacts are monetised, this category is primarily informed by two metrics: the Benefit Cost Ratio (BCR) and Net Present Public Value (NPPV)*." (para 4.4)

5.10.78 The responses from the consultees suggesting that the 'what if?' tests demonstrate that the partnership option is the best performing option represents a misunderstanding of the analysis. The analysis does not represent a revised central appraisal for the options as this was considered highly uncertain due to Covid-19. Rather, the 'what if?' assessment was devised to provide decision-makers with additional information about this uncertainty to allow them to make as informed decisions as possible. In doing so:

- The tests complement the sensitivity tests that have been undertaken within the Assessment.
- The tests explore what changes from the assumptions in the Assessment appraisal could lead to low VfM outcomes.
- Step 1 and 2 consider a high-level approach to allowing for changes in underly demand for bus travel.
- Step 3 considers potential downsides on the unit benefits of the Proposed Franchising Scheme. A similar downside could have been presented for the partnership option, particularly as it would have been reasonable to question the realisation of these benefits (as no revised partnership proposal has been made by operators).
- As per standard scenario analysis, it is not required to show that any option is 'the best' under all scenarios. Rather the analysis provides information on the relative resilience of options and allows for the development of dynamic mitigation plans to ensure that any subsequent implementation of the options can have a greater likelihood of realising benefits and hence achieving the objectives set for the scheme.

5.10.79 With the above points in mind, it is clear that when NERA comment that the "*it is apparent that illustrative partnership option yields larger BCR and NPV values for scenarios 1, 3 and 4*", they are comparing the illustrative partnership with no downsides against a potential downside for franchising. It is not credible, therefore, to then go on to say that "*in all but*

[11] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/918664/bus-services-act-2017-franchising-scheme-guidance.pdf
[12] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/918479/value-for-money-framework.pdf

the most optimistic scenario … the illustrative partnership option should have been accepted as the better value for money option" as the comparison is not comparing like with like, and a different inference could be made if a downside partnership option had been tested.

5.10.80 The 'what if?' test at Step 2 shows that on a like-for-like basis, the NPV of the Proposed Franchising Scheme is over £100m higher than the illustrative partnership option in Scenario 1, Scenario 2 and Scenario 4. Whilst the BCRs for the illustrative partnership are higher than for the Proposed Franchising Scheme in these scenarios, the BCRs for both options are all in the high category, i.e. between 2 and 4. It is also noted that the reduction in costs for the illustrative partnership option in Step 2 was only undertaken for the purposes of consistency as, set out in the section 5.6.9 of the financial case and 6.3.2 et seq of the Management Case of the Covid-19 Report, it is considered by TfGM that any reductions in the cost of managing and implementing a partnership would be modest.

5.10.81 So, in terms of the 'what if?' tests alone, TfGM does not accept that the analysis shows that 'the illustrative partnership option should have been accepted as the better value for money option'. TfGM would further respond that

- this conclusion ignores the poor performance of the partnership options against the scheme objectives, which is a key part of determining whether any option can be considered value for money.
- the economic appraisal of the partnership options is considered optimistic as the voluntary partnership is, by definition, 'voluntary' and the appraisal assumes that the voluntary involvement of all operators is maintained and the benefits are realised for the full 30 years of the appraisal period. In reality, GMCA would have limited redress if an operator made the decision to withdraw from the partnership, and, therefore, there is a level of uncertainty regarding whether these benefits would actually be realised; and
- As mentioned above, the November 2020 update of the Green Book[13] advises that options that don't meet the objectives set for the scheme should not be taken forward for further analysis. The Strategic Case in the Assessment concludes that the two partnership options considered do not meet the objectives for bus set out in the Local Transport Plan, and so partnership cannot be the preferred option.

5.10.82 What the analysis does highlight is that the VfM performance is not guaranteed for any option and underlines again the importance of the development of dynamic mitigation plans to ensure that the implementation of measures focus on the realisation of benefits and hence achieving the objectives set for the scheme.

Other Impacts included in the Assessment

5.10.83 Go North West state that, as the four scenarios envisage very different future states and as Greater Manchester comprises a number of different socio-economic areas which will be affected in different ways and recover at different times, not re-estimating the

[13] Green Book Review 2020: Findings and response (HMT, Nov-20) Para 2.6, 4th bullet: "*All options must be assessed against these objectives and only those that deliver them should be shortlisted. Options that do not deliver them cannot be considered VfM, regardless of the BCR.*"
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/937700/Green_Book_Review_final_report_241120v2.pdf

economic impacts for different stakeholder groups rounds counter both to TAG and GMCA policies. Stagecoach and NERA also make the point that the scale of the benefits and impacts on different groups in each scenario could/would be different in the post-pandemic normal.

5.10.84 The Assessment presented quantified economic impacts for different stakeholder groups, such as bus users, bus operators, GMCA and HMT, and the wider public in Greater Manchester. The Covid-19 Impact Report presents a qualitative review of the current and potential future impacts of Covid-19 on stakeholders, including bus operators, in the Introduction and in the Strategic Case. Based upon these analyses, TfGM conclude that the conclusions drawn on the distributional impacts of the Proposed Franchising Scheme in respect of value for money still hold in the context of Covid-19, and so the full quantification of the distributional outputs are not necessary.

5.10.85 Rotala (supported by Oxera) also claim that agglomeration impacts in both the baseline and policy scenarios could be rather different in a post-Covid-19 world where homeworking and commuting are likely to be affected significantly. They raise a concern that any change in agglomeration benefits is not quantified in the Covid-19 Impact Report, and that this is an example of how the high-level approach taken is unlikely to accurately capture the full impact.

5.10.86 While Rotala note that the "*economic benefit parameters (such as agglomeration) will have changed for good*", revised estimates of the benefits were not computed, nor were they included in the benefit figures presented in any of the What If? analysis. This is consistent with the approach taken in the Assessment whereby Wider Economic Benefits were not included in the core assessment of benefits used to determine value for money.

5.10.87 Stagecoach criticised potential financial mitigations identified that may need to be invoked in the event of an additional downturn and difficulties in implementing the scheme, and, in particular, they pointed to insufficient analysis on the wider effects that these measures may have. As these difficulties have yet to materialise and hence the appropriate combination of mitigations cannot yet be fully identified or implemented, detailed analysis of any wider effects of such mitigations cannot be completed at this time. Any future decision by GMCA to apply mitigations will be considered in accordance with GMCA's public sector equality duty and will be driven by the strategic objectives of GMCA, as set out in the GMS, and consideration of these 'wider impacts' will, in fact, be central to any decision-making, alongside considerations of value for money and affordability. The importance of bus in delivering these 'wider' policy objectives has been demonstrated during the Covid-19 crisis by the support that GMCA has continued to provide in terms of tendered network contracts and continued payments to bus operators for local concessions at pre Covid-19 rates.

5.11 Insight from the qualitative research on Economic Case issues

Deliberative Events from the First Consultation

5.11.1 As part of the first consultation, Ipsos MORI undertook a number of qualitative research exercises known as deliberative events to investigate how the Assessment was perceived by members of the public.

5.11.2 The following points with respect to the Economic Case from the first consultation on the Assessment are noted by TfGM from Ipsos MORI's June 2020 Qualitative Research Report:

- There was some confusion about the basis of the economic analysis. This may have been the result of the necessarily abbreviated summary presented and the time available to explain the detailed basis of the Economic Case set out within the extensive suite of material published to explain the case;
- As is inevitable and reasonable, some participants were sceptical about the ability of GMCA to deliver the claimed benefits. Concerns were also raised about the extent to which the taxpayer would be impacted. Others felt that investment should be prioritised in other modes. In all of these cases, detailed information is available to explain how the recommended course of action will create benefit, impact the taxpayer and fit with other strategic interventions to improve the Greater Manchester transport system.

5.11.3 Many other supportive comments were received, including:

- These included support for the proposition that bus services would improve and be more stable, that the value of franchising exceeded that of other options and that franchising would create good environmental and social outcomes and impacts; and
- Many participants supported TfGM's view that passengers place value on the simplification of ticketing and a more centralised model to make the system easier to use and understand, as noted at section 5.5.22 of the Economic Case.

5.11.4 Overall, the research revealed that there was some scepticism amongst the focus groups, but a general support for the objectives of the reform and for the underlying recommendation emerging from the economic analysis.

Deliberative Events from Second Consultation

5.11.5 As part of the Covid-19 Impact consultation, Ipsos MORI undertook a number of qualitative research exercises known as deliberative events to investigate how the Covid-19 impact analysis was perceived by members of the public.

5.11.6 Positive comments were made in respect to the Proposed Franchising Scheme in terms of the Economic Case appearing realistic, and showing good VfM, in spite of the impact of Covid-19. Participants also argued that although the upfront costs would be higher than a potential partnership option, these costs were justified by potential benefits (e.g. quicker journey times). Additionally, some participants agreed that a reduction in Government funding would be unlikely and that, even in the 'worst-case scenario' (Scenario 3), the Proposed Franchising Scheme would still be more economically stable than a partnership option due to the provider's current lack of commitment.

5.11.7 There was some support for partnership options as they would avoid the high upfront costs to the public sector. There were also views expressed that assessing options during the

Covid-19 pandemic may not be fair to operators, the inference being that they would not be in a position to put forward credible counter-proposals.

5.12 Summary of Themes from Both Consultations

Summary of Responses

First Consultation

5.12.1 As noted in the introduction to this section, most consultees who provided a response in the first consultation to the Economic Case (2147 out of 2693) were favourable. Of the unfavourable comments, the most substantive comments and challenges were received from incumbent Greater Manchester bus operators.

5.12.2 As noted in Ipsos MORI's June 2020 Consultation Report, of those providing favourable comments, the most frequently cited comments were general support and agreement with the conclusion of the Economic Case (1119). Other commonly cited responses were that the Proposed Franchising Scheme would deliver better value fares (266), the fact that services should serve the public benefit and not be run for profit (133), and agreement that the Proposed Franchising Scheme provides best VfM (130).

Second Consultation

5.12.3 Ipsos MORI's March 2021 Consultation Report notes that there were 381 participants in the second consultation who made comments about the Economic Case. These comments were equally split between participants who made positive (104) or negative (93) comments.

5.12.4 Positive comments made by consultees in responding to the second consultation with respect to the Economic Case for the Proposed Franchise Scheme included:

- Several local governments took the view that the impacts of Covid-19 are likely to be similar for all options and supported the conclusion that the Proposed Franchising Scheme remains the best value (Bury Council, Salford City Council, Oldham Council, Tameside MBC);
- Stockport Metropolitan Borough Council didn't think that the pandemic should pause a decision on the Proposed Franchising Scheme whilst the Association of British Commuters thought there should be no more cause for delay and that the Proposed Franchising Scheme is far more robust;
- Wigan council noted that the forecasting is purposefully conservative to avoid overstating benefits;
- Abellio considered that GMCA are the appropriate body to make decisions about the bus network and agreed with the conclusion that the Proposed Franchising Scheme VfM was resilient enough to cope with the uncertainty created by Covid-19;
- Oxford Road Corridor felt that the scenario testing had been conducted in good faith;
- The Christie NHS Foundation Trust and Bruntwood supported the intention of the Proposed Franchising Scheme to produce an integrated ticketing system, provide consistency between operators and offer better VfM; and
- The Chartered Institute of Logistics and Transport (NW Region) noted that the pandemic had strengthened the case for the Proposed Franchising Scheme because commercial operation of services is no longer possible.

5.12.5 The negative comments made by consultees in responding to the second consultation with respect to the Economic Case for the Proposed Franchise Scheme included:

- Concern from incumbent operators and the operator group OneBus of the approach taken, the level of detail of the analysis carried out, and the conclusions arrived at in the Economic Case section of Covid-19 Impact Report, all of which are discussed in more detail and responded to in this report;
- A concern from Bolton Council that the scheme may not represents best value in the immediate years ahead;
- Bus Users UK had reservations about the financial pressure that the Proposed Franchising Scheme could place on the public;
- TravelWatch NorthWest pointed out that the worst-case scenario (Scenario 3) could be even worse given the stated market failure in the bus market;
- The Northern Care Alliance Group expressed concern that the economic appraisal in the Assessment is not well suited to dealing with structural changes in travel behaviour as a result of the pandemic; and
- The Confederation of Passenger Transport raised a concern about the possible fare increase under the Proposed Franchising Scheme and stated that any fare increase under the partnership model will be invested into improving the customer experience of travelling by bus.

5.12.6 This section has focused on providing responses to the negative comments received from consultees, predominantly bus operators, and a summary of the key points and TfGM responses is provided below.

Themes from the first consultation

Appraisal Specification Themes

5.12.7 Some consultees responding to the first consultation questioned the long-term fares growth assumption of RPI+1.4%, claiming that this figure is out of line with historic changes and is not plausible, including a reference to a DfT revenue per trip dataset that suggested growth lower than RPI. Evidence has been provided in the Assessment and in this report that, in fact, RPI+1.4% is not out of line with historic growth and, in fact, if the appropriate DfT dataset is viewed (table BUS0405 – bus fares index, rather than table BUS0402 – operating revenue per trip), fares growth has actually been greater than RPI+1.4% in English Metropolitan areas since 2004-05. It has also been explained that the rate of fares growth was not set solely based on historic precedent but also based on the requirement for operator margins to be maintained in a plausible range in the face of increasing operating costs. Finally, the point is made that the rate of background fares growth is consistent between all cases, and, in fact, lower fares growth favours the Proposed Franchising Scheme slightly, as it dilutes the impact of the two-year fares freeze for System One tickets under both partnership options.

5.12.8 Concerns were raised regarding the lack of any further expansion of Metrolink in the modelling beyond those schemes already committed, as this is likely to underestimate the loss of bus patronage. However, the inclusion of only committed schemes is in line with the relevant Government guidance, any future schemes are not defined, so their impact cannot be readily estimated, and any impact would be equal in all options, i.e. it would reduce the overall volume of bus trips. It would also be appropriate to consider any hypothetical investment in bus infrastructure over the next 30 years, which would counter the impacts of any Metrolink investment.

5.12.9 There was a concern raised in both consultations by operators that the selection of a 30-year appraisal period tended to bias the appraisal in favour of franchising and was against DfT guidance and that a shorter period should be used. There was a suggestion in some responses that consultees had interpreted TfGM's concerns regarding the durability of a partnership to mean that the results reflected partnership benefits not lasting for the full appraisal period. This is not the case – the benefits from partnership are assumed to endure for the full 30-year period. Applying the same period for all options ensures a level playing field. Assuming a shorter period would not be appropriate for a major market reform that is intended to be long term in order to meet the strategic objectives for transport in Greater Manchester.

5.12.10 Further concerns were raised, particularly by Jacobs in their review of the Economic Case, regarding certain features and characteristics of the model suite, particularly the Demand and Revenue Model (DRM). These included the use of elasticities, the use of willingness to pay values and concerns regarding whether the benefits associated with interoperability are double-counted. Responses to each of these concerns, along with references to the relevant sections of the Assessment and the ECSP have been provided.

5.12.11 One area of concern raised predominantly by members of the public was the extent to which the appraisal accounts for the environmental and social impacts. This is an understandable concern; however, it seems that the economic benefits delivered by the options have been interpreted to be pure financial figures when, in fact, they contain benefits to society in the form of improvements to bus users journey times, fares and quality of service, as well as monetised valuations of reductions in emissions and improved air quality. It is acknowledged that perhaps greater emphasis should be given to certain elements; however, the appraisal has been carried out in line with Government guidance as would be expected.

Reference Case Results Themes

5.12.12 Concerns were raised in the first consultation regarding the scale of impact that increasing congestion is forecast to have on bus patronage over time. Operators argued that the impact of congestion is likely to be much more significant than the 0.2% reduction suggested by Chart 14 in the Assessment. The impact of congestion reported in Chart 14 shows the direct impact of increased journey times but does not include the more significant knock-on impact of increased operating cost that needs to be offset by increasing fares and/or reducing service kilometres. These impacts are accounted for within the modelling system but are presented in Chart 14 as part of the "*Fares*" and "*Service KM*" bars since it is those impacts that the passenger experiences directly. We therefore agree with those consultees who noted that the presentation of direct congestion impacts in the Economic Case masks the true extent of the impact of this issue on passenger demand. However, the implications of this are presentational and not substantive.

5.12.13 Several operators argued that the modelling of ENCTS patronage was not appropriate, suggesting that the forecasts assume patronage will increase throughout the appraisal period, and that this is out of line with current evidence that ENCTS trips are currently declining. However, ENCTS trips do decline in the earlier years of the model forecasts, in line with current observations noted by operators, mainly due to the ongoing increase in entitlement age for an ENCTS pass. Longer-term, the forecasts do show ENCTS trips increasing, and this is a balance of the range of input variables and elasticities used in the model, and therefore accounts for different factors acting in opposite directions, e.g. elderly population increasing while car ownership and car operating costs reduce. If consultees have evidence to suggest that, over the longer term, ENCTS trips are more likely to decline, then this was not presented as part of their consultation responses.

Partnership Option Themes

5.12.14 In the first consultation, several groups of issues were raised by consultees in relation to the partnership options. One area of concern was that the partnership options offer a higher BCR than the Proposed Franchising Scheme. It has been noted that whilst the BCR for partnership is slightly higher, the NPV of the Proposed Franchising Scheme is considerably higher and the justification for the conclusion of the Economic Case is based on a broader consideration than just BCR or NPV. As noted at section 21.2.4 of the Assessment, the conclusion of the Economic Case is also based on the suitability of the Proposed Franchising Scheme as a platform to support further development, and its alignment with the strategic objectives.

5.12.15 Consultees also argued that many of the 'soft factor' benefits included as part of the Proposed Franchising Scheme could in fact be delivered as part of a partnership. To the extent that this is true, and those interventions were proposed and agreed during the extensive discussions with operators, they have been included within the partnership options. The main differentiator is the benefit associated with the unification of the system to a single brand, and a detailed explanation has been provided as to why that is not possible under a partnership arrangement.

Franchising Option Themes

5.12.16 Jacobs raised concerns that the transition period is not modelled appropriately and expressed concern that the benefits during this period could be overstated, stating that "*all of the impact on demand is expected to have occurred within 3 years"*. This confused two different elements on the model – the way in which the impact of any fare and GJT changes are lagged over three years, and the way in which implementation of the interventions has been staggered over the transition period and beyond some cases. The latter is more complex and is carried out in line with the implementation plan, as documented in ECSP Appendix 2.

5.12.17 One of the most frequently cited concerns was around the benefits associated with branding and, in particular, the choice of value used, its age and source. This is an understandable concern, and TfGM agree that there is limited empirical evidence available to value the benefit to passengers of moving from a fragmented delivery model as exists in Greater Manchester to a more unified system that is simpler for passengers and potential passengers to understand and experience. However, a range of evidence has been presented to support the idea that this switch does have value to customers and should deliver benefits, including reference to Ipsos MORI's June 2020 Qualitative Research Report, which reports that there is an appetite amongst members of the public for a *"more centralised model*" with "*less variation in standards"*, and a *"standardised pricing strategy".* The full quotes are included in the main body of this section.

5.12.18 Several concerns were raised regarding some elements of the benefits, including those due to congestion relief and fare reductions. The basis of the lack of confidence in the congestion benefits appeared to stem from the fact that the Proposed Franchising Scheme does not deliver any infrastructure schemes to tackle congestion, and therefore could not deliver any decongestion benefits. However, it has been explained that these benefits arise because of the increase in bus trips associated with the various interventions, and an assumption that a proportion of these trips are abstracted from car, meaning fewer car trips and hence decongestion. The approach taken is prescribed in DfT TAG guidance.

5.12.19 There was also a query as to how fare and decongestion benefits could arise when passenger trips were still declining. This is because the benefits are calculated based on the difference between the Reference Case and the option being considered. Whilst declining trips means that the total benefits decline from one year to the next, there is still a difference in fare or journey time for the passengers that remain, and that difference drives a benefit.

5.12.20 Several consultees, including members of the public, responding to the first consultation were concerned that the Proposed Franchising Scheme does not deliver any immediate benefit to passengers and that patronage continues to decline. TfGM acknowledge that patronage is forecast to decline, and this is because, in order to align with Government guidance, no further ongoing investment has been assumed. However, TfGM's view is that the 'Phase 2' investment in the Greater Manchester bus market would be the key to arresting the decline in patronage, and that franchising provides the best platform on which to make that investment. TfGM also disagree that the Proposed Franchising Scheme would not deliver an immediate benefit to passengers, and a list of exactly how those benefits would arise is provided, including reduced fares for current System One ticket holders, increased ticket validity for current operator own ticket holders, and improved network and improved service quality and system simplification.

Risk Analysis Themes

5.12.21 As part of their review, Jacobs conclude that the method used to identify and quantify risk is in line with HMT Green Book and DfT TAG guidance. A number of clarification questions and challenges have been asked by Jacobs and other consultees, and appropriate responses have been provided in the main body of this section. However, no substantive issues have been identified.

Wider Economic Impacts Themes

5.12.22 Jacobs and Stagecoach raised concerns in the first consultation that the value of WEIs is larger than might be expected for this type of scheme, particularly since very few business trips are made using bus. The point is also made that agglomeration benefits should only accrue to businesses and not "*linking people with opportunity*" as set out in the Assessment and supporting material. TfGM have noted in this report that the evidence base for what scale of WEIs might be expected is evolving, and that caution should be adopted when trying to benchmark results.

5.12.23 Nevertheless, TfGM recognise the uncertainty around WEIs and, for this reason, have excluded them from the core appraisal figures presented in the Assessment. Further, the scale of uplift in WEIs (as a proportion of the core benefits) is broadly similar for all options and, therefore, it cannot be considered to have a detrimental effect on the partnership options. It has also been argued that agglomeration benefits go well beyond the productivity impacts of a scheme as a result of improvements for business travellers, as implied by Jacobs and Stagecoach.

Summary of issues raised in the second consultation

TfGM should have undertaken a full re-baseline of the DRM modelling and developed a revised Assessment to an OBC standard

5.12.24 TfGM accept that Covid-19 has introduced increased levels of uncertainty regarding the future, and hence the analytical assurance of the analysis underpinning the Assessment is lower than at the time of the Assessment.

5.12.25 The Assessment met the requirements of the Act. A full re-baseline of the DRM modelling is not feasible and would give a misleading impression of precision in the circumstances. The Covid-19 Impact Report provides additional information on the causes of uncertainty and their potential impact on the conclusions reached in the Assessment to enable a judgment to be formed on their validity and robustness in the circumstances. There is no legal requirement for a new assessment to be prepared in accordance with section 123B of the Act..

The TfGM approach does not comply with Government guidance for considering uncertainty in appraisal and should have waited for the new guidance expected in February

5.12.26 It is likely that when the guidance appears, it will represent an evolution of both sensitivity testing and the use of scenarios. The evolution of scenarios could well explore structural trends of national importance, as set out by DfT in July 2020 in their 'route map', where they stated their intention to create scenarios looking at specific national trends, with forecasts being developed after February 2021. If so, TfGM consider that, while such scenarios would be helpful, they are not likely to be as appropriate for the consideration of the impact of Covid-19 on the robustness of the conclusions in the Assessment regarding the value for money of the Proposed Scheme. Scenarios that pivot round a central national projection would not create the diverse range plausible futures required. It is the latter form of scenario analysis that TfGM has determined is most appropriate for assessing the potential impacts of the uncertainty introduced by Covid-19 on the conclusions within the Assessment in a way that is relevant, informative and transparent to local decision-makers.

5.12.27 TfGM acknowledges that its approach does not align with current TAG guidance on uncertainty and that it may well not align with the Uncertainty Toolkit as and when it is published. However, it was felt that neither the existing guidance nor the planned Uncertainty Toolkit, for the reasons set out above, were likely to offer an appropriate approach for the consideration of Covid-19 impacts, and so an appropriate local methodology was devised. Whether a decision should be postponed until that Toolkit and relevant forecasts and other data required for its application becomes available is considered from section 3.6.

Not following standard/best practice such as TfN and TfL

5.12.28 It is noted that the TfL analysis represents a fundamental review of all TfL's business with the aim of developing a new funding model for an organisation with a much larger revenue exposure than TfGM. TfL present a number of scenarios, which they use to inform a set of recommendations for how the Financial Sustainability Plan could be developed in agreement with government. In doing this, there is no clear audit trail between which recommendation was informed by which scenario test, nor does there need to be, as the scenario analysis is being used as a guide to developing a resilient strategy. It is noted that in the documentation referred to, TfL do not use these scenarios to inform any specific investment decision, in the way that TfGM has with the Covid-19 Impact Report

5.12.29 TfGM have not followed a markedly different approach to that taken by other organisations such as TfN or TfL, even though they have quantified inputs. The existence of other approaches doesn't mean in any event that TfGM's approach is the wrong on or lacks the robustness necessary to test the options for bus reform. TfGM's most pessimistic downside scenario if far more pessimistic than TfL or TfN, or any of those seen used by operators in informing their shareholders of expected performance. It is considered that TfGM's scenarios provide a good basis for considering the sensitivity of the conclusions in the Assessment to the uncertainty associated with Covid-19.

Appropriate assurance has not been applied to the TfGM approach

5.12.30 Whilst the review undertaken by GT for the Covid-19 Impact Report does not represent an Audit in the manner undertaken on the Assessment, they did review the evidence used by TfGM to derive the narratives for the Scenarios, the approach used to produce the top-down patronage projections and the 'what if?' analysis. In the letter to GMCA following this review, GT concluded that:

- "*we agree that a scenario-based approach is a sensible way to consider economic impacts in the current climate of uncertainty*"; and
- "*Subject to a number of caveats due to Covid-19 affecting the underlying certainty of the information, we do otherwise find that this process represents a fair and reasonable way to assess potential VfM outcomes*".

"Other than looking at the aggregate demand effects, the TfGM approach does not take into consideration the changes in the bus travel market that will surely happen in the future."

5.12.31 Whilst the future make-up of the bus travel market is likely to be different in character as well as volume, the aggregate factoring approach taken in the Covid-19 Impact Analysis is appropriate as the majority of the benefits of the Proposed Franchising Scheme apply equally to all elements of the bus markets, including by geography and time of day. There is some variation between market segments and ticket groups, but these are not clear cut, and there are likely to be factors pulling different elements of the benefits in different directions.

High-level factoring in the 'what if?' tests is not appropriate

5.12.32 The 'what if?' testing was purposefully simple to aid transparency in understanding by decision-makers. The GAD guidance points to the desirability of such transparency. There is no "*correct*" reduction to apply in each Scenario. The reductions simply demonstrate to decision-makers the likely range of outcomes.

5.13 Conclusions on Value for Money from the consultations

Summary and Conclusions on First Consultation

5.13.1 The Assessment concluded that the Economic Case for investment and reform was strong, with both partnership and franchising options representing high VfM. 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.

5.13.2 From the first consultation on the Assessment, most responses from members of the public regarding the Economic Case were favourable, with participants tending to reiterate comments made elsewhere in the consultation, which focused on the outcomes the Proposed Franchising Scheme would deliver; with cheaper and better value bus fares one of the most commonly mentioned positive outcomes. Specific comments relating to the Economic Case were that bus services should serve the public and not be run for profit and that the Proposed Franchising Scheme provides the best overall value for money of the options presented. Of those statutory consultees who provided a response to the Economic Case questions, most made a favourable comment in support of the conclusions of the Economic Case. Positive comments were generally received from local authorities and unions, plus a minority of bus operators.

5.13.3 On the other hand, public participants in the first consultation who disagreed with the conclusions of the Economic Case tended to cite concern about the costs and associated affordability of the Proposed Franchising Scheme and the lack of evidence to support the conclusion. Negative or unfavourable comments were received from bus operators, bus industry groups and some customer representation groups. Of note, Jacobs were employed by OneBus to review the Economic Case in detail. Their report was referred to by OneBus, Stagecoach and Rotala in their responses to the Economic Case to the first consultation.

5.13.4 As set out in this report, TfGM remain of the view that the methods and datasets used to inform the Economic Case in the Assessment were appropriate and that there were no issues arising from the first consultation that required alterations to the Economic Case or that would have led us to believe that the relative performance of the options in the Assessment would change as a result of issues raised.

Summary and Conclusions on Second Consultation

5.13.5 In terms of the Economic Case, the Covid-19 Impact Report concluded that the additional analysis 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. It also concluded that the Proposed Franchising Scheme 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.

5.13.6 In the second consultation, public comments on the analysis into the potential impacts of Covid-19 on the conclusions from the Assessment equally split between participants who made positive or negative comments. Most of the positive comments agreed with the conclusions being reached in the report that the Assessment remained valid, noting that the Proposed Franchising Scheme offered value for money, and that the current system does not. Those making positive comments agreed that the Economic Case is comprehensive and thorough in the detail it presents, and that the Proposed Franchising Scheme performed better when assessed against other, alternative options for bus reform. Others felt it provided better value for money for the long-term and that the case in favour of the Proposed Franchising Scheme has actually been strengthened by the impact of Covid-19.

5.13.7 Of the small number of comments made by the public regarding the Economic Case in the second consultation the negative comments were similar in number to the positive comments, but covered a greater range of points. These included concerns about the validity of conducting such analysis during a pandemic and that there was a lack of good evidence to back it up, with comments that the work was based on guesswork and speculation. Others pointed to the declining net economic benefits in the analysis as an indication that value for money under Covid-19 would be poorer, with related comments regarding increased economic pressure and declining patronage reducing the relative value for money of the scheme.

5.13.8 As with the first consultation, negative or unfavourable comments were received from the incumbent local bus operators, bus industry groups and some customer representation groups. Of note, NERA and Oxera were employed by Stagecoach and Rotala respectively to review the analysis in the Covid-19 Impact Report. Their respective reports raised issues regarding the overall robustness of the analysis and the compliance with national guidance. Stagecoach and Rotala who employed them contended that in the circumstances a new Assessment prepared under section 123B of the Act was required as a matter of law.

5.13.9 TfGM accept that Covid-19 has introduced increased levels of uncertainty regarding the future, and hence that the analytical assurance of the analysis underpinning the Assessment is lower than at the time of the Assessment. The Covid-19 Impact Report provides additional information to decision-makers on the causes of uncertainty and their potential impact on the conclusions reached in the Assessment. As set out in this report, TfGM acknowledge that the approach undertaken to consider the impacts of Covid-19 on the conclusions of the Assessment does not align with TAG Guidance and it may well not align with the DfT's proposed Uncertainty Toolkit as and when it is published. However, it is not considered that TAG offers an appropriate approach for the consideration of Covid-19 impacts, and so an appropriate local methodology was devised. It is for this reason that a range of scenarios, encompassing a broad range of possible future environments for the introduction of the proposals, was adopted. No more pessimistic specific scenario that could reasonably be expected than Scenario 3 was proposed in response to the second consultation.

5.13.10 TfGM, therefore, remain of the view that the approach taken to the Covid-19 Impact Report to consider the potential impacts of Covid-19 on the value for money conclusions in the Assessment was appropriate and that there were no issues arising from the second consultation that required alterations to the Covid-19 Impact Report Economic Case or to its conclusions that, on balance, the value for money of the franchising scheme is likely to be robust to the uncertainty created by Covid-19 in all reasonably likely Scenarios and that it remains preferable to the Operator Proposed Partnership as, on balance, the net benefits are likely to remain higher and be more deliverable, particularly given the uncertainty surrounding what, if any, partnership options are on offer.

Concluding Remarks

5.13.11 In reaching the above conclusions, it is important to highlight the following matters that were identified in the Covid-19 Impact Report. First that suitable commercial management strategies and other aspects of franchise specification and contracting have been developed so that the implementation of the Proposed Franchising Scheme can be adapted to minimise risk and ensure value for money. Secondly, that the value for money analysis framework should be extended to address the additional impacts that significant falls in bus market size could induce. Finally, that an extended period of Covid-19 recovery and hence government subsidy may induce further market failures in the bus network provision relative to the Reference Case. If so 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.

6. Commercial Case

6.1 Introduction

6.1.1 This section of the report considers the responses from both consultations relating to the Commercial Case.

6.1.2 The Commercial Case of the Assessment considers the proposed options from a commercial perspective and assesses their viability. It sets out the commercial objectives for the Proposed Franchising Scheme, including driving competition for franchises, creating and sustaining an enduring market, providing flexibility to adapt to changing demand, and enabling access for small-to-medium-sized operators ("SMEs" or "SME operators"). It covers areas including the assets that would need to be acquired by GMCA such as depots and information systems; the timeframe for implementation; how the franchises could be packaged; their length; the procurement process; and the potential impact on the employees of bus operators.

6.1.3 In the first consultation, consultees were asked to consider the following questions in relation to the Commercial Case of the Assessment:

Question 7: Do you have any comments on the dates by which it is proposed that franchise contracts may first be entered into?

Question 8: Do you have any comments on the nine-month period it is proposed will expire between entering into a franchise contract and the start of a service under such a contract?

Question 10: Do you have any comments on GMCA's plans for allowing small- and medium-sized operators the opportunity to be involved in the Proposed Franchising Scheme?

Question 11: Do you have any comments on the proposal that it would be appropriate for GMCA to provide depots to facilitate the letting of large franchise contracts under the Proposed Franchising Scheme?

Question 18: Do you have any comments on the packaging strategy for franchising contracts under the Proposed Franchising Scheme, as set out in the Commercial Case?

Question 19: Do you have any comments on the length of franchise contracts under the Proposed Franchising Scheme, as set out in the Commercial Case?

Question 20. Do you have any comments on the proposed allocation of risk between GMCA and bus operators under the Proposed Franchising Scheme, as set out in the Commercial Case?

Question 21: Do you have any comments on the potential impact of the Proposed Franchising Scheme on the employees of operators, as set out in the Commercial Case?

Question 22: Do you have any comments on the approach to depots under the Proposed Franchising Scheme, as set out in the Commercial Case?

Question 23: Do you have any comments on the approach to fleet under the Proposed Franchising Scheme, as set out in the Commercial Case?

Question 24: Do you have any comments on the approach to Intelligent Transport Systems under the Proposed Franchising Scheme, as set out in the Commercial Case?

Question 25: Do you have any comments on GMCA's approach to procuring franchise contracts under the Proposed Franchising Scheme, as set out in the Commercial Case?

Question 26: Do you have any comments on the impacts of the options on the achievement of the objectives of neighbouring transport authorities, as set out in the Commercial Case?

Question 27: Do you have any comments on the Commercial Case conclusion that GMCA would be able to secure the operation of services under franchise contracts?

Question 28: Do you have any comments on the Assessment of the commercial implications of the partnership options as set out in the Commercial Case?

Question 29: Do you have any comments on the potential impact of the partnership options on the employees of operators as set out in the Commercial Case?

6.1.4 Question 26 on the impacts of the options on the achievement of the objectives of neighbouring transport authorities is considered in greater detail at section 4.8 of the Strategic Case response.

6.1.5 Question 28 on the commercial implications of the partnership options and Question 29 on the potential impact of the partnership options on the employees of operators are considered in greater detail at sections 4.10.60 to 4.10.62 of the Strategic Case response.

6.1.6 In response to the first consultation, Ipsos MORI's June 2020 Consultation Report concluded that for the Commercial Case participants showed an overall positive response to:

- The packaging strategy as set out in the Commercial Case;
- The allocation of risk between GMCA and bus operators as set out in the Commercial Case; and
- The approach to depots and Intelligent Transport Systems (ITS) as set out in the Commercial Case.

6.1.7 In response to the first consultation, it also concluded that there were overall mixed sentiments from participants towards:

- The length of franchise contracts under the Proposed Franchising Scheme as set out in the Commercial Case;
- The potential impact of the Proposed Franchising Scheme on the employees of operators as set out in the Commercial Case;
- The approach to fleet and the proposed approach to procuring franchising contracts as set out in the Commercial Case; and
- The Commercial Case conclusion that GMCA would be able to secure the operation of services under franchise contracts.

6.1.8 Further detail relating to the overall views provided on each of these points in response to the first consultation can be found in ES7 of Ipsos MORI's "*Doing Buses Differently: Consultation on a Proposed Franchise Scheme for Greater Manchester*" report (which is referred to throughout this section).

6.1.9 In the second consultation, consultees were asked to consider the following question in relation to the Commercial Case of the Assessment:

Do you have any comments on the conclusion that the commercial arrangements described in the Assessment for franchising and the partnership option remain appropriate, notwithstanding Covid19?

6.1.10 In response to the second consultation, Ipsos MORI's March 2021 Consultation Report (Section 9.1) concluded that for the Commercial Case, participants showed an overall positive response from members of the public, previous statutory consultees and other stakeholders in response to the conclusion that the commercial arrangements described in the Assessment for franchising and the partnership option remain appropriate, notwithstanding Covid-19 (347 favourable comments versus 88 unfavourable comments).

6.1.11 The Commercial Case is structured into two sections, which are intended to respond to the main themes identified from TfGM's analysis of both the first and second consultation responses and consideration of both Ipsos MORI's June 2020 Consultation Report and Ipsos MORI's March 2021 Consultation Report. These main themes are:

- Asset Strategy: depots, fleet, ITS and stranded assets; and
- Timeframe for Implementation, Franchise Design, Procurement and Employees.

6.2 Asset Strategy: depots, fleet, ITS and stranded assets

Depots

6.2.1 Question 11 of the first consultation asked for any comments on the proposal that it would be appropriate for GMCA to provide depots to facilitate the letting of large franchise contracts under the Proposed Franchising Scheme.

6.2.2 Question 22 of the first consultation asked for any comments on the approach to depots under the Proposed Franchising Scheme as set out in the Commercial Case.

6.2.3 The Assessment set out that the steady-state model for strategic depots is that they would be controlled by GMCA in order to remove a key barrier to entry for bidders for large franchises. This supports the commercial model's objective of delivering value for money by removing barriers to entry, driving competition and creating an enduring market for franchising.

6.2.4 In response to the first consultation, some consultees, including some of the Greater Manchester bus operators and non-incumbent bus operators, provided positive comments on the proposals for depots along with other statutory consultees as set out at sections 6.3.1, 6.3.2 and 6.3.3.

6.2.5 In response to the first consultation, other bus operators including Arriva, Go North West and Rotala raised challenges surrounding GMCA's proposals on depots. These can broadly be categorised into the following themes:

- Theme 1: Whether GMCA should be providing any depots and if so which;
- Theme 2: Whether incumbent operators will sell the strategic depots to GMCA voluntarily;
- Theme 3: Whether the alternatives for large franchises, apart from compulsory purchase of strategic depots, are feasible;
- Theme 4: Whether GMCA can legally use Compulsory Purchase Order (CPO) powers to acquire strategic depots;
- Theme 5: The timeline for delivering the Proposed Franchising Scheme in the event that strategic depot owners are unwilling to sell those depots to GMCA; and
- Theme 6: The reasonableness of the costs allowed for in the Financial Case in respect of the depot strategy.

6.2.6 In response to the second consultation, Go North West and Stagecoach raised challenges surrounding GMCA's proposals on depots. These relate to Themes 1, 2, 5 and 6 above, with no additional themes identified.

6.2.7 In response to the second consultation, some consultees, including some non-incumbent bus operators and some local authorities, provided positive comments on the proposals for depots as set out at sections 6.3.30 and 6.4.3.

6.2.8 In response to Question 11 of the first consultation, Ipsos MORI's June 2020 Consultation Report (see section 6.11) shows that, generally, responses from members of the public (251 favourable comments versus 114 unfavourable comments) and non-statutory consultees were supportive (10 favourable comments versus 4 unfavourable comments). However, responses from statutory consultees were largely mixed (9 favourable versus 9 unfavourable comments) with the unfavourable comments mainly being from bus operators.

6.2.9 In response to Question 22 of the first consultation, Ipsos MORI's June 2020 Consultation Report (see section 9.5) shows that, generally, responses from members of the public were supportive, reporting 133 favourable comments versus 57 unfavourable comments. However, responses from statutory consultees (4 favourable comments versus 7 unfavourable comments) and non-statutory consultees (6 favourable comments versus 5 unfavourable comments) were largely mixed with the unfavourable comments mainly being from bus operators.

6.2.10 Ipsos MORI's March 2021 Consultation Report (see section 9.3) shows that various members of the public provided positive comments in response to the second consultation in relation to depots.

6.2.11 Specific comments received in response to the first and second consultations and TfGM's response to each of these themes along with wider unfavourable comments are set out below.

6.3 Theme 1: Whether GMCA should be providing any depots and if so which

6.3.1 Responding to the first consultation, the CMA commented that "*there is a clear balance to be struck between the need to protect strategic assets that will facilitate franchising (specifically new entry and transition between franchise holders), the property rights of private enterprise and maximising value for money for GMCA and taxpayers*". However, as set out below, in response to the first consultation, the CMA concludes that TfGM's decision to control strategic depots is the right one. The CMA said that "*the importance of access to depots makes it a risk for the successful implementation of franchising*" and that they "*are pleased that GMCA in its assessment recognises that access to depots will constitute a barrier to entry for the larger franchises and is of sufficient significance to warrant intervention. The consultation indicates that GMCA will seek to acquire depots of existing operators and make these available to new franchisees. We support this approach to better facilitate entry, competition and flexibility of franchise awards*".

6.3.2 In response to the first consultation, this positive view was generally echoed by a number of operators, including Arriva, Abellio, HCT Group and Warrington's Own Buses with Arriva specifically stating that this would remove a "*significant barrier to entry for some operators*". In response to the first consultation, the University of Manchester commented that the proposal offers an opportunity to ensure depots are run in a sustainable way moving forward, whilst other positive comments include that the proposal will drive competition or level the playing field for smaller operators from other stakeholders.

6.3.3 In response to the first consultation, Ipsos MORI's June 2020 Consultation Report (Section 6.11.3) also noted that 203 members of the public stated that they agreed with the proposals or thought that it was a good idea. For example, one member of the public stated, "*This makes perfect sense and would allow for continuity of provision in the event of another service provider being awarded a franchise in later years*". The report also states that 16 members of the public supported the proposal providing that operators would pay rent and contribute to maintenance costs.

6.3.4 Responding to the first consultation, a number of operators, however, have challenged whether the acquiring of strategic depots to deliver large franchises represents an efficient use of public funds. First stated that the depot strategy provides facilities "*that would otherwise be provided by the free market*" and that as "*there are already suitable premises available to meet this objective, this is expenditure which could be better focused on improved service/network coverage or avoided altogether*". OneBus similarly stated that "*the excessive sums of money to be tied up in property would be better spent on customer-focused bus service improvements*". Ipsos MORI's June 2020 Consultation Report (Section 6.11.3) also shows that 33 members of the public raised concerns regarding the costs, affordability and value for money of the proposal.

6.3.5 Responding to the first consultation, Go North West stated that they do not agree that an operator owning a depot would have a significant competitive advantage compared with other operators and therefore that this would constitute a barrier to entry. Specifically, they use London as an alternative example stating, "*TfL does not provide depots to operators, who are responsible for acquiring and operating depots*". Also, in their view, there is not a shortage of depot capacity in the GM area as "*there are a number of unused and under-used depots. These facilities offer significant capacity that operators may utilise in order to ensure they are in a position to bid for large franchises. Alternatively, operators (whether existing operators in Greater Manchester or new entrants to the market) could* *build new depots; Go North West note that in North Manchester there are brownfield sites where this could be done*".

6.3.6 In response to the first consultation, Rotala suggested that depots could remain in their existing ownership but be shared with other franchisees on commercial terms.

6.3.7 In response to the first consultation, although not directly challenging the principles of ownership of strategic depots, some consultees raised issues over whether the strategic depots are in the right place and if there are other depots that could act as strategic depots.

6.3.8 In response to the first consultation, a number of respondents commented that the location of strategic depots may not facilitate optimal network planning. This included:

- The CMA who pointed out that, if franchises are structured around the location of existing depots, there may be a risk that network planning is not optimised;
- Stockport Metropolitan Borough Council who commented that while ensuring that the necessary depots are in place for the running of larger franchises is important, there is a need to ensure that the acquired depots are not just historically valuable but meet the current needs of the areas being served and that any need or amended usage of locations is not detrimental to local congestion and other land use needs; and
- Transdev, a cross-boundary operator, who commented that franchises could be structured around a network of routes based on an optimum depot location, rather than fixed to operating from one of the strategic depots.

6.3.9 In response to the first consultation, Transdev, also raised various concerns that:

- It owns a depot in Rochdale "*which is larger than the Stagecoach depot in Middleton and Arriva's Wythenshawe depot and excluding this from the Strategic depots seems inconsistent*"; and
- The strategic depot model places it at a competitive disadvantage compared with the incumber operator when bidding as the incumbent operator "*will have full knowledge of the costs involved*".

6.3.10 Responding to the first consultation, both the CMA and Derbyshire County Council stated that they believe the depot strategy for small franchises could limit competition. The CMA stated that "*given that some small franchises would be limited to two vehicles (and six on average) it is not clear that a new entrant would anticipate sufficient return to invest in acquiring and investing in developing new depot capacity*" and that 'dead-mileage' implications may mean that existing market structures remain in force. Derbyshire County Council stated that whilst they welcome the depot proposals, they "*find it surprising that [GMCA] are not proposing to provide [small franchise operators] with depot facilities in the same way as the larger franchise operators as this may discourage certain small and medium size companies from taking part*". Ipsos MORI's June 2020 Consultation Report (Section 6.11.3) also shows that 21 members of the public made similar suggestions that smaller franchise operators should be facilitated with provision of depots.

6.3.11 In response to the second consultation, Stagecoach states that "*there appears to be little consideration of the non-strategic depots*" and that this "*represents a commercial risk as far as any potential bidders for franchising are concerned*" on the basis that:

- "*Incumbent owners of the non-strategic depots could charge very significant rates for access to the depot for other operators*."

- "*Even if the incumbent operators do not adopt this approach, at the time of completion, bidders would not know this. As a result, bidders would likely 'price the risk' into their bid, meaning that this risk price would be ultimately incurred by the GMCA in the final bid price*."
- "*There is no evidence of plans for clear handover arrangements to be put in place either for depots, meaning bidders would price this into their bid, with the cost again being met by the GMCA*."

6.3.12 In response to the second consultation, a member of the public commented that "*The GMCA takes on too much financial risk, particularly with compulsory purchase of the 10 strategic depots, when viewed with the projections in the franchising Assessment of long-term declining patronage. It is also not appropriate to ignore Covid-19, which may increase the declining trend in patronage long term*."

6.3.13 Ipsos MORI's March 2021 Consultation Report (Section 9.3), however, shows that members of the public provided positive comments that the asset strategy would remove barriers to entry for operators. It also shows that other members of the public commented that the Commercial Case lacked information on how GMCA would provide effective management of the depots and that there was a suggestion that there should be considerations for an unspecified body to buy the depots and buses.

TfGM response:

6.3.14 The Assessment sets out the rationale for the public sector to provide strategic depots (26.1.3) rather than operators themselves providing them. The proposed approach is based primarily on the view that requiring operators to provide a depot is likely to prove a significant barrier to competition given the costs and time issues associated with a bidder constructing a new depot and the relatively small number of suitable existing depots across Greater Manchester.

6.3.15 Section 26 of the Assessment describes the rationale for a steady-state model of strategic depots being controlled by GMCA, who would lease the assets to the franchise operator with some associated asset maintenance responsibilities also being taken by the franchise operator. Section 26 of the Assessment also includes the conclusion that a new entrant would be unlikely to bid on a speculative basis without established depot access arrangements due to the large franchise term being significantly shorter than the expected life of a depot asset meaning that depot investment would be unlikely to be recoverable over the franchise term without making a bid unaffordable. Therefore, even in the event that operators who do not already control a strategic depot were able to identify suitable sites, the investment that would be required is likely to act as a barrier to entry. In addition:

- It is also considered that a depot of the size required for a large franchise could not be built in the time period between contract award and contract start;
- Although there may be sufficient sites in Greater Manchester for alternative strategic depots these are unlikely to be optimally located (e.g. to minimise dead mileage); and
- Whilst Go North West state that such a model works in London, the London approach to franchise packaging is significantly different to that proposed for the Proposed Franchising Scheme, given that London operates a route-by-route model, and therefore does not provide a like-for-like comparison. The reasons why a route-by-route model is

not proposed for use in Greater Manchester is detailed further at sections 6.9.89 to 6.9.98 of this report.

6.3.16 To inform its position TfGM also undertook market engagement with operators in early 2018 which, amongst other things, sought views from operators on "*TfGM's conclusion that responsibility for the provision of a depot per large franchise is best placed with TfGM*" and this was endorsed by all but one of the large operators who responded to the market engagement at that time. The one operator who did not directly endorse this conclusion stated that their view on this matter would depend on whether there is sufficient available land for the new build of other depots by operators.

6.3.17 Responding to the first consultation, although First consider that depots should be provided by the free market, the Assessment concluded that this would require splitting the network into a larger number of smaller franchises, leading to sub-optimal franchise sizes. This would reduce efficiency and make each franchise individually less attractive to the market, particularly given the current network of depots is not sufficiently dense to necessarily allow multiple bids for each franchise. The Assessment also sets out a number of specific reasons why a prospective new entrant would not be in a position to do this on a speculative basis.

6.3.18 Whilst it is recognised that costs of intervening in depot provision are high (as noted in some of the consultation responses), such an intervention is considered to deliver significant competitive benefits (as noted by the CMA) and would therefore be justified.

6.3.19 The Assessment describes how the preferred option at transition is that GMCA gains control of the current Greater Manchester strategic depots (which are owned by some of the incumbent bus operators) for the delivery of franchising in the transition phase rather than seek to build new depots.

6.3.20 This decision was also intended to reduce transition risk as it avoids a significant reorganisation at transition, that would impact employees in particular. It also reduces the impact on existing operators by mitigating the risk of stranded assets. The mitigation of the potential for stranded assets is further detailed at section 6.8.88 of this report.

6.3.21 Responding to the first consultation, the CMA's were concerns that there may be a risk that network planning is not optimised if franchises are structured around the location of existing depots appears to conflate the transitional phase with the steady-state. The Assessment describes the provision of 5 to 10 strategic depots in the steady-state (Section 26.1.6), met through a combination of utilising the existing strategic depots and construction of new depots. This would seek to drive efficiencies through both depot size and location, and so is considered unlikely to replicate the existing structure. The Assessment has concluded that transitional arrangements are required to enable GMCA to take control of strategic depots while the steady-state solution is implemented, and that the preferred route to this is by taking control of existing operator-owned strategic depots. Therefore, the replication of existing structure noted by the consultee would be a short-term model only and is judged necessary in order to deliver the steady-state model.

6.3.22 The strategic depots identified in the Assessment are those that GMCA has concluded collectively provide the most efficient model for delivery of large franchises during the transitional phase. Therefore, they are not proposed to be acquired solely due to their historical value. Stockport Metropolitan Borough Councils further suggestion that any need or amended usage of locations is not detrimental to local congestion and other land use needs would be considered as part of any proposal to acquire new land to establish any new depots.

6.3.23 Although depot size is an important factor in determining which depots are strategic depots it was not the only consideration: location and condition were also considered. Therefore, the fact that the Transdev's Rochdale depot is larger than some strategic depots does not mean that an inconsistent approach has been taken.

6.3.24 Responding to the first consultation, although Transdev state that the strategic depot model places it at a competitive disadvantage compared with an incumbent operator when bidding, as the incumbent operator "*will have full knowledge of the costs involved*", the alternative scenario where GMCA specify that operators should provide strategic depots to operate large bus franchises is much more likely to constrain competition and/or may result in a procurement challenge from any operator that does not have control of a strategic depot (Assessment Section 26.1.5). Additionally, the intention is to provide a range of information to bidders, including where appropriate cost assumptions, to minimise any incumbent advantage during the bid process.

6.3.25 Small franchise operators will need to provide depot facilities that meet operational requirements. As concluded in the Assessment (Section 26.1.16), the smaller scale of these facilities means they are not considered to present a material barrier to entry to bidders for small franchises and school contracts to be let by GMCA. Although the depot strategy differs for small and large franchises, restrictions on the use of strategic depots to deliver either small franchises or resource contracts for school services will mean that bidders for small franchises are not disadvantaged in the procurement process.

6.3.26 Section 26.1.1 of the Assessment summarises the rationale (further detail of which is provided in the remainder of Section 26.1 of the Assessment) for GMCA intervention in the control of strategic depot facilities for large franchises by removing barriers to entry, driving competition, and creating an enduring market for new bus franchises. Section 26.1.16 also describes why this approach is not justified for non-strategic depots, i.e. because the provision of smaller-scale depot facilities for small franchises and schools resource contracts does not represent a material barrier to entry to bidders, as demonstrated by levels of competition for TfGM service contracts (comprising school services, fully tendered routes and 'add-on' contracts) where depot provision is the responsibility of the operator. Therefore, TfGM does not agree with Stagecoach's comment that the approach to non-strategic depots "*represents a commercial risk as far as any potential bidders for franchising are concerned*." TfGM does not consider it necessary to intervene in the provision of non-strategic depots in order for there to be competition for small franchise and/or schools resource contracts on the basis that operators are free to reach commercial and practical handover arrangements for the provision of non-strategic depots in Greater Manchester if they so wish, and operators could alternatively seek to establish new depot facilities.

6.3.27 In response to the comment from a member of the public that the CPO of 10 strategic depots represents too much financial risk when viewed with projections of long-term declining patronage, TfGM notes that:

- Sections 6.3.14 to 6.3.15 describe the importance of intervention by GMCA in the control of strategic depots as the alternative of requiring operators to provide a depot is likely to prove a significant barrier to competition.

- Section 26.1.6 of the Assessment describes how control of the depot estate will enable GMCA to better manage the capacity and quality of depot assets, and that this may involve subsequent consolidation of depot estate.

6.3.28 In response to the comment from the members of the public that the Commercial Case lacked information about the effective management of depots, TfGM notes that Section 26.1.15 of the Assessment describes the split of responsibilities between GMCA and the franchisee in respect of maintenance.

Future proofing

6.3.29 Responding to the first consultation, Arriva and Tameside Metropolitan Borough Council suggested that strategic depots would need to be future-proofed. Tameside Metropolitan Borough Council noted several potential issues that need to be considered, including:

- Further issues with the depot proposition will centre on the proposed size of any electric bus fleet required to operate the different franchises, as the depots will require a substantial electricity supply to enable charging;
- Other fuel types including bio-gas will need more specialised fuelling provision; and
- For smaller franchises, there may be a need for depot sites to have facilities for electric vehicle charging or facilities for different fuels, which could prove difficult for the successful operators of smaller franchises to find appropriate sites.

6.3.30 In their response to the second consultation, Liverpool City Region Combined Authority (LCRA) commented that "*the LCRCA's view is that local control of bus depots may be an appropriate course of action under a variety of different delivery models in order to support a move to zero emission bus fleets*."

6.3.31 Ipsos MORI's March 2021 Consultation Report (Section 9.3), shows that a member of the public commented that GMCA providing local control of depots would help to facilitate a move to zero-emissions bus fleets.

TfGM response:

6.3.32 Consideration has been given, in the depot strategy, to the future needs of depots in relation to changing technology, for example, a move to electric vehicles. This has included the extent to which the strategic depots could be adapted for electric vehicle charging and other relevant infrastructure requirements. This is both in the context of current depots acquired from Greater Manchester bus operators and any depots constructed in the future for the steady-state solution. Each of the identified strategic depots could be adapted for electric vehicle charging and other relevant infrastructure requirements, subject to planning permission etc., but this would result in a reduced capacity.

6.3.33 It is also considered that GMCA control of strategic depots would facilitate future investment in electric vehicle charging and other relevant infrastructure for alternative fuel types to be undertaken in a manner which would:

- Mitigate many of the state aid implications that would otherwise exist should strategic depots be owned by the private sector in the event that some of the funding is from Government (either national or local); and

- Ensure consistency of solution across multiple depots, to better facilitate franchise handover and the delivery of network improvements which, for example, may involve the transfer of fleet between depots.

6.3.34 Small franchise operators will need to provide depot facilities that meet operational requirements. However, given that land availability in Greater Manchester for smaller depots is much less of a constraint than for large depots, this is less of a material barrier to entry than for large franchises. Where the requirements of the Greater Manchester Clean Air Plan increase the likelihood of small franchises and school contracts depots requiring infrastructure for electric vehicle charging and/or other fuel types. TfGM would seek to ensure a level playing field in relation to tendering to ensure that small operators are not adversely impacted compared with large operators. It should, however, be noted that these implications would not be specific solely to the Proposed Franchising Scheme (i.e. they would be equally relevant in the event that the Proposed Franchising Scheme is not adopted). Also, the depot strategy would restrict large franchise operators from using the strategic depots to operate either small franchises or resource contracts for school services. Therefore, any such requirement for small franchise depots to accommodate electric vehicle charging and/or other fuel types would affect the small franchise operator regardless of whether they are a large operator or an SME operator.

6.3.35 Additionally, where the specification required significant capital investment, TfGM would seek to work with the small franchise operator where appropriate. As the implications of the Greater Manchester Clean Air Plan become clear, GMCA will continue to work with and support owners on non-strategic depots to implement its requirements.

6.3.36 TfGM agree with LCRCA's comment that "*local control of bus depots may be an appropriate course of action under a variety of different delivery models in order to support a move to zero emission bus fleets*" and the comment from the member of the public that GMCA providing local control of depots would help to facilitate a move to zero-emissions bus fleets. It is recognised that there are state aid / subsidy control risks associated with public sector subsidy or funding of low or zero-emission infrastructure in depots owned by bus operators. As such, although GMCA's intervention in the control of strategic depot facilities is driven primarily by the rationale described at section 6.3.26, it would also provide a delivery model to facilitate investment in low- and zero-emissions fleet.

6.3.37 Nothing in the period since the Assessment, including the impact of Covid-19, has occurred that has changed TfGM's previous conclusion that it should provide strategic depots, and that the strategic depots identified in the Assessment collectively provide the most efficient model for delivery of large franchises during the transitional phase.

6.4 Theme 2: Whether incumbent operators will sell the strategic depots to GMCA voluntarily

6.4.1 In response to the first consultation, in general, the current owners of the strategic depots have commented that it is unlikely that they would voluntarily sell these to GMCA. Responding to the first consultation, OneBus notes that this transfer of control is "*dependent upon incumbent operators being willing to negotiate*", and Ipsos MORI's June 2020 Consultation Report notes that they also made this point in response to Question 37 of the first consultation which asked for any comments on the impacts of the Proposed Franchising Scheme on operators as set out in the sub-section impacts of the different options. Responding to the first consultation, Go North West state that "*it is not a realistic proposition that operators would agree to sell their depots to GMCA voluntarily*", and that, if it did not win any franchises, its depot could be sold to another operator for market value or for non-transport development. Responding to the first consultation, Stagecoach said that it is likely compulsory purchase powers would have to be exercised as operators are not likely to enter into agreements that do not give them adequate compensation. Responding to the first consultation, the CMA pointed to a risk that existing owners may choose to dispose of their depots as development sites for alternative uses to maximise returns if they decide to exit the market or are not awarded a relevant franchise.

6.4.2 In response to the second consultation, Go North West repeated the point noted at section 6.4.1 above that that they made in response to the first consultation, and further commented that the "*proposed procurement of three larger sub-area franchises rests on the assumption that GMCA will be able to acquire ownership of strategic depots in the sub-areas either by voluntary agreement with the current owners or by CPO within short timescales. As set out in the response to the previous consultation, Go North West believes that this is unrealistic because the owners of the depots are very unlikely to be willing to agree to transfer them voluntarily without payment of a substantial premium*".

6.4.3 Conversely, in response to the second consultation, Abellio commented that "*an opportunity exists for TfGM to negotiate control of existing depot assets and vehicles in return for funding from CBSSG Restart or any future replacement, to allow operators to balance their day-to-day operational finances and, as part of gaining control, ensuring that incumbent operators will allow access to interested bidders during the procurement process…Such agreements would provide security for incumbent operators when linked to purchase at fair market value of their depot and vehicle assets. In short, relevant conditions would be in place upon payment of any financial consideration.*"

TfGM response:

6.4.4 The Assessment recognised that securing the 10 strategic depots by voluntary sale might not be straightforward. Selling their depots to GMCA, however, would mitigate the risk for operators of stranded assets if they are not awarded a local service contract, a risk that may be yet more serious if alternative land uses are not viable due to land contamination issues. It also mitigates the potential impact on employees who, depending on the alternative option taken forwards by GMCA, may otherwise need to relocate to alternative depot locations (a concern also raised by a number of operators).

6.4.5 Sections 6.5 and 6.7 consider and confirm that a number of alternatives routes to depot provision exist, and therefore that the proposed approach is not reliant on either voluntarily transfer of ownership or CPO. Furthermore, TfGM recognises that the exercise of any CPO powers by GMCA would be subject to a separate statutory process. Section 6.7

responds to the challenge regarding the timeline for delivering the Proposed Franchising Scheme in the event that strategic depot owners are unwilling to sell those depots to GMCA.

6.4.6 An incumbent operator’s strategic depot would be unlikely to be sold to another operator given that granting a non-incumbent bidder an option on its depot in the event that it is unsuccessful in its own franchise bid would remove the key competitive advantage that it holds against non-incumbents. Therefore, in the event of a Mayoral decision to introduce the Proposed Franchising Scheme, GMCA would continue to seek their preferred option of negotiated depot transfer through proactive dialogue with operators which is likely to be in their interest.

6.4.7 TfGM have noted the suggestion from Abellio, as set out at section 6.4.3, in response to the second consultation. However, given there is uncertainty over the longevity and future quantum of CBSSG (including CBSSG Restart (CBSSG-R) and any future Government funding allocation(s) that may replace CBSSG), TfGM is of the opinion that a focus on a voluntary process for depot acquisition would better benefit both parties.

6.4.8 Nothing in the period since the Assessment, including the impact of Covid-19, has occurred that has changed TfGM's previous conclusion that although the voluntary sale of the strategic depots might not be straightforward, it would mitigate the risk of stranded assets for operators and also mitigate the potential impact on employees who otherwise may be adversely affected.

6.5 Theme 3: Whether the alternatives for large franchises, apart from compulsory purchase of strategic depots, are feasible

6.5.1 The Assessment (Section 26.1.20) sets out a number of alternative routes to depot provision at the transitional stage, including provision of short-term depot facilities altering of the commercial model in the first round of franchising so that strategic depot provision becomes the responsibility of the operator; building new depots; and the CPO of strategic depots.

6.5.2 With the exception of CPO, there has been little comment in both the first and second consultation responses in relation to these alternative routes. It is considered that they continue to provide viable strategies for the provision of depots.

6.5.3 Nothing in the period since the Assessment, including the impact of Covid-19, has occurred that has changed TfGM's previous conclusion that the alternatives for large franchises, apart from CPO, remain viable.

6.5.4 Further consideration on the challenges raised by consultees to the CPO and timelines are considered in more detail below.

6.6 Theme 4: Whether GMCA can legally use Compulsory Purchase Order (CPO) powers to acquire strategic depots

6.6.1 In response to the first consultation, Rotala questioned whether GMCA could satisfy the stringent test for compulsory purchase, requiring a compelling case for purchase in the public interest. The use of the land as a depot could remain either under its current ownership or, if necessary, by other franchisees on commercial terms. They pointed out that such a compulsory purchase would give rise to practical difficulties for its current operator where the depot serves a broader purpose, acting as regional hub and for other activities. In response to the first consultation, Rotala noted, for example, that "*headquarters for Rotala's entire North Western business is located at its depot in Bolton and in addition all drivers in the Rotala group are trained at this depot*". They also state that "*forcing their sale would disrupt the dynamic to the detriment of the Greater Manchester bus market and ultimately consumers*".

6.6.2 Responding to the first consultation, at section 9.3 of its HSF legal paper, Stagecoach also stated that "*To the extent that GMCA attempts to purchase compulsory any operator's land without following the correct procedure or without having the statutory power to do this, this is likely to be unlawful and will give rise to grounds of challenge*".

TfGM response:

6.6.3 It is accepted that any compulsory purchase requires the exercise of statutory powers by GMCA or TfGM.

6.6.4 It is also accepted that a compulsory acquisition may involve disturbance to its owner or occupier and the relocation of some of their activities. The exercise of any CPO powers by GMCA would be subject to a separate statutory process whereby GMCA would, amongst other things, need to have sufficient grounds to be able to demonstrate a compelling case in the public interest that would sufficiently justify interfering with the rights of an operator who owned the specific depot in question taking any such adverse effects into account. However, a need to secure land that is required to enable franchised bus services to be delivered (if a decision is taken to introduce the Proposed Franchising Scheme) is considered likely to justify the exercise of compulsory powers of acquisition. However, TfGM reiterates that the CPO of strategic depots is not GMCA's preferred option, which is instead a negotiated depot transfer. If this is not successful, the Assessment (Section 26.1.20) describes a number of alternative routes to depot provision which would be carefully considered prior to any decision in respect of CPO, but which would, if unproductive, also support the case for the use of a CPO.

6.6.5 Pursuing these alternative routes may require a variation and/or a postponement of the Proposed Franchising Scheme. For example, this could include a change to the proposed implementation timescales, which would require any dates for entering into local service contracts and/or service commencement included the Proposed Franchising Scheme to be postponed.

6.6.6 Nothing in the period since the Assessment, including the impact of Covid-19, has occurred that has changed TfGM's previous conclusion that, if required, GMCA could legally use CPO powers to acquire strategic depots.

6.7 Theme 5: The timeline for delivering the Proposed Franchising Scheme in the event that strategic depot owners are unwilling to sell those depots to GMCA

6.7.1 In response to the first consultation, some operators challenged GMCA's ability to deliver the Proposed Franchising Scheme in the timeframe described in the Assessment and as proposed in the consultation document.

6.7.2 In response to the first consultation, Go North West consider that GMCA will have to "*rely on the CPO process to obtain depots … since operators would not agree to sell*" and questioned the proposed timeline of acquiring depots via CPO. They suggest that it would take between two and a half to three years to complete a contested CPO process, and that, unless GMCA decides not to provide facilities to successful bidders, "*GMCA's whole timetable for the procurement of franchise contracts, transition and roll-out will be pushed back for a period of up to three years*".

6.7.3 In response to the second consultation, Go North West repeated this same point and also made further points that "*there is also no acknowledgement of what would be required should a CPO application be rejected"* and that there is *"no credible mitigation measure is offered for this significant risk to timing and cost*".

6.7.4 In response to the first consultation, Stagecoach considered that "*The three-year timeframe set by GMCA to deliver on franchising appears unrealistic at this stage, especially as there is the possibility that GMCA will have to exercise some form of compulsory purchasing powers to acquire depots*". Stagecoach also commented that "*The Assessment does not account for the time this [the CPO process] will take, and does not consider how this will impact on the transition period to implement the proposed scheme. … In the circumstances either the three-year transition period set out in the Assessment is unrealistic or the GMCA will need to find a way to fast-track the transfer of depots from operators in order to meets its transition targets*".

6.7.5 In response to the first consultation, OneBus commented that "*The timescales associated with these alternative plans will likely delay the process*", particularly in the event of a CPO.

6.7.6 In response to the first consultation, Abellio suggested that, to mitigate incumbent advantage during transition, "*a short delay in the procurement programme [may be required] in order to absolutely ensure that incumbent operators do not successfully stonewall TfGM in its stated plans to achieve control of strategic depots through a combination of negotiated depot transfer and CPO*".

TfGM response:

6.7.7 The Assessment makes clear (at section 27.3.5) that one of the assumptions underpinning its procurement plan was that depots would be available in time for each large franchise to be let. Although the Commercial Case costings assume that GMCA would achieve control of strategic depots through a combination of negotiated depot transfer and CPO (Section 26.1.21 of the Assessment), the preferred option was that GMCA would gain control via a negotiated depot transfer.

6.7.8 It is important to note, however, that TfGM also considered that there are a range of viable options available to GMCA to provide depots for the operation of large franchises in addition to compulsory purchase if such sales did not occur, and as noted at section 6.5.2 of this report, there has been little comment on these other options in the consultation responses. In the event that operators are not willing to consider a negotiated sale following any Mayoral decision to introduce the Proposed Franchising Scheme, then one or a combination of the other options would be explored in detail before any CPO process was pursued. It is not considered to be accurate that the timeframe for the commencement of the Proposed Franchising Scheme is necessarily dependent on CPO, even if operators are unwilling to sell their depots to GMCA.

6.7.9 GMCA recognise that it is highly unlikely that a CPO process could be completed in time for the commencement of the first round of franchising in Sub-Area A and potentially in Sub-Area B, although it is considered achievable for Sub-Area C. It is for this reason that, in the first round of franchising in Sub-Area A and Sub-Area B, in the event that it is not possible to negotiate the transfer of some or all of the strategic depots at the transition phase, the route to depot provision that would be used for the transitional stage is most likely to be either the provision of short-term depot facilities by GMCA or altering the commercial model so that strategic depot provision becomes the responsibility of the operator for the first round of franchising (Section 26.1.20 of the Assessment). Both of these options would be deliverable to the timeframes described at section 27.3 of the Assessment, but if implemented, would require a formal variation of the Proposed Franchising Scheme. These routes could also be used to provide an interim depot approach alongside the acceleration of the steady-state option of building some new strategic depots.

6.7.10 In the unlikely event that there is no viable solution other than CPO for the first round of franchising of Sub-Area A (and potentially Sub-Area B), it is likely that the timeline described in the Assessment would be impacted. This is a point noted by Abellio in their response, which suggests a short delay to implementation to facilitate the provision of depots by TfGM. This might involve subsequent postponement to the dates set out in the Proposed Franchising Scheme to specify the new dates on which a local service contract in each Sub-Area may first be entered into and consequently the dates on which a local service may first be provided under such a contract in that Sub-Area.

6.7.11 If there is any requirement to delay implementation, it would be possible to postpone the dates set out in the proposed scheme in accordance with section 123I of the Act. The Financial Case response, at section 7.2.83 of this report, also considers that, whilst not specific to a CPO process, the quantified risk register includes the risk of delayed implementation due to mobilisation and complexity issues. At this stage, however, for the reasons given, GMCA does not propose to delay the programme and believes that the current proposals are realistic and achievable, based on GMCA's preferred option to purchase the strategic depots voluntarily.

6.7.12 In response to Go North West's comment in relation to the second consultation that there is no acknowledgement of what would be required should a CPO application be rejected, Section 26.1.21 of the Assessment refers to the alternative arrangements that would be pursued if control of strategic depots cannot be achieved through a combination of negotiated depot transfer and CPO. In the event that a CPO application is rejected, GMCA would consider the deliverability of each of the alternative arrangements within the proposed implementation timescales. In particular:

- The building of new depots may not be possible without a change to the proposed implementation timescales and/or service commencement dates included the Proposed Franchising Scheme.
- The provision of short-term temporary depot facilities by GMCA is considered to be achievable subject to the availability of appropriate sites. However, site availability cannot be confirmed at this stage and would need to be tested at the appropriate time.

- GMCA could alter the commercial model so that strategic depot provision becomes the responsibility of the operator for the first round of franchising.

6.7.13 As described at sections 6.6.5 and 6.7.10, implementation of one of the options outlined at section 6.7.12 might involve subsequent postponement to the dates set out in the Proposed Franchising Scheme to specify the new dates on which a local service contract in each Sub-Area may first be entered into and consequently the dates on which a local service may first be provided under such a contract in that Sub-Area.

6.7.14 Nothing in the period since the Assessment, including the impact of Covid-19, has occurred that has changed TfGM's previous conclusion that the current proposals are realistic and achievable, based on GMCA’s preferred option to purchase the strategic depots voluntarily.

6.8 Theme 6: The reasonableness of the costs allowed for in the Financial Case in respect of the depot strategy

6.8.1 In response to the first consultation, Stagecoach, at section 9.4 of their HSF legal paper, stated that: "*In terms of any costs associated with CPOs, we note that compensation payable as a result of compulsory acquisition is based on the principle that the owner should be paid neither less nor more than their loss. This is known as the 'equivalence principle' and it disregards any effects on value as a result of the acquiring authority's scheme for the land (known as the 'no scheme' principle). It is unclear to us whether GMCA have appropriately calculated the costs involved for compulsorily purchasing any operator's land. If GMCA's economic analysis has not factored in compensation based on the equivalence principle, that would be another significant gap*".

6.8.2 In response to the first consultation, Rotala stated that, in the event that CPO powers were to be used, "*GMCA would no doubt also open itself up to compensation claims that would give rise to considerable resources and legal expenses that do not appear to have been taken into account in the Assessment. Claims by bus operators subject to Compulsory Purchase Orders would include the fact that the depots are worth more to operators than merely the market value not least as depots may be used as regional hubs and for other activities within the bus operator group*".

6.8.3 In response to the first consultation, Salford City Council stated that the provision of depots by GMCA for the large franchises is likely to come at significant cost. Further information on the likely costs for the Scenarios described at section 4.86 of the consultation document would be required.

6.8.4 In response to the second consultation, Go North West commented that the Covid-19 Impact Report contains "*no details provided on the potential impact of Covid-19 on the valuation of such strategic depots, which is likely to be a crucial factor in any purchase agreement. It is critical that GMCA provides further information on what ascribed valuation model it will use when taking control of the strategic depots and that this takes account of the impact of the pandemic. For example, the potential for prolonged social distancing measures means that the investment that existing operators have made in their depots to ensure that that are Covid-19 secure should be accounted for in a fair valuation model*."

TfGM response:

6.8.5 There was no single valuation method used when producing the estimate in the Assessment. The Assessment makes a prudent estimate of the cost of acquiring control of strategic depots, including a combination of a likely negotiated transfer valuation and an independently obtained CPO valuation. In addition, the Financial Case (as described at section 20 of the Assessment) includes a Quantified Risk Assessment which estimates the cost of specific uncertain events, including additional costs in the delivery of the depot strategy, which may occur.

6.8.6 In respect of some of the depots, the estimate was based on the higher of two professional valuations of the likely amounts at which the vendor would negotiate their sale based on their market value. In relation to the other depots, a professional valuer provided estimates of the amounts that might have to be paid by way of compensation in the event of compulsory purchase. This included amounts in respect of the value of the land taken and compensation for disturbance etc. The estimates of the value of the land taken were based on market value as defined by the Royal Institute of Chartered Surveyors (RICS) and, save that they were made on a desk-top basis, these estimates were prepared in accordance with the RICS Red Book (Jan 2014 edition). In the case of the estimates for compensation payable in the event of a CPO, the worst-case estimates were used for the purpose of the Assessment. In reaching the overall estimate for depot acquisition costs in the Assessment, various other additional costs were taken into account, and indexation was applied to provide nominal costs in the relevant year.

6.8.7 TfGM has considered the impact of Covid-19 on strategic depot valuations, including, inter alia, that current demand for available sites has increased during and as a result of the pandemic, including from the logistics sector. The Assessment made a prudent estimate of the cost of acquiring control of strategic depots (as further detailed at section 6.8.6). In addition, the Financial Case (as described at section 20 of the Assessment) includes a Quantified Risk Assessment which estimates the cost of specific uncertain events which may occur, including additional costs in delivering the depot strategy. As such, the valuation of strategic depots has not been updated in respect of any potential impact of Covid-19 as the estimated costs and quantified risk allowances within the Assessment are considered to be sufficient to accommodate any cost increases that might arise from the impact of Covid-19 on depot valuations.

6.8.8 Go North West have not presented any evidence within in its response to suggest that investment as a result of Covid-19, e.g. to facilitate social distancing, would be material to the overall valuation placed on depots. Notwithstanding this, the Quantified Risk Assessment provides a contingency for additional depot costs that may arise which is intended to cover unforeseen costs required to upgrade the depots. Therefore, it is not proposed that the depot valuations need be updated as a result of this.

6.8.9 Nothing in the period since the Assessment, including the impact of Covid-19, has occurred that has changed TfGM's previous conclusion that the depot valuations included within the Financial Case remain reasonable and therefore do not need to be updated.

Fleet

6.8.10 Question 23 of the first consultation asked for any comments on the approach to fleet under the Proposed Franchising Scheme as set out in the Commercial Case. As stated at section 26.2 of the Assessment, in the steady-state, provision of vehicles would remain the responsibility of the franchise operators. To minimise any potential barriers to entry, GMCA would introduce a Residual Value (RV) mechanism that establishes a fleet of RV mechanism buses as 'primary franchise assets'. This mechanism would guarantee the future value of vehicles throughout their useful economic life and GMCA would take the long-term risk on fleet demand beyond the life of individual franchises.

6.8.11 Ipsos MORI's June 2020 Consultation Report (Section 9.6) shows that responses from members of the public to the first consultation were generally supportive, reporting 87 favourable comments versus 54 unfavourable comments. However, responses from statutory consultees (5 favourable comments versus 7 unfavourable comments) and non-statutory consultees (5 favourable comments versus 8 unfavourable comments) were generally mixed, with unfavourable comments mainly concerning issues of affordability of the proposal.

6.8.12 In response to the first consultation, the comments received from the CMA, operators and local authorities in relation to fleet largely focus on whether GMCA should take on any risk with respect to the fleet, availability of proposed RV fleet and contract mobilisation, the condition of the RV fleet and the specifics of the RV mechanism.

6.8.13 In response to the second consultation, the comments received from operators and local authorities in relation to fleet largely relate to the impact of Covid-19 on operators' ability to raise capital to invest in new fleet.

Whether GMCA should take on any risk in relation to the fleet

6.8.14 In response to the first consultation, First voiced concerns that "*taking the risk on vehicles – potentially in respect of both the current fleet and those procured for franchised operations – into the public sector is considered to be unnecessary and a burden on the public sector that is avoidable*". They also state that "*big issues remain to be resolved on handling of the existing fleet in Greater Manchester, in particular in respect of take up of the 'residual value' mechanism and magnified by the current emphasis on decarbonisation and electrification which could render the existing Greater Manchester bus fleets obsolete within 15–20 years. This exposes the Franchising system and the Greater Manchester authorities to significant cost risks*". They consider it is "*better to let the risk remain with the operators*".

6.8.15 In response to the first consultation, Rotala stated that larger bus operators are likely to have considerably greater purchasing power than TfGM given the size and the ability to flex delivery to match larger orders so that moving to the franchised model would reduce the flexibility that enables operators to negotiate lower prices. They also expressed concerns about poor decisions being taken by TfGM when specifying vehicles to be used, given its relative lack of experience.

6.8.16 In response to the first consultation, Derbyshire County Council state that, whilst this is a decision for GMCA, they think that the proposal "*may well stifle the opportunity for operators to come forward with proposals for new vehicle fleets as part of their response to the tenders*".

6.8.17 Conversely, in response to the first consultation, Tameside Metropolitan Borough Council state that they agree that the proposed solution to fleet appears sensible. HCT Group state that they agree with the proposed fleet solution. Support was also provided from the CMA of the principle of an RV mechanism that will "*reduce both the financial outlay for an incoming franchisee and reducing financial risk at the end of a franchise*".

TfGM response:

6.8.18 As noted in the Assessment (Section 26.2), provision of fleet would remain the responsibility of the franchise operators, supported by the RV mechanism. This approach takes advantage of the relationships, experience and buying power that operators have with the bus manufacturing industry. It also allows operators the flexibility to balance fleet procurement and maintenance solutions on a wider basis than Greater Manchester, thereby managing whole life cost. The proposed RV mechanism would also provide the following advantages to GMCA:

- Under franchising, GMCA would be able to specify emission standards and use of electric power (or alternatives), with the key commercial issues being in respect of the funding of this. The proposed RV mechanism, where GMCA is the controller of fleet, lowers the state aid risk of GMCA investing in alternative fuel technology and associated infrastructure compared with other bus reform options;
- The RV mechanism would help to control franchise cost by GMCA taking the long-term risk on fleet demand beyond the life of individual franchises as it avoids the need for operators to accelerate the depreciation of new vehicles over short franchise terms; and
- The RV mechanism gives GMCA greater ability to actively manage and coordinate fleet age across Greater Manchester.

6.8.19 The only scenario where GMCA fleet risk would crystallise is in the event that one or more vehicles are no longer required for the provision of Greater Manchester franchised bus services (e.g. due to new legislation or a change to the fleet specification by GMCA) and the guaranteed future value is not achieved in the open market. Given GMCA will set the fleet specification and will be able to manage fleet across Greater Manchester so can anticipate any changes in legislation and plan for them, this risk is considered to be mitigated to an acceptable level. The Quantified Risk Register also contains a risk that acquired fleet would not be required due to changes in demand and/or be obsolete due to a policy decision.

6.8.20 Nothing in the period since the Assessment, including the impact of Covid-19, has occurred that has changed TfGM's previous conclusion that the provision of fleet would remain the responsibility of the franchise operators, supported by the RV mechanism.

Availability of proposed RV fleet and contract mobilisation

6.8.21 In response to the first consultation, Stagecoach stated there is insufficient time to conduct market engagement and complete an RV process before the commencement of the procurement of Sub-Area A franchises in the second half of 2020. Similarly, Go North West stated that "*during the transition period we anticipate that the approach is likely to be fraught with difficulties including disputes as to what assets should be included in the RV mechanism and whether assets are valued according to book price or market price...and the process could lead to delay to the GMCA's proposed timetable*".

6.8.22 In response to the first consultation, various comments were received regarding whether the RV mechanism is dependent on incumbent operators placing fleet into the RV mechanism. These comments included:

- The CMA, who commented that the success of the RV mechanism will "*depend on the willingness of incumbents to make this fleet available to competitors on the initial transition to franchising*";
- OneBus, who commented that "*if the incumbent operator decides to transfer the fleet to another of their other operations, the new operator will have to acquire vehicles from elsewhere at greater cost than the above suggested way forward*"; and
- Responses to Question 37 of the first consultation, which asked for any comments on the impacts of the Proposed Franchising Scheme on operators as set out in the sub-section impacts of the different options, which as noted by Ipsos MORI's June 2020 Consultation Report, included:
    - OneBus stating that "*incumbent operators can create a significant risk to TfGM if they decide to move their assets elsewhere across their other operations where they exist if not successful in bidding*"; and
    - The Chartered Institute of Logistics and Transport – North West Policy Group querying whether contingency plans were in place in situations where operators chose to dispose of assets elsewhere, which could effectively lead to service disruption.

6.8.23 Although, in response to the first consultation, the CMA stated, "*We support the proposed nine-month period between contract awards and services operating on the basis that it is enough time to acquire new buses if needed*", alternative views were expressed in response to the first consultation by some operators. For example:

- Go North West commented that "*It would be extremely difficult for operators to be ready with a full fleet of buses to GMCA's specification within a nine month lead time*".
- Arriva commented that "*A nine-month period to undertake mobilisation will only be feasible if the requirements of the relevant franchise contract are such that ULEV or hybrid vehicles and infrastructure is not required*"; and
- Transdev commented that "*We feel that nine months is broadly reasonable – however, there is significant delivery risk, particularly if operators are expected to procure buses as lead times can be at least six months*".

TfGM response:

6.8.24 TfGM undertook initial market engagement on the draft principles of an RV mechanism in early 2018, with responses received providing general endorsement of its proposals. TfGM has subsequently produced a draft Heads of Terms that it would use to engage with the incumbent operator market immediately following any Mayoral decision to proceed with franchising, followed by a programme of work to ensure that any RV fleet for Sub-Area A is confirmed prior to the commencement of Invitation to Negotiate phase of the procurement. It is considered that this is achievable in the required timescales.

6.8.25 The commercial model is not reliant on RV take-up. To the extent that an incumbent operator decides not to place some or all of its relevant fleet into the RV mechanism and there is subsequently a difference between the RV fleet allocated to a franchise and the fleet requirement for the same franchise, that incumbent operator may opt to use that fleet for its franchise bid (rather than acquiring vehicles from elsewhere). Similarly, a non-incumbent operator would also be able to bring fleet from outside Greater Manchester or buy new fleet.

6.8.26 Whilst it is possible that incumbent operators will choose not to place fleet into the RV mechanism, particularly if they believe that this will provide them with a competitive advantage during procurement, they would need to balance this against the risk of stranded assets in the event that they were unsuccessful in bids for franchises.

6.8.27 However, if a bidding incumbent operator chooses not to place fleet into the RV mechanism (e.g. in order to provide it with a perceived competitive advantage over other bidders who may not have access to similar fleet), that operator's bid pricing in respect of that fleet is unlikely to be materially different to that which would have crystallised if it had been placed into the RV mechanism. In the event of lack of availability of RV fleet at bid stage (e.g. in the scenario described above), there is also unlikely to be a material difference in bid pricing from a non-incumbent who opts to bid with existing fleet (either taken from other operations or purchased via the second-hand bus market). However, analysis performed by TfGM, which includes consideration of maintenance cost and fuel efficiency benefits, indicates that the whole life cost of new fleet would not materially exceed that of existing fleet. It has therefore concluded that the franchise cost implications of different courses of action by incumbent operators in respect of RV are likely to be neutral.

6.8.28 TfGM notes the comments raised by operators in respect of lead times for new fleet. However, it is currently satisfied that a mobilisation period of nine months is adequate for the manufacture and delivery of both Euro VI diesel, typically six months, and ULEV, typically eight months, but would continue to review this, including via ongoing discussion with manufacturers, to identify any specific circumstances that may require a longer mobilisation period. The potential implications of the Clean Air Plan Business Case, which may include requirements on fleet and infrastructure, are discussed above at section 4.9 of the Strategic Case response.

6.8.29 Whilst the commercial model is not reliant on RV fleet take-up, the securing of RV fleet is desirable in order to reduce mobilisation risk and to mitigate the risk of stranded assets for incumbent operators. TfGM is committed to facilitating the establishment of the RV mechanism to enable the transfer of incumbent fleet to franchise operators and would seek to do so at a valuation which appropriately reflects the value at which they are held by incumbent operators.

6.8.30 Moreover, whilst it is correct that the success of the RV mechanism during transition will depend on the willingness of incumbents to make this fleet available, mechanisms contained within the local service contract would mean that any fleet purchased for the undertaking of franchise operations would automatically become RV fleet. Therefore, even in the event that operators do not agree to place existing fleet into the RV mechanism, the RV mechanism will still be secured following the commencement of franchise operations.

6.8.31 Nothing in the period since the Assessment, including the impact of Covid-19, has occurred that has changed TfGM's previous conclusion that the nine-month mobilisation period is sufficient for operators to deliver their required fleet.

Condition of RV fleet

6.8.32 In response to the first consultation, the CMA noted that uncertainty over the RV fleet that a franchisee would inherit means "*franchise bidders may face commercial risk in estimating any costs of upgrading or replacing older vehicles to meet a particular specification required of the franchise*".

6.8.33 In response to the first consultation, Abellio believed the RV mechanism is a suitable way to manage provision of the fleet but consider that if the current fleet is to be part of the scheme, "*the Proposed Franchising Scheme must provide comprehensive information on vehicle type, condition, maintenance history, warranty arrangements and operating costs of the fleet that non-incumbent operators would be required to take on*".

6.8.34 In response to the first consultation, Arriva considered that if the RV mechanism is to work as envisaged, vehicle and cleanliness standards must be robust and enforced.

6.8.35 In response to the first consultation, Salford City Council stated that there may be a risk that outdated buses and equipment are retained in Greater Manchester through this mechanism as older buses are offloaded by former franchise operators and reused by an incumbent operator without upgrading as part of new franchises.

6.8.36 In response to the second consultation, a member of the public commented that "*it is worth considering the possibility of introducing a new, greener fleet of buses when the franchising begins to be implemented"* and that *"it would be far better to introduce new, cleaner buses under the franchised livery than it would to keep the same old noisy, dirty buses which keep having to be taken off the road to be repaired and give them a lick of paint*."

TfGM response:

6.8.37 To mitigate operator risk, it is considered that:

- GMCA will establish a fleet specification for entry into the RV mechanism. This specification will be consistent with that which must be met by franchise operators, and therefore upgrading of vehicles is not anticipated. Older vehicles will need to be replaced as part of a standard fleet replacement programme;
- RV fleet for each franchise would be confirmed prior to commencement of the main ITN phase of procurement so that all bidders have clarity and consistency of RV fleet assumptions;
- Bid and mobilisation phases will provide bidders and incoming franchise operators with the opportunity to inspect fleet; and
- RV fleet will need to pass specific handover criteria prior to ownership being transferred to the incoming franchise operator, with a retention fund established to fund any necessary remedial works. In addition, the franchise contract will allow for a financial adjustment in the event that any RV fleet do not transfer to the franchisee as assumed in the tender documentation.

6.8.38 The Financial Case of the Assessment does not assume additional investment to improve the standard of fleet. However:

- A limit would be placed on the maximum fleet age (both in absolute terms and as a maximum average age). This would be applied across all the franchise fleet and also at service level, with certain services specifying a lower maximum fleet age; and
- The rules for initial entry of incumbent fleet into the RV mechanism will include restrictions to avoid the situation where operators use the mechanism to offload:
    - Proportionally older fleet whilst retaining ownership of newer fleet (either for bidding purposes or to cascade to other operations outside of Greater Manchester); and
    - Poorly maintained fleet and fleet that falls below the minimum standards set by GMCA.
- The potential implications of the Clean Air Plan Business Case, which may include requirements on fleet and infrastructure, are discussed above at section 4.9 of the Strategic Case response.

6.8.39 Nothing in the period since the Assessment, including the impact of Covid-19, has occurred that has changed TfGM's previous conclusion that GMCA will establish a fleet specification for entry into the RV mechanism and that RV fleet will need to pass specific handover criteria prior to ownership being transferred to the incoming franchise operator, with a retention fund established to fund any necessary remedial works.

Specifics of the RV mechanism

6.8.40 In response to the first consultation, Go North West suggested that: "*The RV approach will work best if GMCA provides precise vehicle specifications, recommended vehicle purchase prices and agrees future values at the outset. GMCA should underwrite the risk of all stranded assets for incumbent operators which means there should be no minimum standards for participation in the RV scheme. To prevent operators from incurring significant losses in the event that their franchise ends, and they do not win a subsequent franchise, the RV scheme should also include ticket machines, CCTV, plant and machinery in depots and software and other assets lost on not winning a franchise*".

6.8.41 In response to the first consultation, Abellio commented that they "*believe that the ability for operators and franchise bidders to include leased vehicles as part of bids is fundamental to lowering barriers for entry to the market*". Ipsos MORI's June 2020 Consultation Report notes that Transdev raised a similar point in response to the first consultation regarding the potential to include leased vehicles in its bid in response to Question 37 of the first consultation which asked for any comments on the impacts of the Proposed Franchising Scheme on operators as set out in the sub-section impacts of the different options. Transdev stated that "*Many of the vehicles we use are on fixed-term leases and thus not covered by the residual value matrix, and if we cannot redeploy them, we will be left with lease commitments that cannot be serviced by revenue*".

TfGM response:

6.8.42 As stated above, GMCA's fleet specification will be consistent with that which must be met by franchise operators, and therefore upgrading of vehicles is not anticipated.

6.8.43 Operators are far more experienced in fleet negotiation and acquisition than GMCA and will also be incentivised to achieve competitive fleet pricing via the procurement process which will evaluate bid price as well as quality. Therefore, GMCA does not propose to recommend vehicle purchase prices.

6.8.44 The fleet specification for entry into the RV mechanism will be designed to broadly maintain the current standard of fleet that is in Greater Manchester. Therefore, assuming that an operator has appropriately maintained their fleet then it will likely be acceptable into the RV mechanism. Where fleet does not meet the criteria for transfer into the RV mechanism at the commencement of franchised services, the outgoing operator would risk these becoming stranded assets. This provides operators with appropriate incentivisation to maintain fleet to the required standards.

6.8.45 The RV mechanism will agree the future value of the fleet at the outset.

6.8.46 GMCA would seek to include on-bus ITS equipment and depot plant and machinery in the RV mechanism as part of any agreement. In addition to mitigating a residual value issue for operators' existing equipment, this will also provide operational robustness during transition to steady-state. The mitigation of the potential for stranded assets is further detailed at section 6.8.88 of this report.

6.8.47 The current assumption is that leased fleet would not form part of the RV mechanism as the ownership and/or financing structure would likely make entry into the RV mechanism too complicated and/or costly. However, in the event that any operators have leased fleet then TfGM would be willing to listen to any proposals that operators may have and explore whether these issues can be overcome. This would form part of the overall engagement with operators on the RV proposition.

6.8.48 Nothing in the period since the Assessment, including the impact of Covid-19, has occurred that has changed TfGM's previous conclusion that the fleet specification for entry into the RV mechanism will be designed to broadly maintain the current standard of fleet that is in Greater Manchester.

Impact of Covid-19 on operators' ability to raise capital to invest in new fleet

6.8.49 In response to the second consultation, Transdev commented that "*we note in the Commercial Arrangements consideration is given to the availability of capital to fund the fleet. In the short term, capital availability is likely to be significantly reduced due to the pandemic though we anticipate these constraints will ease by 2023 or 2024 when the first franchise schemes are ready to go live. It is difficult to be certain however and there may be some merit in considering how this can be moderated. Our view is that capital requirements will be higher for the first franchise as the RV model only kicks in for second awards. We expect it is unlikely existing vehicles of unsuccessful incumbents will be available as they may be cascaded elsewhere so expect a significant requirement for new buses which may cause funding issues*." Transdev also stated, "*We note the reference to difficulties in operators raising capital to invest in the fleet. We think you have underestimated the significance of this. Effectively the capital investment requirement is highest at the very start of franchising. Your residual value model helps moderate capital requirements at future stages, but setting up a new fleet is likely to be capital intense. We are very keen to take the opportunity to expand as franchisee, but the earlier that happens the harder it will be to raise capital. We note that the dates are illustrative, but that if a decision was made in April 2021, the three scheme areas would 'go live' on 5/2/2023, 28/1/2024 and 1/1/2025*."

6.8.50 The view that operators ability to raise finance for new fleet has been impacted by Covid-19 was echoed by Stagecoach in response to the second consultation, who also commented that "*The same could be said of the actual bus manufacturers, who have had a dramatically reduced order book in 2020 and early 2021, with some undertaking redundancy programmes. As a result, manufacturers may struggle to mobilise and/or keep up with any demand in the short to medium term future. We are not aware of the GMCA having considered this point*."

6.8.51 In response to the second consultation, West Yorkshire Combined Authority noted that "*funding opportunities for the delivery of fleet standards need to be explored*" and that "*alternative funding streams may need to be explored*."

TfGM response:

6.8.52 Although Covid-19 may have some impact on the general availability of capital to fund investment, there are a number of factors which mitigate this risk from the perspective of franchise fleet.

6.8.53 Sections 26.2.5 – 26.2.10 of the Assessment described how GMCA would introduce an RV mechanism that establishes a fleet of RV mechanism buses as 'primary franchise assets'. This mechanism guarantees the future value of suitable vehicles through their useful economic life, subject to operators maintaining the fleet to an agreed acceptable standard. Incumbent operators would also have the option to put suitable fleet (i.e. compliant with Greater Manchester emission requirements etc.) into the RV scheme to manage the risk of stranded assets in the event that the incumbent operator is unsuccessful at winning franchises under the new scheme.

6.8.54 Over time, the pool of residual value fleet is expected to be the primary source of fleet for an incoming franchise operator. TfGM recognises that the size of any pool of residual value fleet allocated to operators for the first round of franchising is dependent upon the extent to which agreement is reached with incumbent Greater Manchester operators to transfer their fleet into the residual value mechanism at the commencement of franchising. Whilst the cascading of fleet by incumbent operators to operations outside of Greater Manchester is a possibility, this may not necessarily be desirable or practicable for operators, especially in the event of a declining bus market, and therefore, the RV mechanism provides protection to incumbent operators from what would otherwise be the risk of stranded assets.

6.8.55 It is anticipated that at least some operator investment will be required for the first round of franchising to introduce new fleet into Greater Manchester. Transdev made comments in response to the second consultation regarding the availability of capital to fund fleet investment (section 6.8.49), with TfGM recognising at section 4.2.36 of the Covid-19 Impact Report the risk that Covid-19 may impact operators' ability to raise the capital required to invest in franchise fleet. However, 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, should be sufficient to secure finance for the required investment in franchise fleet. We note that operators in London are continuing to maintain existing orders and place further orders due to the contractual certainty that franchising brings.

6.8.56 In the event that access to, or the cost of, capital for investment in fleet for the first round of franchising is potentially prohibitive, bidders would also be free to consider bidding on the basis of a leased fleet model to remove or reduce the requirement for capital investment (although, as described at section 6.8.47, the current assumption is that leased fleet would not form part of the RV mechanism). It is also noted that TfGM has a track record of facilitating alternative strategies, and it will use this experience to consider whether there are any mechanisms by which it could mitigate any impact.

6.8.57 In response to the second consultation, Stagecoach commented that some bus manufacturers are undertaking redundancy programmes and so may struggle to keep up with demand in the short to medium term. TfGM is aware that two of the largest bus manufacturers in the UK (Alexander Dennis and Wrightbus) have announced redundancy programmes during the Covid-19 pandemic. However, Alexander Dennis stated that this has largely been as a result of "*significant fall in demand for new buses in the UK*" and there is currently no indication that this has impacted on the manufacturers ability to fulfil current and future orders. Also, Wrightbus have stated that these steps have been taken to "*make sure we can take future orders of buses and work on long-term projects*" and that they hope to grow their workforce by the end of 2021. TfGM would continue to review this, including via ongoing discussion with manufacturers, to identify any specific circumstances that may require a longer mobilisation period.

6.8.58 Finally, TfGM notes an apparent contradiction between Stagecoach's comments noted at section 4.9.32, which state that a partnership option would encourage investment in fleet, and the comments at section 6.8.50 which state that raising finance for new fleet would be more difficult in a significant economic downturn. The former comment suggests that capital could be available for investment in fleet.

6.8.59 Nothing in the period since the Assessment, including the impact of Covid-19, has occurred that has changed TfGM's previous conclusion that the introduction of new fleet into Greater Manchester is achievable through one or more of the models described above.

Intelligent Transport Systems (ITS)

6.8.60 Question 24 of the first consultation asked for any comments on the approach to ITS under the Proposed Franchising Scheme as set out in the Commercial Case. As stated at section 26.3 of the Assessment, the proposed state model for each piece of on-bus ITS equipment, with the exception of CCTV, would be for GMCA to procure a chosen provider and system. Note that since the Assessment, the provision of the Driving Standards Monitoring equipment would now also be the responsibility of GMCA for reasons of uniformity of data and analysis.

6.8.61 Ipsos MORI's June 2020 Consultation Report (Section 9.7) notes that responses in relation to the first consultation regarding ITS are mostly favourable across statutory consultees (9 favourable comments versus 3 unfavourable comments), non-statutory consultees (14 favourable comments versus 3 unfavourable comments) and members of the public (218 favourable comments versus 56 unfavourable comments). It also provides several examples of positive comments from statutory consultees, non-statutory consultees and members of the public.

6.8.62 In response to the first consultation, the comments received from operators and local authorities in relation to ITS largely focus on whether franchising is required to deliver the benefits involved, the integration of legacy systems and the procurement approach.

6.8.63 In response to the second consultation, the comments received from operators and local authorities in relation to ITS largely focus on the benefits of an integrated ITS system specified by GMCA.

Is franchising required to deliver the benefits involved?

6.8.64 In response to the first consultation, Rotala commented that it "*considers that technology is constantly developing and permits interoperability to be implemented on a wide scale. It would not seem necessary to introduce the Proposed Franchising Scheme to achieve the Intelligent Transport Systems sought by GMCA but rather this could be achieved equally well under the Partnership Plus option. Indeed, Intelligent Transport Systems have been introduced in other partnership models such as Brighton and Hove*".

6.8.65 Question 35 of the first consultation asked for any comments on the impacts of the Proposed Franchising Scheme on passengers, as set out in the sub-section on impacts of the different options. Ipsos MORI's June 2020 Consultation Report notes that in response to this question in the first consultation, Go North West were of the view that "*franchised systems tend to be rigid and slow to introduce new technology, which could adversely impact passengers who are as a result denied access to the latest market developments until a franchise contract has come to an end*".

6.8.66 In response to the second consultation, Abellio responded positively as they commented that:

- "*There are strong arguments in favour of early investment in new ITS systems (to introduce a common minimum standard for vehicle on-board systems, infrastructure to support the on-bus experience and account based smart ticketing to name but three of the strategic objectives). At section 6.2.49 on page 113, Abellio notes and agrees with the comment [for ITS] "the recommendation would be to pursue the long-term option as defined in the Assessment*"".

- "*The PFS allows GMCA to set the specification and its requirements in these areas. Early adoption of high standards and expectations in initial franchise awards will transform public perceptions and help build the new unified brand which, in turn, delivers significant benefits to value for money. Higher standards and expectations for change will also have the benefit of increasing competition from new entrants to the market and so ensure GMCA maximises value for money*."

TfGM response:

6.8.67 The Commercial Case does not assume that franchising is required to deliver the ITS outcomes described in the Assessment (Section 26.3), nor that a franchise model is preferred because it drives the ITS outcomes described. The Commercial Case instead describes how, in the event of a Mayoral decision to introduce the Proposed Franchising Scheme, desired ITS outcomes can be best achieved in order to support the achievement of the Vision for Bus. Therefore, the preferred position to establish an integrated system with consistency for customers, operators and GMCA is for GMCA to procure a chosen provider and system for each piece of ITS excluding CCTV.

6.8.68 Go North West gave no specific examples of how GMCA may be slow to introduce new technology. One of the desired ITS outcomes of the Proposed Franchising Scheme is being able to provide agility when requiring such change. Whilst individual operators may be able to introduce technological change in small quantities faster than GMCA, when a change is required over the whole network then it is considered that a single solution would allow GMCA to be able to do this quicker than multiple individual operators. It is also considered that a single solution would actually facilitate such change to occur during the life of a franchise in comparison with minimum specifications where an operator may be unlikely to implement technological change towards the end of a franchise contract.

6.8.69 Other than the change of approach regarding the provision of Driving Standards Monitoring equipment described at section 6.8.60, nothing in the period since the Assessment, including the impact of Covid-19, has occurred that has changed TfGM's previous conclusion that the desired ITS outcomes can be best achieved, in order to support the achievement of the Vision for Bus, through GMCA procuring a chosen provider and system for each piece of ITS excluding CCTV.

Integration of legacy systems

6.8.70 In response to the first consultation, First suggested that "*there is an increasingly viable option to integrate such (legacy) systems to use common standards and protocols rather than replace with common systems – this opportunity should be explored*".

TfGM response:

6.8.71 During transition, it is likely that, in each of the Sub-Areas, there will be a reliance on legacy (or existing) on-bus ITS equipment whilst new equipment is installed on buses to ensure operational continuity while the steady-state solution is implemented. This is likely to be for a circa 12-week period at the start of franchising in each Sub Area. However, for the steady-state, GMCA has previously undertaken the analysis suggested by First to consider the integration of legacy systems. This analysis concluded that, although specific considerations vary from system to system, there is a risk that attempted integration of legacy operator systems would be unlikely to achieve all of the following outcomes:

- Consistency of data (e.g. operational performance);

- Operational efficiency (e.g. driver location and communications);
- Mitigation of potential compatibility issues for ITS equipment which forms part of the RV transfer (e.g. no operator would be left with ETM equipment from different suppliers); and
- To provide TfGM agility when requiring change.

6.8.72 Therefore, the Assessment concluded that a single system for each element of ITS (excluding CCTV) is the preferred model. However, whilst it is not proposed to integrate whole legacy systems into the steady-state, it is possible that certain equipment and infrastructure such as driver radio masts and compatible on-bus signs may be reused.

6.8.73 Other than the change of approach regarding the provision of Driving Standards Monitoring equipment described at section 6.8.60, nothing in the period since the Assessment, including the impact of Covid-19, has occurred that has changed TfGM's previous conclusion that a single system for each element of ITS (excluding CCTV) is the preferred model, but that certain equipment and infrastructure may be reused.

Procurement approach

6.8.74 In response to the first consultation, many operators including Abellio, HCT Group, Go North West and Stagecoach and various local authorities including Bolton Council and Salford City Council stated agreement with the proposed ITS strategy. For example, Stagecoach stated "*that the plans to introduce Intelligent Transport Systems under a centralised contract, specified, negotiated and managed by TfGM on behalf of GMCA, make sense under a franchise scenario*".

6.8.75 In response to the first consultation, West Yorkshire Combined Authority also commented that "*a common Integrated Ticketing System would be a practical step to achieving cross boundary integration of ticketing*". They also provided a similar comment in response to the second consultation.

6.8.76 In response to the second consultation, Rochdale Metropolitan Borough Council provided a positive comment that "*a fully integrated ticketing system across public transport in Greater Manchester equivalent to that operating in London and in cities around the world making travel for all public transport users much easier, is vital for the Borough with franchising offering the best model to implement it*."

6.8.77 In response to the second consultation, Peak District National Park Authority provided a positive comment that "*In the event of the franchising scheme taking place, the Greater Manchester Authority has suggested a forward thinking approach to ticketing across the franchise area, which is supported by the Peak District National Park Authority*."

6.8.78 In response to the first consultation, Stagecoach, however, also noted that "*it places yet further pressures on finite TfGM resources (procurement and legal) to operate yet further procurement programmes in the same timeframe as franchising contests are planned*" and it also "*queried whether a local authority would be able to commercially negotiate contracts to deliver any further value compared to the current market*". OneBus stated that this "*sounds a very ambitious project and one that their experience shows will not be delivered in a short time frame*".

6.8.79 In response to the first consultation, Rotala stated that the efforts to achieve an Intelligent Transport system should not be underestimated and that it was not clear why TfGM thought it might be better placed, from a resource and personnel perspective, to introduce such a system than the private sector and that it would take longer and cost more than anticipated. Ipsos MORI's June 2020 Consultation Report (Section 9.7.3) also notes that 10 members of the public stated that as GMCA/TfGM would lack the expertise to implement such systems that it might be better left for the operators to deal with.

TfGM response:

6.8.80 GMCA's proposal to have a common procurement approach for ITS has many advantages, including that it establishes a level playing field at bid stage and that it ensures that smaller operators are accommodated. The strategy is also aimed at balancing consistency with the risk associated with additional integration, rather than specifically delivering any further value compared with the current market.

6.8.81 Whilst it is recognised that each element of ITS procurement adds to the overall resource requirement, TfGM has established a programme of work that would begin after any Mayoral decision to introduce the Proposed Franchising Scheme. This includes the identification of specialist resource requirements and the governance arrangements that would be established to ensure that these procurements are completed concurrently with the procurement of the first franchise tranche. This includes the provision of appropriate resource for complex and/or technical procurements such as ITS.

6.8.82 TfGM also has experience of successfully implementing ITS procurements on time and budget, for example, the procurement of Ticketer and contactless on behalf of the SME operators in Greater Manchester. The proposal also aims to minimise any unnecessary system development by procuring commercial off-the-shelf solutions were possible.

6.8.83 The strategy described in the Assessment in respect of a number of elements of ITS equipment, whereby GMCA would undertake a procurement to select a single preferred supplier of a particular equipment type which would be made available to franchise operators, is not based on any conclusion that GMCA would be able to commercially negotiate contracts to deliver any further value compared with the current market. Rather, GMCA has concluded that this approach is necessary to ensure consistency of solution across franchises such that:

- Critical data is available, consistent and accurate;
- The customer experience is as consistent as possible across the network; and
- Operational and maintenance procedures are standardised and allow ITS equipment to transfer (via the RV mechanism) to subsequent franchisees.

6.8.84 Other than the change of approach regarding the provision of Driving Standards Monitoring equipment described at section 6.8.60, nothing in the period since the Assessment, including the impact of Covid-19, has occurred that has changed TfGM's previous conclusion that a common procurement approach for each piece of ITS (excl. CCTV) is preferred.

Stranded assets

6.8.85 In response to the first consultation, multiple operators raised queries relating to whether GMCA had considered the potential for stranded assets across depot, fleet and ITS. For example:

- Transdev suggest that a staged ITS procurement approach may be more effective and cost less for GMCA, as they deem there is a risk that the current proposal creates a residual value issue for operators' existing equipment. Similarly, Stagecoach state that "*there is no allowance for operator equipment write-downs, where new equipment is required by GMCA, for example, for radio, automatic vehicle location (AVL) or Intelligent Transport Systems (ITS) equipment*";
- Arriva question how GMCA intends to compensate operators whose depots are not acquired for franchising, and therefore are left with stranded assets;
- Go North West recommended that GMCA underwrites the risk of all operators' stranded assets; and
- Ipsos MORI's June 2020 Consultation Report notes that Transdev raised a similar point in response to Question 39 of the first consultation that asked, if the consultee currently operates local bus services in Greater Manchester, do they anticipate any positive or negative impacts that the different options may have on their business. In response to this question, Transdev stated that if a bidder is successful in bidding then there would be "*opportunities for growth*" but that if they were unsuccessful in bidding "*the risk identified revolved around the consultees limit of exposure via their Rochdale depot and fleet*".

6.8.86 In response to the second consultation, OneBus commented that "*stranded assets could become an issue*" in the event of "*service cuts or greater than planned fare rises*." The response did not clarify whether this risk was due to, or simply exacerbated by, Covid-19.

TfGM response:

6.8.87 It is accepted that the introduction of the Proposed Franchising Scheme may have differing impacts on operators and the Assessment considered the potential risk of operators being left with stranded assets, particularly in relation to depots, fleet and ITS. That is why part of the consultation was aimed at seeking the views from operators on the proposed approaches for depots, fleet and ITS and what impacts the Proposed Franchising Scheme may have on operators.

6.8.88 The following mitigations will be available in respect of the risk of incumbent operator stranded assets:

- The RV mechanism provides operators with the option to put fleet into the RV pool, with requirements for entry consistent with mix and standard of fleet currently operating in Greater Manchester, therefore substantially removing the risk of stranded fleet. GMCA would seek to include on-bus ITS equipment in the RV mechanism as part of any agreement. In addition to mitigating a residual value issue for operators' existing equipment, this will also provide operational robustness during transition to steady-state on-bus ITS equipment;

- The depot strategy seeks to acquire strategic depots, including plant and machinery, from incumbents, therefore removing the risk of stranded strategic depots. The Proposed Franchising Scheme does not intend to compensate operators whose depots are not acquired for the purposes of providing depots under the Proposed Franchising Scheme. Any offer to acquire or compensate operators for any fleet or strategic depot that becomes stranded once contracts are awarded would likely deter operators from making those assets available for acquisition by GMCA for the purpose of reducing barriers to entry. To the extent that current owners of strategic depots choose not to engage with GMCA and/or a transfer value cannot be agreed, those operators would remain owners of those facilities (Sections 26.1.18 – 26.1.20 of the Assessment); and
- Owners of non-strategic depots, such as Transdev's Rochdale depot, would be expected to make commercial decisions around the future use and ownership of such depots. This may include, but is not necessarily limited to, ongoing provision of bus operations, coach services, MOT/engineering, driver training or disposal (either for its existing use or an alternative use). In particular, owners would be able to use these depots to bid for small franchises and school resource contracts. This is likely to provide them with some competitive advantage over non-incumbent operators who would otherwise need to secure similar depot facilities in order to deliver small franchises and/or school resource contracts. In addition, it is also noted that the packaging strategy (Section 25 of the Assessment) describes how the PVR available to the SME market (either as small franchises or school contracts) would remain largely unchanged compared with the current tendered services which make up the majority of SME operations, and therefore the opportunities available to the SME market should be broadly comparable to those existing now.

6.8.89 TfGM recognises that, as commented by OneBus in response to the second consultation, in the event of lower patronage, requirements for key assets such as fleet and depots may reduce. TfGM also notes that lower patronage is not a risk caused or driven by a franchise model and would affect all of the options for the Greater Manchester bus market. As this is therefore not an implication of the Proposed Franchising Scheme, this risk crystallises in the reference case. Notwithstanding this, as described at section 6.8.88, the commercial model contains mechanisms to protect operators from the risk of stranded assets in respect of strategic depots and fleet, and given the lack of geographical coverage and capacity that would present itself if the depot numbers were reduced, TfGM would continue to seek to acquire control all of the identified strategic depots even if demand falls. It was also never assumed that all vehicles currently in Greater Manchester would be entered by operators into the RV mechanism. TfGM would, however, continue to seek to put as many compliant vehicles as possible into the RV mechanism , which would minimise the risk of stranded assets for operators.

6.8.90 Nothing in the period since the Assessment, including the impact of Covid-19, has occurred that has changed TfGM's previous conclusion that whilst it is accepted that the introduction of the Proposed Franchising Scheme may present the risk of operators being left with stranded assets, there would be suitable mitigations put in in place to minimise this risk.

6.9 Timeframe for implementation, Franchise Design, Procurement and Employees

Timeframe for implementation

6.9.1 Question 7 of the first consultation asked for any comments on the dates it was proposed that local service contracts (or franchise contracts) may first be entered into.

6.9.2 Question 8 of the first consultation asked for any comments on the nine-month period that is proposed will expire between entering into a franchise contract and the start of a service under such a contract.

6.9.3 As set out in the Assessment, there is a proposed three-year, nine-month implementation plan. This reflects the complexity of concurrently:

- Implementing a new target operating model, including people systems and processes;
- Managing existing bus services in a potentially disrupted market; and
- Procuring, mobilising and managing franchised operations.

6.9.4 The first consultation explained how the dates it was proposed that franchise contracts may first be entered into flowed from any date for making the Proposed Franchising Scheme and in a similar manner to that date, explained how these dates may change.

6.9.5 In response to the first consultation, the comments received from Jacobs, operators, operator groups, local authorities and transport groups in relation to the timeframe for implementation largely focus on the proposed dates that franchise contracts may be first entered into, the speed of the introduction of franchising, lessons learned, delineating sub-areas and the nine-month mobilisation period.

6.9.6 In response to the second consultation, Go North West, Stagecoach, Derbyshire County Council and a member of the public raised challenges surrounding GMCA's proposals on the timeframe for implementation. The majority of these comments can be categorised into the same areas noted at section 6.9.5 in response to the first consultation; however, specific comments brought about by Covid-19 also related to the changing network.

Proposed dates that franchise contracts may be first entered into

6.9.7 Section 6.7 of Ipsos MORI's June 2020 Consultation Report found how, during the first consultation, the majority of the members of the public made favourable comments on the proposed dates that franchise contracts may first be entered into, with there being 263 favourable comments versus 72 unfavourable comments including 203 of the comments containing a suggestion that the dates should be brought forward as far as possible. However, comments from statutory consultees (5 favourable comments versus 6 unfavourable comments) and non-statutory consultees (3 favourable comments versus 3 unfavourable comments) were largely mixed. They did, however, include some favourable comments from statutory consultees such as TravelWatch NorthWest, who stated that they "*accept the need for staging over that period of time*".

6.9.8 Some of the bus operators made favourable comments about the proposals during the first consultation. For example, HCT Group said that "*12 months between [a Mayoral] decision and [contract] award gives ample time for existing and new operators to develop tenders and redesign their business model*". Abellio also said that "*these dates will be achievable,* *provided that GMCA and TfGM are satisfied that they can complete the procurement process in a manner which allows effective competition by new market entrants in advance of the identified dates. Clearly, successful and unencumbered acquisition of the existing depots by GMCA (should this remain the prime delivery mechanism) prior to the proposed start dates will be critical to meeting these timescales*".

6.9.9 Other statutory and non-statutory consultees challenged the proposed dates for different reasons including:

- In response to the first consultation, Derbyshire County Council said that "*Looking at the experience in London when franchising was introduced there the whole process took a considerable number of years to complete from the late 1980s until the mid 1990s. The timetable proposed in the consultation does seem very quick considering the number of services involved*". Derbyshire County Council made this point again in response to the second consultation as it said, "*Whilst the timetable for the introduction of the proposed scheme shown in Appendix 3 is subject to change, the speed of the proposed process does still seem very quick with the first franchise contract being awarded in May 2022 and the first services being introduced in February 2023, with the whole network being completed by January 2025*".
- During the first consultation, OneBus commented that "*If the do-nothing scenario is as bleak as predicted and Bus Reform is needed, why do bus users have to wait 24 months before they see any change at all or wait until January 2024 for only the transition to be completed … when the partnership offer can deliver much sooner?*". Rotala also suggested during the first consultation that "Partnership Plus could be implemented before the first tranche begins in April 2021. Indeed, Rotala considers that, with sufficient engagement from TfGM, it should be possible to implement Partnership Plus within around six months";
- During the first consultation, Go North West said that "*These dates are not achievable for a number of reasons*", including that:
    - "*There are likely to be protracted negotiations with a preferred bidder*";
    - "*GMCA will not be able to obtain depots voluntarily*";
    - The proposed RV mechanism would impact on these proposed dates because "*operators are unlikely to be willing to volunteer the best of their fleet into the RV*", and that "*the process for agreeing the market price of assets is likely to be complex and time consuming…*"; and
    - "*In preparing its timetable it does not appear that GMCA has taken into account the possibility of legal challenge(s) from operators in respect of the decision to implement the Scheme*".
- In response to the second consultation, a member of the public commented that "*your assessment of the time required to initiate franchising is greatly under-estimated. Given the commercial requirement needed to procure depots, arrange vehicle RV agreements, set up operational equipment and ticketing systems, customer services, marketing and then have a tendering process in the time frame given is highly unlikely given the legal requirements and third party cooperation needed to be navigated through. This would also suggest the costs of transition are greatly underestimated*."

6.9.10 Rotala did not comment on the proposed dates during the first consultation; however, they did ask "*what precisely will occur on the dates on which Local Service Contracts may first be entered into … given that it is envisaged that there may be up to a nine-month delay until the Local Service Contracts start being provided …?*".

TfGM Response:

6.9.11 The Assessment explains the approach taken on the decisions over how best to implement franchising to minimise passenger risk but also minimise implementation risk. It is considered that the current proposals balance these factors appropriately and that extending the implementation timeline, as suggested by Derbyshire County Council, would cause too much disruption without commensurate reward.

6.9.12 Whilst a partnership may be able to be entered into sooner than the Proposed Franchising Scheme, as explained at section 4.14.35 of this report, a partnership would not go so far as to achieving GMCA's objectives and there would be significant doubt as to what would be delivered and when, and how long any such measures could last for. Should a partnership be entered into via a VPA, as proposed by the operators and OneBus, there also remains uncertainty around which operators would sign up to it, and a risk that the partnership breaks down, given that it is voluntary in nature.

6.9.13 As described at section 27.2 of the Assessment, it is assumed that the negotiated procedure of the Utilities Contracts Regulations 2016 would be used to conduct the procurement of the bus franchising operations. Unlike the competitive dialogue procedure, the negotiated procedure provides minimal scope for negotiating with the preferred bidder. As such, it is appropriate that the proposed timeline to implement the Proposed Franchising Scheme does not provide for protracted negotiations with a preferred bidder.

6.9.14 As set out at section 6.3 of this report, it is still considered appropriate for GMCA to provide depots for large franchises but it is accepted that there could be delays in obtaining control over those depots.

6.9.15 As set out at section 6.8.25 of this report, the commercial model is not reliant on RV take-up. To the extent that incumbent operators choose not to engage in RV negotiations with GMCA and/or agreement cannot be reached for the transfer of incumbent fleet into the RV mechanism, each franchise bidder would be responsible for the provision of fleet to account for any difference between franchise fleet requirements and RV fleet allocation. Therefore, any unsuccessful RV negotiations would not impact on the dates in which franchise contracts may be first entered into.

6.9.16 As set out at section 8.9.18, it is considered that the time required for transition and mobilisation is appropriate.

6.9.17 As set out at section 8.11 (Theme 10), it is considered that the costs of transition remain appropriate.

6.9.18 In the event of a legal challenge in respect of a decision to implement the Proposed Franchising Scheme, the relevant dates by which franchise contracts may first be entered into may need to be altered. However, there is no sufficient reason at this stage to assume that there would be a legal challenge that required GMCA to adopt a different approach or what period of delay to attribute to it. Also, even if such an allowance could have been included in the timetable, it would have provided for an unnecessary delay if no challenge materialised.

6.9.19 The consultation document explained that the dates on which franchise contracts may first be entered into are the dates which GMCA may enter into such contracts, which must be included in any franchising scheme pursuant to the requirements of section 123H(2)(c) of the Act. This means that GMCA would have undertaken the necessary procurement of those contracts and could enter into franchise contracts in each Sub-Area on or after those dates.

6.9.20 As set out at section 16.2.55 of this report, no decision has yet been taken to introduce the Proposed Franchising Scheme and Section 16.2.58 considers that all dates should be removed from the Proposed Franchising Scheme. Dates have been provided to consultees for illustrative purposes only and, as set out above, some consultees have commented that those dates are too ambitious. Whilst no specific dates are included in the Proposed Franchising Scheme, TfGM is satisfied that the indicative dates by when franchise contracts may first be entered into are appropriate and not overly ambitious.

6.9.21 Furthermore, any introduction of 'recovery partnerships' is likely to be underpinned by a framework that would more readily facilitate transition to franchising than in the commercial market that existed prior to Covid-19. Therefore, nothing in the period since the Assessment, including the impact of Covid-19, has occurred that has changed TfGM's previous conclusion that the indicative dates by when franchise contracts may first be entered into remain achievable.

Speed of the introduction of franchising

6.9.22 Responding to the first consultation, Jacobs, on behalf of Stagecoach, took the view that "*an implementation period of three years is overly optimistic and that, in order to justify this assumption, TfGM should provide a delivery programme for each of the options*".

6.9.23 In response to the first consultation, OneBus considered that the timescales for the procurement of each tranche were very ambitious. OneBus said that the launch dates "*assume that depots would be available in time for each large franchise to be let and that a large proportion of the existing fleet will be available to bidders*."

6.9.24 In response to the first consultation, Go North West state that "*GMCA will not be able to obtain depots voluntarily and that in order to obtain them through CPO this could take from two and a half to three years from preparation to obtaining the depot or depots. Accordingly, GMCA should (a) either amend the Scheme such that GMCA will not provide depots to facilitate the letting of large franchise contracts (and instead the control of depots will remain with operators, with timescales for the procurement amended accordingly to allow operators sufficient time to acquire or build depots in order to bid for franchise contracts); or (b) amend the proposed timeframe for procurement and transition significantly (to begin no earlier than 2023) to take account of the likely period of time that will be required for GMCA to obtain depots by use of CPOs".* In response to the second consultation, Go North West also stated that *"given the significant uncertainty introduced by the Covid-19 pandemic, the implementation programme looks even more optimistic*."

6.9.25 In response to the first consultation, Stagecoach stated that "*the timescales for the creation of a franchising scheme, which is proposed to be delivered within less than four years is extremely optimistic*" and that it would be optimistic for any authority with significant experience in a mature franchising market to introduce the Proposed Franchising Scheme and complete the letting of all contracts within three years, but TfGM is looking to do that with a number of individuals who are yet to be recruited. Stagecoach suggests that there is "*little or no analysis on how GMCA's recruitment strategy fits within the timeline it has* *set itself for implementing franchising*". However, it recognised that TfGM has experience of procuring contracts with the private sector through the letting of the Metrolink contract and tendered services but pointed out that specifying and managing bus services for the whole of Greater Manchester is significantly greater and queried whether it had experience of managing mobilisations.

6.9.26 In response to the second consultation, Stagecoach repeated the comment that timescales for the implementation of franchising are optimistic, and used a Swedish local authority as an example, commenting that "*in these smaller markets where there is an established market and established participants with more experience than Greater Manchester at both an organisational and individual level they do not attempt to tender 10 major and 25 smaller franchises (and school tenders) over a three-year period*."

6.9.27 In response to the first consultation, TravelWatch NorthWest also express concern that bus operational experience may currently be lacking within TfGM.

6.9.28 In response to the first consultation, Stockport Metropolitan Borough Council expressed "*concern about the period where Stockport Council is paying into a process for which it is not receiving all the benefits of franchising", given Stockport is in the last proposed phase of franchising. They ask that "there is consideration given to a greater speed of roll out or the potential to ensure that some benefits are realised in the borough sooner*".

TfGM response

6.9.29 The Assessment recognised that the timescale of implementation was ambitious but that it is considered to be achievable. The proposed procurement of the first round of franchising would predominantly tender the existing network immediately prior to the start of the procurement activity in order to minimise disruption to the network and passengers during transition.

6.9.30 TfGM acknowledges the comments regarding delivery timescale for all of Greater Manchester to be franchised. However, it is considered that the delivery timescale remains achievable and, considering responses on this subject to both the first and second consultations to in respect of depots and the RV mechanism, TfGM has not identified any grounds to require the amendment of the procurement programme (presented at section 27.3.6 of the Assessment).

6.9.31 Go North West commented in response to the second consultation that the uncertainty introduced by Covid-19 makes the implementation programme look "*even more optimistic.*" Although no detail is provided by Go North West to support this assertion, TfGM recognises that Covid-19 may place pressure on the procurement timetable, particularly in respect of the initial round of franchising. TfGM will therefore continue to actively review whether there are any changes to the current procurement process that should be made to ensure that the objectives of the commercial strategy (as described at section 24.2 of the Assessment) of driving competition for franchises, creating and sustaining an enduring market, providing flexibility to adapt to changing demand, and enabling access for SME operators are retained, and that the proposed implementation timescales are achieved. In particular, this may include ensuring that the procurement process is aligned with any 'recovery partnership' that may be put in place, any changes in government policy or regulation that may be implemented during the period of franchising and any further time pressures that may occur as a result of COVID-19 related matters or other external factors. As described at section 46.7 of the Management Case of the Assessment and section 6.9.229 of this report, TfGM will have in place a set of arrangements to manage and mitigate risks in relation to franchising, including in respect of the procurement process, and would therefore keep the implementation programme under review to minimise the risk of delays, whilst ensuring consistency of outcome with the Assessment. TfGM may decide to engage with operators and other stakeholders before making any material changes to the procurement process that were proposed as a result of this process to ensure the overall process remains attractive to the market and continues to meet the objectives of the commercial strategy. Subject to these opportunities, TfGM remains confident that the implementation timescale is appropriate given that:

- Section 6.2.46 of the Covid-19 Impact Report considered that the level of resource to support the transition to franchising would remain as outlined in the Assessment, with analysis indicating that the Scenarios do not significantly impact transition costs.
- Sections 8.9.4 of this report considers that should there be a Mayoral Decision in favour of franchising, the developing organisational change framework would provide the flexibility required to assist in supporting the franchising programme meet the timescales for implementation of franchising operating model.

6.9.32 TfGM acknowledge that they do not currently have all of the required capabilities and experience of managing bus franchise mobilisations. However, as recognised by Stagecoach, TfGM do have significant experience in procuring and mobilising complex programmes including Metrolink contracts, the start of operations on new Metrolink lines and new bus stations and other facilities around Greater Manchester. Whilst these are not bus franchise contracts, they are as complex as the mobilisation of bus franchise contracts and involve similar activities including:

- Agreeing the scope of activities to be undertaken in advance and allocation of responsibilities of these activities;
- Managing activities to an agreed project plan;
- Asset transfers/ handover activities;
- Ensuring activities are resourced properly;
- Data sharing;
- Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE)
- Identifying and managing risk;
- Co-ordination of multiple parties with sometimes differing priorities;
- Ensuring supplier and other contracts are in place; and
- ‘Commencement of operations’ planning.

6.9.33 Franchise mobilisation is a critical phase of the transition, and recognising TfGM’s lack of experience in mobilising bus franchises, the Assessment provides dedicated temporary resources to support the process. The Assessment includes for dedicated additional specialist resources to support the procurement of franchises and also assumes the early recruitment of the permanent franchise management team who would also support the mobilisation. It is acknowledged that operators who have worked in franchised markets will have this experience and, therefore, the onus would be put upon those operators to develop the mobilisations plans and for them to engage with the incumbent operator on the transfer. TfGM would review and approve the plan and monitor progress during implementation whilst intervening when required.

6.9.34 Responding to the first consultation, the request from Stockport Metropolitan Borough Council that consideration be given to a more expeditious rollout or realisation of benefits is similar to a comment made by some members of the public, also in response to the first consultation who, as set out at section 16.2.37 of this report, and in response to the proposed arrangements for transition, said that it would be unfair to make changes in one area before rolling franchising out into other areas. However, the intention behind the proposals is to ensure a phased and efficient roll-out of the Proposed Franchising Scheme through balancing the delivery of benefits and the management of transition and implementation risk. For that reason, it would not be appropriate for this process to be shortened or to be done more quickly and as shown at sections 6.9.22 to 6.9.25 of this report, some consultees (including some of the incumbent bus operators) have suggested that the timescales are too quick. It is unavoidable that the phased introduction of the Proposed Franchising Scheme would therefore favour some (whether they be passengers, districts or operators) before others and no preferential consideration was given to any one district when considering the ordering of the Sub-Areas.

6.9.35 Therefore, nothing in the period since the Assessment, including the impact of Covid-19, has occurred that has changed TfGM's previous conclusion that, whilst the timescale of implementation is ambitious, it is considered to be achievable.

Lessons learned and trial period

6.9.36 In response to the first consultation, OneBus commented that "*TfGM will have had no time whatsoever for lessons to be learned from the preceding set of franchise procurements … bidding for the second tranche commences well in advance of the first tranche being operational … alternative plans [to provide depots] will likely delay the process*." OneBus repeated this point in response to the second consultation and stated that "*we still consider the overall timescales to be ambitious. It would be more advantageous to allow each Sub Area to operate for a longer period to identify any lessons before moving on*".

6.9.37 In response to the first consultation, Transdev likewise note that Sub-Area B will be awarded three months after the Sub-Area A becomes live, thus providing "*little scope to learn from the implementation of phase 1 [Sub-Area A) before procuring phase 2 [Sub-Area B]*". Whilst Arriva suggest "*a longer period of time (2-3 years for example) to assess the mobilisation and performance of operations under the Sub-Area A contracts before GMCA commits to further Sub-Area deployments. This would ensure that lessons can be learnt, and further extension of the franchising scheme is undertaken as efficiently and effectively as possible*".

6.9.38 In response to the first consultation, Go North West suggested that, in any event, the Proposed Franchising Scheme "*should be implemented on a staged basis starting with a trial in sub-area A… followed by… period of consultation and reflection prior to roll-out to sub-areas B or C*".

6.9.39 In response to the second consultation, Go North West repeated the same point made at section 6.9.38 and made further points relating to the implementation timescales as follows: "*Even the deferred timetable for the rollout of franchising in three tranches still does not allow sufficient time for evaluation of the first tranche of franchising and consideration of whether franchising should be implemented for the other two sub-areas. It does also not allow time for the agreement of what amendments should be applied to the model for the other two sub-areas before franchising proceeds. This is not additional delay, but a sensible approach to learning lessons from the initial franchising process*."

6.9.40 In response to the second consultation Derbyshire County Council said that "*A longer timetable for the changes to be introduced would allow a review of the first round of the process to be undertaken before further areas are added to the franchised network*".

TfGM response:

6.9.41 It was never the intention that Sub-Area A would be conducted as a trial followed by consultation and reflection. Further detail on TfGM's response to the suggestions that it should be treated as a trial can be found at section 16 of this report.

6.9.42 The timeframe for implementation seeks to strike a balance between delivery of key customer benefits (through a faster rollout) and management of implementation risk (through a slower rollout). The commercial model has been considered in depth, including options assessment and benchmarking of global best practice. The decision to phase the implementation of franchising in three Sub-Areas in the stated timeframes was based on balancing a faster rollout of benefits to customers with allowing lessons learned from the previous procurements to be applied to the later Sub-Areas. For example, Sub-Area B will benefit from lessons learned in the contract award process and initial mobilisation of Sub-Area A; and Sub-Area C will benefit from any early lessons learned in the mobilisation and early operation of Sub-Area A and the contract award process of Sub-Areas A and B. This will allow Sub-Areas B and C to benefit from a faster rollout of customer benefits than if the implementation timetable were to be further elongated. In addition, GMCA can also adapt contracts, via a formal change mechanism, mid-life if required, with contractual provisions being in place to mitigate the risk that pricing of contract change represents poor value for money.

6.9.43 Nothing in the period since the Assessment, including the impact of Covid-19, has occurred that has changed TfGM's conclusion that the proposed roll-out period remains appropriate and, as described at section 9.11.3 of the Covid-19 Impact Report, if Covid-19 resulted in greater damage to the bus market, there would be a greater imperative for GMCA to intervene to support the market and people's ability to travel. This reinforces the importance of a rollout programme that is adequate but is not longer than is reasonably required.

Changing network:

6.9.44 In response to the second consultation, Go North West commented that "*Section 4.2.86 of the report states that "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." This is an admission that network conditions and patronage will still be in a considerable state of flux when sub-area A is franchised, which seems to be a significant risk that changes may need to be made during the initial years of the franchise, presumably at a cost to GMCA, which does not seem to have been recognised*."

6.9.45 Ipsos MORI's March 2021 Consultation Report (Section 9.3), shows that members of the public provided positive comments that "*the commercial proposition would be able to adapt to changes as appropriate*".

TfGM response:

6.9.46 Section 4.2.84 of the Covid-19 Impact Report describes the importance to GMCA of flexibility in its implementation, procurement and management of franchise contracts to enable the franchise model to deal with uncertainty, including those created by Covid-19, with Sections 4.2.86 to 4.2.93 of the Covid-19 Impact Report describing the following mechanisms through which GMCA can mitigate this uncertainty and therefore the risk highlighted by Go North West:

- 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.

6.9.47 It is recognised there is a greater likelihood of changes may need to be made in the initial years of franchising. Section 6.9.42 notes the formal change mechanism that would be applied in such circumstances, and the Quantified Risk Assessment provides a contingency for additional costs that may arise as a result of applying this. Therefore, nothing in the period since the Assessment, including the impact of Covid-19, has occurred that has changed TfGM's previous conclusion that the mechanisms through which GMCA can mitigate uncertainty are appropriate.

Delineating sub-areas:

6.9.48 In response to the first consultation, Go North West's commented that the "map delineating the boundaries of the sub-areas A, B and C is unclear and these boundaries are significant for operators" and that *"problems in delineating the sub-areas and the complexity of cross-boundary services could be avoided if GMCA re-considered its proposal for franchising on the basis of route-by-route franchising*."

6.9.49 In response to the second consultation, Go North West commented that it "*highlighted the problems of delineating the sub-areas and the complexity of cross-boundary services in its response to the previous consultation*" and repeated the comment that these could be avoided by a route-by-route franchise model.

TfGM response:

6.9.50 The suggestion that franchising should be on a route by route basis is addressed at sections 6.9.83 to 6.9.98.

6.9.51 It was proposed by TfGM that in light of the responses to the first consultation that a more detailed version of the map would be published online and also made available by TfGM on request. This was made clear within the Proposed Franchising Scheme prepared for the second consultation itself and in particular, in the footnote of Annex 5 which provided that "*Please note that a more detailed version of this map will be made available online and copies will be made available upon request to TfGM*". A more detailed version of the map was published online and made available as part of the other consultation materials.

6.9.52 In response to the second consultation Go North West stated that the "*map delineating the boundaries of the sub-areas A, B and C is unclear and these boundaries are significant for operators*". TfGM does not accept that the boundaries of the sub-areas should present any problems for operators provided that appropriate provision is made for services operating in more than one Sub-Area. In order to render the boundaries clearer and to avoid any ambiguity as to whether the map that defines the Sub-Areas is that attached to the scheme or available elsewhere, however, it is proposed to amend the Proposed Franchising Scheme to specify that the map in Annex 5 is for illustrative purposes only and that the map that defines the Sub-Areas is a larger scale version in which the boundary is more clearly delineated that will be deposited at TfGM's offices at 2 Piccadilly Place, Manchester, M1 3BG. It will also be available on-line, this is also set out Section 16.7.4 of this report.

6.9.53 TfGM have reviewed the list of services in the Proposed Franchising Scheme to update it as envisaged and also, in the light of Go North West's comments, to ensure that they are appropriately classified in the scheme. TfGM have identified 44 services, that will be franchised when the scheme applies to Sub-Area B that also operate in Sub-Area A, that should additionally be included in, and marked # in, Annex 4 and 51 services, that will be franchised when the scheme applies to Sub-Area C which also operate in Sub-Areas A and B, that should additionally be included in, and marked ^ in, Annex 4. The effect of inclusion of these services within, and these markings in, Annex 4 will be to exempt the services from regulation until franchising has effect in Sub-Area B or Sub-Area C respectively and thus ensure that the services will not require a service permit in order to operate in those other areas before then. This should benefit operators wishing to run them and provide greater certainty to passengers that the service will continue during transition.

6.9.54 TfGM have also identified one service which will be franchised when Sub-Area A is franchised which also is provided in Sub-Area B that should therefore be additionally marked with a * in Annex 1, and seven services which will be franchised when Sub-Area B is franchised which also operate in Sub-Area C, that should therefore be additionally marked with a + in Annex 1. This is to make it clear that only that part of the service that operates in Sub-Area A and B respectively will be franchised before franchising comes into effect in Sub-Areas B and C respectively. This is consistent with the approach to transition proposed, based on franchising by Sub-Areas.

6.9.55 These changes all give effect to the basic principles upon which the Proposed Franchising Scheme has been prepared, providing clarity to operators and not disadvantaging them or any member of the public.

Nine-month mobilisation period

6.9.56 Section 6.8 of Ipsos MORI's June 2020 Consultation Report notes that, during the first consultation, the majority of statutory consultees (10 favourable comments versus 6 unfavourable comments) and members of the public (97 favourable comments versus 46 unfavourable comments) made favourable comments in response to the nine-month mobilisation period. For example, one member of the public said that "*This should allow enough time for operations to be setup and the process to be finalised before the contract begins*". However, the responses from non-statutory consultees were largely mixed (3 favourable comments versus 3 unfavourable comments).

6.9.57 Ipsos MORI's June 2020 Consultation Report also noted that of the unfavourable comments from members of the public in response to the first consultation, 19 of these were general opposition or disagreement, 11 concerned the quality of service, 6 concerned routes that may be cut and 5 mentioned concerns about the timescales. The example quoted in Ipsos MORI's June 2020 Consultation Report was that one member of the public said that the proposed dates were "*Too long. Put the travelling public at the heart of the strategy. The bus companies need to get on board with this, we are not reinventing the wheel here. All of this was done years ago in London*".

6.9.58 Ipsos MORI's June 2020 Consultation Report also notes that 318 suggestions were received in response to this question in the first consultation with 301 of these being from members of the public. The overarching suggestion made by 202 members of the public was that the nine-month period should be shorter, as well as 40 suggestions that it should be a six-month period. This is thought to be because some members of the public wanted to see the Proposed Franchising Scheme introduced as soon as possible. However, there were also 15 comments that the nine-month period should be longer.

6.9.59 In response to the first consultation, there were a mix of responses from the bus operators in relation to the nine-month period it is proposed will expire between entering into a franchise contract and the start of a service under such a contract. During the first consultation, First made a favourable comment about the proposals as it said that "*all other things being equal this is a reasonable time period but will require a degree of flexibility on a case by case basis …*". Transdev also said that "*We feel that nine months is broadly reasonable".*

6.9.60 However, during the first consultation a number of operators considered that the proposed nine-month period was insufficient. For example:

- Go North West stated that it "*made untested assumptions and does not allow for any contingencies*". They also state that a PSV operator licence could take up eight weeks from the point of application;
- Rotala considered that the period of nine months allowed for mobilisation was insufficient. It pointed out that the period allowed in London, between 8 and 10 months, is applicable to franchising on a route-by-route basis involving about 20 vehicles per route. Given the proposed size of some of the large franchises, it considers that the period should be 24 months, particularly where depots are involved; and
- Arriva thought the nine-month period highly ambitious and that the period "*will only be feasible if the requirements of the relevant franchise contract are such that ULEV or hybrid vehicles and infrastructure are not required. It would also require a depot to be available for use by an operator (large contracts)*".

6.9.61 In response to the second consultation:

- Go North West repeated their comments from the first consultation, stating that the period does not allow sufficient time for "*the recruiting and training of staff and the voluntary sale of depots*", and also made a further point relating to the implementation timescales that "*All of these issues are likely to be exacerbated by the Covid-19 pandemic, yet there is no recognition of this in the report*."
- Stagecoach commented that, in the case of a Swedish local authority with significant experience of contracting bus services, "*the local authority… would look to have a transition period of 12 months handing over contracts*."

TfGM response:

6.9.62 In considering the adequacy of the nine-month mobilisation period, there are a number of challenges that TfGM have recognised in the Assessment which consultees have also made comments on.

6.9.63 It is recognised that during the first round of franchising, tendering risks may be greater as there would be a transition from the deregulated market to franchising. The Quantified

Risk Assessment therefore includes a number of risks that are weighted towards the first round of tendering resulting in a higher risk provision over this period, including specific risk provisions (Risks F20 and F41) that reflect the cost and revenue risk of delay in the mobilisation process.

6.9.64 As set out at section 6.9.32 of this report, TfGM has significant experience in 'commencement of operations' planning which includes securing PSV operators' licences in advance of start of operations. However, under the Proposed Franchising Scheme it would be a requirement of the operator to ensure that they either have the required operators' licence or are able to provide adequate information detailing how it expects to attain the required operators' licence as part of the passport application process. Notwithstanding this, the timeframe set out by Go North West to obtain an operators' licence would run concurrently with the wider procurement process and therefore would be unlikely to impact on the proposed nine-month mobilisation period.

6.9.65 The mobilisation period of nine months is, as stated by Rotala, the average of the period allowed in London. As set out at section 6.7.7 of this report, the Assessment makes clear (at section 27.3.5) that one of the assumptions underpinning its procurement plan was that depots would be available in time for each large franchise to be let, with the preferred option being that GMCA would gain control via a negotiated depot transfer. However, TfGM also considered that there are a range of viable options available to GMCA to provide depots for the operation of large franchises if such negotiated transfers did not occur. In the event that it is not possible to negotiate the transfer of some or all of the strategic depots at the transition phase, the route to depot provision that would be used for the transitional stage (Section 26.1.20 of the Assessment) is most likely to be either the provision of short-term depot facilities by GMCA or an altering of the commercial model so that strategic depot provision becomes the responsibility of the operator for the first round of franchising. Both of these options would be deliverable to the timeframes described at section 27.3 the Assessment, but if implemented would require a formal variation of the Proposed Franchising Scheme.

6.9.66 As set out at section 6.8.28, it is considered that a mobilisation period of nine months is adequate for the manufacture and delivery of both Euro VI diesel, typically six months, and ULEV, typically eight months, but TfGM would continue to review this, including via ongoing discussion with manufacturers, to identify any specific circumstances that may require a longer mobilisation period.

6.9.67 Go North West has not elaborated on the rationale for its comment, in response to the second consultation, that it believes that Covid-19 has significantly exacerbated issues in respect of recruitment and training of staff and voluntary sale of depots. However, Sections 6.9.56 to 6.9.61 consider other consultee views on the adequacy of the nine-month mobilisation period, and Section 7.4.12 of the Covid-19 Impact Report refers to the consideration and confirmation that the nine months which would expire between awarding a franchise contract and the running of local services under that contract has not been impacted by Covid-19.

6.9.68 Stagecoach has identified a Swedish local authority which applied a 12-month mobilisation period compared with the 9-month mobilisation period proposed by GMCA. However, Stagecoach's response does not elaborate on: whether the Swedish local authority's model is directly comparable to GMCA model; the reasons for the longer period applied by the Swedish local authority; which (if any) aspects of GMCA mobilisation phase would, in Stagecoach's view, not be achievable in nine months; and any impact of Covid-19 on the nine-month mobilisation period. As noted above, TfGM has considered the appropriateness of the proposed mobilisation period in respect of specific factors identified in other consultation responses including depots, fleet and operators' licences, and has also described the specific mobilisation risk provision included in the Quantified Risk Assessment.

6.9.69 Therefore, TfGM's view is that this timeframe would still give operators sufficient time to mobilise in the same manner as was proposed in the Assessment, and nothing in the period since, including the impact of Covid-19, has occurred that has changed TfGM's conclusion that the nine-month mobilisation period, which is three months longer than the minimum period required by the 2000 Act, remains adequate.

Franchise Design

6.9.70 The questions asked within the First Consultation Document regarding the franchise design under the Proposed Franchising Scheme related to the packaging strategy, the opportunities for SMEs, the contract length and other contract terms.

Packaging strategy

6.9.71 Question 18 of the first consultation asked for any comments on the packaging strategy for franchising contracts under the Proposed Franchising Scheme as set out in the Commercial Case. The packaging strategy proposed comprises 5 to 10 large franchises offering a total Peak Vehicle Requirement (PVR) of circa 1,250 and 25 small franchises offering a total PVR of circa 140. Resource contracts for school services not included in the large or small franchises (total PVR of circa 300) would continue to be franchised on a resource basis as they are currently (Section 25.1.4 of the Assessment).

6.9.72 Ipsos MORI's June 2020 Consultation Report (Section 9.1) acknowledges that the responses in relation to the first consultation from statutory consultees (9 favourable comments versus 3 unfavourable comments), non-statutory consultees (9 favourable comments versus 2 unfavourable comments) and members of the public (96 favourable comments versus 46 unfavourable comments) are generally favourable towards the proposed packaging strategy.

Competition

6.9.73 In response to the first consultation, the CMA consultation response made a number of comments on the franchise design noting that the design and the competition for franchises is "*of paramount importance*".

6.9.74 In their view the impact of franchising on competition will be determined particularly by four key factors: the size of franchises, their length, the frequency of competitions and the ability of the authority to oversee performance and take remedial action.

6.9.75 In response to the first consultation, the CMA stated that the proposal to have three Sub-Areas in the first round of franchising and to roll franchising out in each in turn (albeit with several franchises in each Sub-Area) "*provides the ability to implement and transition to franchise model more quickly, and to deliver the intended benefits at an earlier date*". However, they also suggested that, if the three Sub-Areas "*directly align with areas of particularly high concentration [of market share] for a given firm, there may be a risk that the firm with the largest share has an advantage… which may deter other firms from participating*". They accordingly encourage GMCA to engage with operators to ascertain the expected level of competition for a given individual franchise and whether this can be increased through the design of the tender process. It recommends that GMCA should consider whether smaller franchises (that is more packages of fewer routes) would give greater flexibility and stronger competition in future.

6.9.76 In response to the second consultation, the CMA re-emphasised aspects of its previous consultation response in light of the pandemic, and again encouraged GMCA to engage with operators to reflect on what the expected level of competition for a given individual franchise will be.

6.9.77 In response to the first consultation, Rotala considered that, if there are 10 large contracts, a number of existing large operators in Greater Manchester will exit the market as there will be other bus operators with more experience of franchising and who are better placed to win contracts. Rotala would tender for areas in which they already operate but would be unlikely to tender for other large franchises and, whilst there may be new entrants to the bus market in Greater Manchester, there would equally be a large number of exits. They also considered that there have been significant developments since TfGM carried out its consultation work which may have the effect of reducing interest in the Greater Manchester market: a significant number of those consulted are European state-owned enterprises whose appetite to invest in the UK market post-Brexit is unknown.

TfGM response

6.9.78 In response to the comments raised by the CMA, the Assessment set out that the franchise packaging strategy has been structured to achieve the optimal combination of value for money, competition and facilitation of the involvement of the SME market. It is intended to give the current Greater Manchester bus operators opportunities to bid and win franchises but also to encourage new entrants into the market.

6.9.79 Between 5 and 10 large franchises has been determined to be appropriate when considering both the desire to maintain a competitive franchising market whilst delivering economies of scale (section 25.1.1 of the Assessment) and also ensure that strategic depots are of an appropriate size to maximise operational efficiencies (section 26.1.8 of the Assessment).

6.9.80 It is recognised that under the Proposed Franchising Scheme that the current makeup of operators within Greater Manchester may change; however, this would be as a result of a competitive tender process which would improve the quality of service for the customer. The responses received to the consultation from non-incumbent operators, including both European state-owned and other operators, does not indicate that Rotala's concern regarding there being a lack of appetite to operate in the UK post-Brexit to be correct.

6.9.81 In event of a Mayoral decision in favour of franchising TfGM would also engage with the market across all aspects of the commercial franchise model to, amongst other things, test interest from the bidding market and likely levels of competition for franchises in light of the pandemic. This is described further at section 6.9.256 of this report and sections 4.2.64 to 4.2.70 of the Covid-19 Impact Report. Sections 4.2.54 to 4.2.55 of the Covid-19 Impact Report also describe the ability of GMCA to strengthen competition if required through the streamlining of the bidding process to reduce bidder resource and cost implications.

6.9.82 Therefore, nothing in the period since the Assessment, including the impact of Covid-19, has occurred that has changed TfGM's previous conclusion that between 5 and 10 large franchises is appropriate to maintain a competitive franchising market whilst delivering economies of scale.

Route-by-route

6.9.83 In response to the first consultation, comments raised by operators including Go North West and Rotala and Derbyshire County Council suggested that the packaging strategy should be on a route-by-route basis. For example, Go North West suggested a route-by-route franchise model for reasons including the following:

- That it "*would minimise the risks to GMCA*";

- That it "*would enable implementation of franchising on a staggered basis which will limit the disruption to passengers, enable assessment and evaluation of franchising in a controlled manner*"; and
- That it "*would give operators of all sizes the option to choose how many contracts to bid for and minimise the risk of [SME] operators failing to deliver*".

6.9.84 In response to the second consultation, Go North West repeated these same points but also included additional reasons for why they believe a route by route model is preferable, including that it would provide:

- The ability to minimise any risks of disruption caused by delays in depot transfers as it would negate the need for strategic depots owned by GMCA. Operators could then establish themselves on a smaller scale to operate on one or more routes.
- Lower barriers to entry in terms of contract risks and investment requirements (for example, in new bus fleet), in particular for SMEs, and more opportunities for SMEs.
- An increase in competition, and a greater number of active operators in Greater Manchester.
- A smoother transition into a franchise model for the following reasons:
  - It "*could ameliorate many of the issues and risks with the Proposed Scheme that have been amplified by the Covid-19 pandemic and therefore override the reasons given by TfGM for not considering this approach given in section 4.2.11*"
  - "*A better approach to franchising would be route-by-route franchising. As well as offering the benefit of enabling a staggered implementation of franchising, learning lessons and accounting for a market and network still in a state of change, this would enable better competition in the market since operators could choose which routes to bid for*."
  - "*The concerns expressed in the consultation documents over the difficulties in making changes and managing a greater number of operational interfaces are overstated – London manages this well. It is in the nature of a franchising scheme to allow GMCA to exercise control over bus service parameters under the franchise agreement and route-by-route franchising would not undermine this. With the appropriate governance arrangements, any management burden could be kept to a minimum*."
  - "*A better and less risky approach to ensure competition in the market and enable SME operators the opportunity to bid for franchise contracts is to structure the procurement on a route-by-route basis. This would give operators of all sizes the option to choose how many contracts to bid for and minimise the risk of operators failing to deliver*".

6.9.85 In response to the second consultation, Derbyshire County Council repeated their same point and reasoning for a route-by-route model that the "*large franchise areas proposed will continue to discourage more small and medium size operators from taking part in the process*".

6.9.86 Conversely, in response to the first consultation, positive comments were received from local authorities including Salford City Council and Tameside Metropolitan Borough

Council, as well as transport user group TravelWatch NorthWest. For example, Salford City Council stated that "*The proposed approach of franchising packages of routes of varying sizes is considered to be appropriate as it enables operators of varying sizes to be included*".

6.9.87 Ipsos MORI's June 2020 Consultation Report, at section 9.1.3, also noted that 96 of the 192 comments from members of the public in response to the first consultation were in support of the proposals. 13 of these stated that the design will allow different size operators to compete for contracts, and 6 stated that it will drive competition across the market. Ipsos MORI's June 2020 Consultation Report also noted the comments from some of the other non-statutory consultees, such as the University of Manchester, who gave a generally supportive view toward the packaging proposal, citing the opportunities it might bring to smaller operators. However, Ipsos MORI's June 2020 Consultation Report also noted that some statutory consultees voiced concern over the proposed packaging scheme, particularly when compared with a route-by-route system.

6.9.88 Ipsos MORI's June 2020 Consultation Report, at sections 10.2.3, 11.1.3 and 11.2.3, also noted that in response to other questions within the First Consultation Document, there were many suggestions from members of the public that bus services should be run by a single operator and controlled by GMCA.

TfGM response

6.9.89 TfGM considered the 'bookends' of the spectrum of options for packaging which were considered to be letting a single franchise for the entire network through to splitting the network into route-based franchises. It also considered other options on the spectrum involving a splitting the network into a small number of large franchises.

6.9.90 A route-by-route model is used in London and is the only UK reference model. However, it was concluded to be suboptimal for the following reasons:

- The low depot density in Greater Manchester, which would lead to a risk of limited competition;
- Multiple and changing geographical boundaries between franchise and non-franchise services during the rollout of franchising, which would likely increase both customer confusion and the requirement on GMCA to manage the interfaces between franchise and cross-boundary services;
- Likely slower rollout of franchises services, which would delay the rate of realisation of benefits;
- Network management and delivery of network improvements across multiple route-by-route franchises would be more cumbersome and less efficient than across a smaller number of larger franchises; and
- It would not allow GMCA to benefit from the economies of scale associated with larger franchises.

6.9.91 It should also be noted that the London model is unusual when considered against most cities internationally with bus franchise arrangements – typically these include some form of route packaging rather than a route-by-route model.

6.9.92 In response to Go North West's other points on why they believe a route-by-route model is preferable:

- Sections 6.9.130 to 6.9.148 describe how the packaging strategy has been designed to provide a means of continuing opportunities for SMEs to deliver bus services.
- Sections 6.7.7 to 6.7.14 describe that there are a range of viable options available to GMCA to provide depots for the operation of large franchises, the likelihood of a resultant delay to implementation, and the mechanisms by which any required delay would be managed.
- It is also noted that OneBus's response, set out at section 6.9.107, in respect of fixed costs implicitly argues that smaller franchise packages, of which a route-by-route model would be the most granular, are less efficient.

6.9.93 Go North West's response to the second consultation also refers to "*issues and risks with the Proposed Scheme that have been amplified by...Covid-19*" that would be mitigated by a route-by-route model. However, Section 4.2.11 of the Covid-19 Impact Report sets out the rationale for TfGM's conclusion that a route-by-route model remains suboptimal for reasons of reduced attractiveness to new entrants, lower economies of scale, less efficient network change and increased complexity of contractual and operational interfaces.

6.9.94 A single franchise of the whole network would remove the need for TfGM to manage interfaces between franchises, maximise economies of scale and limit procurement costs. However, it was also considered to carry more risk around operator failure and be less optimal in regard to factors such as sustaining an enduring market.

6.9.95 The key risk of a single franchise of the whole network relates to operator failure, which would cause a significant amount of disruption to the transport network. This could range from continuous poor performance through to a worst-case scenario where the contract has to be terminated (e.g. when the performance is so poor that there are no alternatives or where an operator goes into liquidation). With a single operator, the risks associated with such scenarios are increased significantly as the scale of the problem is greater than with multiple operators, and TfGM would have no ready access to other operators who could step in to operate contracts in the event of a termination. Whilst there would be contractual mechanisms to incentivise good performance, if an operator failed to perform, TfGM could be faced with a difficult choice over whether to use mechanisms such as termination (with associated implications for disruption) or seek to manage improvement in the performance (for example, if the operator were viewed as too large to fail). This could lead to continued poor performance and extra cost being incurred by TfGM in managing the situation.

6.9.96 Additional factors considered were that the size and scale of a single franchise would likely reduce the size of the bidding market as a number of potential of bidders would consider it too large to bid. Additionally, there is a significant risk that when a contract of this nature is re-procured, there is also limited market appetite due to the potentially strong incumbent advantage.

6.9.97 TfGM recognises the importance of competition in the franchise market and notes the CMA understands that the packaging strategy has been structured with the aim of achieving this. In the event of a Mayoral decision in favour of franchising, the Proposed Franchising Scheme will enable GMCA to continue to monitor the market and market appetite following the implementation of franchising noting the CMA's point that "*There is a risk that significant change in the structure of the market in each sub-area will have occurred by the next franchising round*", and to make suitable adjustments. Although the Assessment indicated that an enduring competitive market is best served by between 5 to

10 large franchises, alongside a number of small franchises, it will be possible to continue to monitor this and, as noted earlier, GMCA has the ability to adapt this over time. This is described further at section 6.9.103of this report.

6.9.98 Therefore, nothing in the period since the Assessment, including the impact of Covid-19, has occurred that has changed TfGM's previous conclusion that a route-by-route franchise model would be suboptimal.

Number of franchise packages

6.9.99 In response to the second consultation, Rotala commented that:

- "*GMCA states with assurance that there will be no change to mileage under scenario 2 so, 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, meaning that this scenario is not considered further in the updated Report. Given the content of the Oxera report and the flaws with the Scenarios presented, this is clearly a demonstrably inaccurate conclusion*."
- "*GMCA further state that to mitigate the effects of Scenarios 1 and 4, where there will be a reduction in mileage, they will look to reduce the number of franchises by 20%. Given that one of the reasons provided for the Proposed Franchising Scheme was to provide a better and more available service to passengers that is not purely based on commercial viability, it is irrational for GMCA to consider a decision to franchise now and/or to make a decision to franchise now, when it is accepted it is a distinct possibility that it will have to reduce the franchise sizes, and thus the level of service available to passengers*."

6.9.100 In response to the second consultation, Stagecoach commented that "*the GMCA assumes that Covid-19 is likely to represent a relatively minor change to the number of franchise packages and vehicles. However, a full review would be required post Covid-19 to determine the scope of the Proposed Franchising Scheme. This could include a full remapping of the network, the number of depots, the size of fleet.*"

6.9.101 In response to the second consultation, and as shown in Ipsos MORI's March 2021 Consultation Report (Section 9.3), a member of the public commented that "*The balance between large, medium and small franchise blocks might need to be reassessed. Covid medium term consequences might result in lower capacity demand that might allow tailoring of service levels while still maintaining a decent level of basic service*."

6.9.102 Conversely, in response to the first consultation, First agreed that the franchise structure would support the achievement of the key commercial aims and that the model would be likely to be accepted by the operator market.

TfGM response

6.9.103 Rotala's comments imply that the network size would be determined by the commercial model. However, this is not the case. As is made clear at section 4.2.8 of the Covid-19 Impact Report, the commercial packaging strategy is one that flexes to the size of the network (rather than driving network size) and provides a mechanism to set the number of franchise packages in a manner that adapts to future changes to the sizes of network. Therefore, it is not proposed that the packaging strategy needs to be amended as a result of Rotala's comments.

6.9.104 TfGM does not agree with Stagecoach's comment that GMCA assumes that Covid-19 is likely to represent a relatively minor change to the number of franchise packages and vehicles. Sections 4.2.9 to 4.2.12 of the Covid-19 Impact Report clearly set out a reduced number of franchises in the event of a mid-range or significant reduction in operated mileage. Stagecoach also suggests that a full remapping of the network, number of depots and size of fleet may be required. However:

- Section 6.9.29 confirms that the proposed procurement of the first round of franchising would predominantly tender the existing network immediately prior to the start of the procurement activity (i.e. not a reworked network) to minimise disruption to the network and passengers during transition. This would also mean that fleet sizes at the commencement of franchise operations are comparable to those in operation immediately prior to this point.
- Section 4.2.13 of the Covid-19 Impact Report confirms that, in all of the Scenarios, 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.

6.9.105 TfGM notes the comment from a member of the public regarding an assessment of the balance between franchise sizes. Section 4.2.8 to 4.2.15 of the Covid-19 Impact Report described how, in the event of a reduced network, the number and size of franchises would be adapted, if required, to strike a balance between maintaining bidding appetite and managing operational inefficiencies such as dead mileage. However, the overall balance between large and small franchises is important in facilitating the involvement of SME operators, and it is therefore unlikely that this would be revised other than in response to a significant change to the Greater Manchester SME bus operator market. As noted at section 6.9.139, TfGM has not identified any evidence to indicate that the Greater Manchester SME bus operator market, which is in receipt of CBSSG, has been disproportionately impacted to date.

Fixed costs

6.9.106 In response to the first consultation, OneBus commented that "*in some cases, school services and infrequent services will be operated by the same vehicles as daytime interpeak services. These should be packaged together and share the same contract length, otherwise there will be a duplication of some fixed costs*". OneBus also warned that the market engagement test in 2018 does not give any final indication of cost or that all contracts will be successfully awarded as TfL admit to finding it difficult to attract new operators to the contract market.

6.9.107 In response to the second consultation, OneBus commented that "*any impact on package sizes due to reduced mileage levels will provide less income for the pre-set overheads and see increased bids per vehicle*."

6.9.108 In response to the second consultation, Abellio provided a positive comment that "*the PFS allows the opportunity to maximise the value of the bus network as part of an integrated multi-modal network in GM, both geographically and across the hours of the day and week*."

TfGM response:

6.9.109 It is recognised that packaging school services and small franchises separately may lead to some inefficiencies, as stated by OneBus. However, as stated at section 25.1.4 of the Assessment, this is required to provide GMCA with the flexibility to match the supply of services to demand and to provide further opportunities for small operators to bid into the market.

6.9.110 TfGM agrees in principle with the view from OneBus that reduced franchise sizes due to reduced mileage levels may result in bids with proportionally higher fixed costs. However, this risk would be managed using the approach described at section 4.2.8 of the Covid-19 Impact Report, whereby any reduction in operated mileage would be first managed by a reduction in the number of franchises and GMCA would preserve the range of franchise sizes in order to, amongst other things, maintain franchise economies of scale. In the event that this lever led to significant operational inefficiencies caused by additional dead mileage, TfGM would consider reducing individual franchise sizes if this proved better value for money overall.

Opportunities for Small and Medium-sized Operators

6.9.111 Question 10 of the first consultation asked for any comments on GMCA's plans for allowing small and medium-sized operators ("SMEs" or "SME operators") the opportunity to be involved in the Proposed Franchising Scheme.

6.9.112 Comments received in relation to this question largely focused on the safeguarding and opportunities available to SMEs and the restriction of lots.

6.9.113 Ipsos MORI's June 2020 Consultation Report (Section 6.10) acknowledges that the responses in relation to the first consultation from statutory consultees (15 favourable comments versus 3 unfavourable comments), non-statutory consultees (18 favourable comments versus 4 unfavourable comments) and members of the public (376 favourable comments versus 94 unfavourable comments) are generally favourable towards the plans for allowing SMEs the opportunity to be involved in the Proposed Franchising Scheme.

6.9.114 The favourable comments from the first consultation included OneBus, who said it supported the opportunity for SMEs to be involved and TravelWatch NorthWest, who stated that "*This seems a reasonable way to protect the smaller operators and possibly introduce some elements of sensible competition and efficiencies*". Ipsos MORI's June 2020 Consultation Report does note how some other consultees, such as Go North West, made unfavourable comments that some SMEs may not have the experience and capability to participate in the Proposed Franchising Scheme. This view was shared by some other consultees who thought that SMEs might go out of business if they do not have the resource or experience to run services to a higher standard. Some also said that having multiple operators participating in the Proposed Franchising Scheme could be difficult to manage and could increase the likelihood of operational and financial difficulties.

6.9.115 Ipsos MORI's June 2020 Consultation Report also stated that, in response to the first consultation, the main area of support from members of the public was general support and agreement from 302 respondents for the inclusion of smaller operators in the proposals, with a further 81 stating that the inclusion of SME operators could drive competition and prevent a monopoly. A further 195 members of the public also made favourable comments on the condition that one or more things would be improved or achieved. These included 67 favourable comments conditional on improved standards and quality of service, and 28 favourable comments on the condition that the service would be more reliable than present.

6.9.116 Ipsos MORI's March 2021 Consultation Report (Section 9.3) stated that members of the public praised the considerations given to SME operators, particularly those running school or hospital services. However, it also noted that others felt that the franchise packages were too big and unfair to SME operators.

Safeguarding and opportunities available to SMEs

6.9.117 In response to the first consultation, the CMA stated that they welcome the proposal to incorporate large and small franchises as part of the scheme, recognising that the small franchises "*should give smaller operators opportunity to participate in the franchise competition as barriers to participation should be lower*". However, also in response to the first consultation, the CMA stated that if, instead of GMCA's general principle of one large franchise per strategic depot (Section 25.1.3 of the Assessment), two or more smaller entrants were able to operate from the same GMCA owned depot, a wider range of operators might be willing to participate in tenders for smaller franchises, as it anticipated that a new entrant would not anticipate sufficient return to invest in acquiring and developing new depot capacity.

6.9.118 In response to the first consultation, the CMA also noted that the packaging strategy means that the scale of the large franchises is considerably larger than that of small franchises. Although they noted that medium-sized operators may be able to acquire a number of small franchises, they said that the authority needs to consider the role of medium-sized operators as "*market makers and shapers*" and query "*whether and how a small or medium operator could realistically expand their business*" to demonstrate the track record that may be required to win a large franchise.

6.9.119 In response to the first consultation, Arriva also stated that they "*believe that the small franchise contracts should have a minimum PVR of at least 10 in order to ensure that every operator has sufficient resource to deliver and manage the demands of a franchise contract*".

6.9.120 In response to the first consultation, Lancashire County Council noted that "*there are currently a number of small and medium sized bus operators running services across the North West of England … it is important that the financial viability of these operators is safeguarded as many of these operators also operate in neighbouring authority areas which would not wish to see a reduction in small to medium sized operators as they provide vital services, often at a lower cost base [than larger operators]*".

6.9.121 In response to the first consultation, Belle Vue stated that "*the reforming will create a market place which only contains the larger bus operators such as in London, and the small to medium sized operators will not be able to compete within the franchising process with these larger conglomerates as they do not have either the resources or financial backing*".

6.9.122 Responding to the first consultation, Rotala raised a few comments to challenge the proposals including that:

- SMEs may be impacted and risk insolvency because "*the requirement to re-tender the franchise on a five-year basis gives rise to material challenges for smaller bus operators*";
- "*The consultation does not provide any further details on the envisaged simplified procurement process*";
- "*It is not clear what size operators would fall within the category of small and medium bus operators". Rotala has requested that GMCA clarify this aspect of the Proposed Franchising Scheme. In Rotala's view, "bus operators need to accumulate in the region of 50 vehicles in order to have an efficient operating platform. Consequently, to the extent that a smaller operator subsequently lost one or more franchises so as to be operating less than 50 vehicles, this might create an incentive to exit the market*".

6.9.123 Ipsos MORI's June 2020 Consultation Report notes that Rotala and Go North West also made the point that operators may be impacted and risk insolvency – in response to Question 37 of the first consultation, which asked for any comments on the impacts of the Proposed Franchising Scheme on operators as set out in the sub-section impacts of the different options.

6.9.124 In response to the second consultation, Stagecoach commented that "*The GMCA has tried to design the Proposed Franchising Scheme to allow access to the market for small and medium-sized operators. However, as discussed in response to Question 7, there is a risk* *that many small operators may not exist post Covid-19*." In response to Question 7 of the second consultation, Stagecoach commented that "*2020 saw the decline of the long established Coventry-based operator Travel de Courcey, Halifax-based TJ Walsh and Rainham-based Swallow Coaches.*"

6.9.125 In response to the first consultation, Warrington's Own Buses stated that "*small and medium sized operators should be considered eligible to bid for all sizes of franchise, including the larger ones*".

6.9.126 In response to the second consultation, Warrington's Own Buses reiterated that they "*would like the opportunity for SMEs to bid for both small and large franchises*." They also commented that they "*don't want large franchise operators being able to utilise spare depot capacity to compete incrementally at low cost in other areas outside GM such as Warrington as this would distort the market. This must be embedded in the franchise framework. In the event of service reductions (under franchising), we still want the opportunity to bid for small franchises i.e. they shouldn't automatically go to a large franchise operator merely because they now have depot space. Equally, they should have to reflect the costs of that space in a like-for-like way with the SMEs who might not have the benefit of the depot under a large franchise (otherwise, competition is warped). We do not foresee their being reduced appetite from bidders – in fact, the impact of Covid-19 may increase the appetite*."

6.9.127 Responding to the first consultation, others including Abellio, Manchester Community Transport, OneBus and TravelWatch NorthWest, however, noted their support for the opportunity afforded to small and medium operators. For example, Abellio said that it "*fully supports the GMCA's plans to allow operators of all sizes to be able to be involved in the Proposed Franchising Scheme*", and Manchester Community Transport said that "*GMCA appears to have thought deeply about how SMEs can be part of the transport solution … This is absolutely the right approach as only when you introduce and facilitate competition, will passengers finally get the high-quality service they deserve*". TravelWatch NorthWest stated that the Proposed Franchising Scheme "*seems a reasonable way to protect the smaller operators and possibly introduce some elements of sensible competition and efficiencies*".

6.9.128 In response to the second consultation, Stockport Metropolitan Borough Council provided a positive comment that it "*supports the strategy and proposed mix of large and small/medium contracts as it provides continuity and depth of experience for managing the larger contracts and economies of scale whilst the use of small/medium sized contracts encourages other operators to develop in this field after bringing innovation to the market. The Council also supports the proposal to franchise school services on a resource basis rather than as part of large or small franchises to enable greater flexibility to respond to changing pupil demand*."

6.9.129 Ipsos MORI's March 2021 Consultation Report (Section 9.3) shows that suggestions were received that the Commercial Case should not overlook SME operators because large operators control depots and that large operators should be prevented from occupying spare depot capacity to compete and distort the market outside of Greater Manchester.

TfGM response:

6.9.130 The packaging strategy has been designed to provide a means of continuing opportunities for SMEs to deliver bus services in Greater Manchester while also complying with the legal requirements of both the Act and Guidance, which require an authority to consider how it would involve SMEs – particularly from the perspective of ensuring competition in the market.

6.9.131 Around 25 small franchises, of various sizes, alongside resource contracts for around 300 school services, would provide opportunities across Greater Manchester for SME operators who would not be of the appropriate size to deliver a large franchise alone.

6.9.132 In developing a packaging model that addresses the requirement to consider SME operators, a range of factors were considered, as set out in the Assessment. It is the case that SME operators are more active in certain parts of Greater Manchester than others. Therefore, one of the factors considered in establishing the number, size and location of small franchises was the current geographical focus and capacity of the SME market in order that the opportunity for SMEs to tender for services does not materially reduce under franchising.

6.9.133 Should any decision be taken to make the Proposed Franchising Scheme, GMCA would be required to include a statement in its report on how it intends to facilitate the involvement of SMEs in the Proposed Franchising Scheme. Should that be necessary, it is proposed that the feedback from the consultation would be considered by GMCA so that it could inform the preparation of that statement and its consideration of how to involve SMEs.

6.9.134 TfGM remain satisfied that the alignment of franchises under the Proposed Franchising Scheme is suitable and accounts for the existing market characteristics for SME operators.

6.9.135 The comment from the CMA regarding the difference in size between the large and small franchises appears to be based upon the assumption that large franchises will have a PVR of between 125 and 250, compared with a maximum PVR of 14 anticipated for the first round of small franchises. Whilst it is correct to state that the small franchises will have a maximum PVR of 14 in the first round of franchising (Section 25.1.4ii of the Assessment), the assumption regarding the size of large franchises is not correct. In the first round of franchising, the PVRs of large franchises will range from c.35 to c.230, largely depending on strategic depot capacity, with the lower end of the range meaning that it would be feasible for:

- Medium-sized operators or consortiums of small and/or medium-sized operators to bid for the smaller large franchises; and
- Small operators to expand by winning a number of small franchises such that they grow to a size considered appropriate by GMCA to bid for and operate large franchises.

6.9.136 As a general principle, GMCA has set an upper PVR limit of 33 for franchises to be categorised as small franchises, and a lower PVR limit of 34 for franchises to be categorised as large franchises. These sizes are considered to appropriately reflect both the simplified process of the small franchise procurement compared with large franchises and the greater access to small franchise depots in terms of land availability and cost.

6.9.137 The significantly smaller scale of depots required for small franchises means that these facilities are not considered strategic in nature and should not present a material barrier to entry to bidders for small franchises and school contracts to be let by GMCA. This is similar to the current market structure for school and tendered services in Greater Manchester. The intervention proposed for strategic depots for large franchise contracts, therefore, is not considered to be justified for small and medium depots (see Section 26.1.16 of the Assessment). Also, as noted in the Assessment, TfGM have concluded that sharing of such depots is suboptimal due to the risk of disputes and coordination difficulties, leading to inefficiencies and the increased likelihood of GMCA intervention. TfGM have also considered examples of where depots are shared between multiple operators both in the UK and internationally and have found few examples of this arrangement taking place. However, as the Assessment sets out, the depot strategy will evolve in the steady-state, and this option will continue to be reviewed.

6.9.138 GMCA recognise that there is a particular risk relating to the potential failure of small operators. However, it is considered that the risk of SME failure is adequately mitigated by the inclusion and design of small franchises and school contracts. Specifically, the design of the small franchises seeks to mitigate the risk of operator failure via two key aspects:

- Firstly, as stated above at section 6.9.137, small franchises are significantly smaller in size than large franchises. This reduces the impact of operator failure as the impact on the network will be minimised, and it will be simpler and quicker to replace a failed operator than if a large franchise operator failed; and
- Secondly, the small franchise term of between three and five years is shorter than the large franchise term of five years with an optional extension of up to two years. As stated at section 25.2.5 of the Assessment, the rationale for the shorter term for small franchises is in part because SMEs are unlikely to be of sufficient size or financial capacity to commit to a contract length of up to seven years.

6.9.139 In response to the second consultation, Stagecoach commented that there is a risk that many small operators may not exist post-Covid-19. The 2017 Act requires authorities to facilitate the involvement of SMEs, and Section 25.1.4 of the Assessment described that small franchises are included in the packaging strategy with the intention of maintaining access to the market for SMEs. Stagecoach has not presented any evidence in its response to the second consultation to indicate that many Greater Manchester SME bus operators may not exist post-Covid-19. TfGM continues to monitor the risks associated with Greater Manchester bus services and bus operators and has not identified any evidence to indicate that the Greater Manchester SME bus operations market, which is in receipt of CBSSG, has not been disproportionately impacted to date. It should also be noted that of these non-Greater Manchester operators referenced by Stagecoach:

- A proportion of Travel de Courcey and Swallow Coaches business was coach related, and as coach services have not received CBSSG, this is not directly comparable.
- TJ Walsh, in a letter to staff as reported by Coach & Bus Week Magazine (cbwmagazine.com/tj-walsh-of-halifax-closes-its-doors), stated that "*The over-bussing and discounting of fares on routes we operate by FirstGroup and the cutbacks from government for bus services… has for the last few years meant that the company has only just been trading and keeping employees in work, but has been unable to build up cash reserves to help in times of crisis*". Therefore, whilst Covid-19 may have exacerbated these issues, it does not appear to be the sole reason why they have ceased trading.

6.9.140 Large franchises, which have higher PVRs and longer terms than small franchises, are unlikely to be accessible to smaller operators as they would not be able to demonstrate the level of franchise and economic robustness required to proceed to tender-stage.

6.9.141 Given the nature of the SME market in Greater Manchester, the franchise sizes proposed for the first round of franchising are appropriate for the current scale of the Greater Manchester SME market, but GMCA will retain flexibility under the Proposed Franchising

Scheme to vary the size of franchise packages in subsequent rounds so that they continue to provide operators, and in particular SMEs, with the opportunity to expand.

6.9.142 The suggestion from Arriva that there should be a minimum PVR of 10 for small franchises has not been adopted as it would likely close the market to a number of smaller SME operators and is therefore not compatible with the commercial objectives described at section 24.2.1 of the Assessment.

6.9.143 GMCA fully recognise and support the statements made by Lancashire County Council and Belle Vue, and the commercial proposition has been developed with an objective of maintaining access to the market for SMEs (Section 42.2.1.ii of the Assessment). This includes:

- Packaging strategy: The inclusion of 25 small franchises and up to 300 schools resource contracts which would specifically facilitate SME participation as they would largely reflect the services currently being provided by those operators;
- Asset strategy: The depot strategy is designed to restrict large franchise operators from using the strategic depots to operate either small franchises or resource contracts for school services. Without this restriction, it is considered likely that large franchise operators would benefit from economies of scale and other efficiencies in bidding for smaller franchise packages by operating them out of a strategic depot; and
- Procurement strategy: The procurement process for the small franchises and schools resource contracts would be simpler and less onerous than for large franchises, reflecting the size, scale and risk of these franchises, and to avoid creating barriers to entry. Also, a restriction would be placed on the number of small franchises awarded to any single bidder in each tranche of procurement.

6.9.144 TfGM accept that having to bid and retender for franchises would have an impact on all operators. However, the proposals around packaging and franchising design are seen to mitigate these risks by ensuring that there is a competitive and open market for operators to bid into, should they wish to.

6.9.145 Section 27 of the Assessment sets out the proposed simplified procurement process for small franchises and resource contracts. This is proposed to be negotiated ITN procedure for round one of franchising followed by the restricted procedure from the second round due to the reduced complexity compared with large franchises. Resource contracts would also use the restricted procedure due to these contracts being smaller, less complex, can be sufficiently specified and are of lower risk.

6.9.146 Warrington's Own Buses made similar comments in response to both the first consultation and second consultation regarding wanting the ability for SMEs to bid for all franchise opportunities. It is not intended that there would be a specific restriction stopping SMEs bidding for large franchises. Instead, there would be a number of tests of economic and financial standing that act as a hurdle to determine whether an operator is of sufficient size and strength to bid for franchises (including the larger small franchises). In reality, it is unlikely that an SME will pass the hurdle for a large franchise, but equally, there will be some large operators who are unlikely to be of sufficient size and strength to bid for the biggest large franchises.

6.9.147 Section 6.9.143 clarifies that the commercial arrangements relating to strategic depots will have the effect of restricting large franchise operators from using the strategic depots for any operational services other than the large franchise operations. This addresses the concern of Warrington's Own Buses.

6.9.148 TfGM carried out a piece of work to determine the existing cross-boundary services that may require changes to mitigate potentially adverse effects of franchised services. This found that only one of these services was operated by an SME operator. Therefore, it is not considered that the effects of the Proposed Franchising Scheme on cross-boundary services would be a particular concern to SME operators in Greater Manchester.

6.9.149 The Assessment was also clear in proposing how the small franchise and resource contracts would closely reflect that existing market, which means that they should not require an operator to have "*in the region of 50 vehicles*", as Rotala suggest.

6.9.150 Therefore, nothing in the period since the Assessment, including the impact of Covid-19, has occurred that has changed TfGM's previous conclusion that the packaging strategy would provide a means of continuing opportunities for SMEs to deliver bus services in Greater Manchester.

Restriction of lots

6.9.151 Responding to the first consultation, the CMA recognised that the proposal to restrict the number of small franchises any given operator can hold should limit the potential for smaller firms to be excluded by large or incumbent operators.

6.9.152 Responding to the first consultation, OneBus considered that, if the objective was to introduce "*competition for the market*", there should be no restrictions on bidding and that introducing any restrictions risks distorting bids, as the knowledge that an operator cannot bid will affect what another operator may bid.

6.9.153 Responding to the first consultation, Go North West suggested that to preserve competition but still enable value for money, any restriction on the number of small franchises an operator may be awarded should be limited to that operator's market share in Greater Manchester as a whole.

6.9.154 Responding to the first consultation, First stated that contracts must be awarded on the basis of best value and comply with procurement law: simply stating that a certain number of contracts will be the maximum awarded is a potential market distortion and would be open to challenge by an unsuccessful bidder.

6.9.155 Responding to the first consultation, HCT Group suggested that the restriction on the number of small franchises that could be won curtails the ambitions of SMEs and should therefore either be extended to large franchises or removed altogether.

TfGM response:

6.9.156 To facilitate competition in the market, a restriction would be placed on the number of small franchise lots that any operator can be awarded in each tranche of procurement. This restriction is intended to a) reduce the risk of a large operator being able to dominate the market through marginal pricing to the detriment of SME operators; and b) to manage the risk for both TfGM and the operator of an operator overstretching their business in too short a timeframe (Section 25.1.6 of the Assessment).

6.9.157 The general principle is that no restrictions should be placed on the number of lots that each bidder can be awarded unless it is considered that the disbenefits to such an approach from a competition perspective are outweighed either by:

- The appropriateness of mitigating the risk of operators growing too rapidly and unsustainably, which would otherwise increase the risk that operators are unable to fulfil franchise requirements resulting in significant contractual financial penalties, contract termination and/or insolvency. In turn, this would offer protection to GMCA and the public from the risk of poor levels of operator performance, and disruption in the event of operator termination or insolvency; and
- The potential for long-term competition in Greater Manchester to be materially reduced. Section 25.1.6 of the Assessment proposes that restrictions on the number of small franchises awarded to any single bidder would be placed at tranche level rather than across the franchise market as a whole.

6.9.158 TfGM notes that regulation 65(3) of the Utilities Contracts Regulations 2016 expressly permits a restriction to be imposed on the number of lots which any operator may be awarded. The contention that none may be, as suggested by First, is incorrect. Any restriction on the number of lots that may be awarded would comply with the applicable procurement rules at the time of procurement.

6.9.159 The Assessment describes the following restrictions that would or could be applied to the Proposed Franchising Scheme:

- A restriction on the ability of large franchise operators to use strategic depots to deliver either small franchises or resource contracts for school services;
- A restriction on the number of small franchises awarded to any single bidder in each tranche of procurement (Section 25.1.6 of the Assessment); and
- A minimum threshold (set on a franchise by franchise basis) on the economic and financial standing of potential franchise bidders, which will be set at a lower threshold for small franchises to provide SME operators, in particular, with the opportunity to grow and expand.

6.9.160 The first two of these restrictions are intended to reduce the risk of a large operator being able to dominate the market through marginal pricing, to the detriment of SME operators. The purpose of the third is to ensure that operators are of sufficient size and financial robustness relative to each franchise opportunity.

6.9.161 The option to restrict small franchises based on an operator's Greater Manchester market share was considered in the development of the Assessment. It was concluded that the tranche procurement structure means that restrictions can only be placed at tranche level (i.e. not across the whole of Greater Manchester). Regulation 65(3) of the Utilities Contracts Regulations 2016 expressly allows a utility to award a contract in the form of separate lots and to restrict the number of lots which any operator may be awarded. Whilst market share may form part of the objective, non-discriminatory criteria will be applied to determine which lots will be awarded to a particular operator (if it would otherwise be successful in more than the maximum number stipulated), the permissible restriction under the regulation is on the number of lots that may be awarded to a single bidder when a contract is awarded.

6.9.162 Although HCT Group suggest that small franchise restrictions are intended to limit the ability of SMEs to grow, the intent is actually to provide a degree of protection for SMEs from large operators and ensure that there remains a competitive market at small franchise level. As noted above, these restrictions would be applied at tranche, not across the whole franchise market, so will enable operators to grow by bidding across multiple tranches.

6.9.163 In response to the CMA's caution that care is needed to ensure that the "*potential exclusion of a large firm (having reached a cap) does not reduce the level of competitive pressure on firms participating in a later competition*", section 25.1.6 of the Assessment proposes that restrictions would be placed at tranche level rather than across tranches/competitions, and therefore it is considered that this risk is appropriately mitigated.

6.9.164 Therefore, nothing in the period since the Assessment, including the impact of Covid-19, has occurred that has changed TfGM's previous conclusion that a restriction would be placed on the number of small franchise lots that any operator can be awarded in each tranche of procurement.

Contract Length

6.9.165 Question 19 of the first consultation asked for any comments on the length of franchise contracts under the Proposed Franchising Scheme as set out in the Commercial Case. The proposal was that the large franchise lengths in the steady-state would be five years with an optional extension, initially at GMCA's discretion, of up to two years (Section 25.2.2 of the Assessment).

6.9.166 Ipsos MORI's June 2020 Consultation Report (Section 9.2) shows that responses in relation to the first consultation from statutory consultees were largely positive, with 11 favourable comments versus 6 unfavourable comments. However, responses from non-statutory consultees (6 favourable comments versus 5 unfavourable comments) and members of the public (142 favourable comments versus 134 unfavourable comments) to the proposals for contract length were relatively divided. 83 members of public provided general support without elaborating on their particular reasons whilst the unfavourable responses from members of the public were broadly split further between those who thought the length too long (27) and those that thought the length too short (23).

6.9.167 In response to the first consultation, comments received from operators and local authorities in relation to contract length largely focused on whether longer contract terms should be permitted and the rationale for short-term contracts.

Longer contract terms

6.9.168 Responding to the first consultation, Rotala state that five-year franchise contract cycles will "*shift operators' focus to short-term profitability, while at the same time stifling investment and the long-term development of routes, personnel and infrastructure. The proposed five-year length for a franchise contract appears to have been based on the London experience. However, the franchising market in London is radically different from the system proposed by GMCA. In London, franchises are granted by route in a cycle which ensures that there is a continuous series of route franchises to be bid for. Every operator in the London market therefore sees an opportunity to build its market share and is a long-term player in that market. In contrast, GMCA intends to use a system of 10 or so large franchises based on area and the same five-year contract duration as in London. This approach gives operators very little prospect of building market share and brings with it the considerable risk to the operator of being completely out of the market at the end of the franchise contract … If these large, area, franchise contracts are to be used, it is clear that the franchise length would need to be much longer – probably at least ten years – in order to avoid these pitfalls. However, to adopt such a long period would inevitably reduce competition as such lengthy franchise periods would favour the incumbent operator*".

6.9.169 Responding to the first consultation, First state that "*the most advantageous contract value will generally be realised when contracts are awarded for the maximum permitted term under the prevailing procurement rules*", as it allows bidders the greatest long-term security to reduce the risk of business change at the end of the contract and more cost-effective means of procuring vehicles and other capital assets. First go on to note that "*the proposed period of 5 years plus two-year extension is slightly shorter than the maximum legally permitted 8-year contract duration currently in force*".

6.9.170 Responding to the first consultation, Transdev state that their preference is for contracts of up to 10 years to "*allow fleet to be leased at the most economic rates*".

6.9.171 Responding to the first consultation, Go North West were supportive in principle to GMCA's proposed contract length for large contracts subject to a) buses being used on a five-plus-two-year contract being able to be used on a further such contracts (to avoid wastage and increased prices) and b) transparency about the circumstances in which the two-year option will and will not be exercised (so that operators are aware of the impact on their asset values).

6.9.172 Responding to the first consultation, Salford, Stockport and Tameside Metropolitan Borough Councils and TravelWatch NorthWest stated their approval of the proposed contract lengths. For example, Salford City Council stated that the proposed length of contract for the large and small franchises is considered appropriate as it will "*provide operators and passengers with consistency for long term planning and investment in a service*". Ipsos MORI's June 2020 Consultation Report (Section 9.2.3) also noted that a member of the public stated that "*The proposed lengths of franchise contracts are sensible and appropriate. They provide GMCA and TfGM with appropriate flexibility and will be attractive to operators*".

TfGM response:

6.9.173 Determining the most appropriate contract length requires the balancing of a number of factors. The points raised by operators are recognised. But the proposed contract lengths have been designed to create a balance between, amongst other things:

- Offering a sufficient period for operators to mitigate the risk pricing associated with longer franchise terms due to uncertainty around long-term cost forecasting; and
- The need to provide GMCA with the flexibility to make changes to the franchising proposition at regular re-procurement intervals (Section 25.2.3 of the Assessment).

6.9.174 In the steady-state, GMCA anticipates that subject to franchisee performance, it would most likely automatically apply the maximum extension period to enable a franchise length of seven years. On this basis, the contract would be of sufficient length to balance the investment in bidding and mobilising a new franchise but not so long that the bid submissions include significant risk pricing due to the uncertainty inherent in long-term cost forecasting.

6.9.175 It is recognised that the lengths of franchises during the transitional period would vary, which may result in a less optimal contract length; however, this is required to achieve a regular and consistent procurement programme in the steady-state, with a similar number of franchises let each year (Section 25.2.6 of the Assessment). This should mitigate the concerns raised by some consultees such as Rotala.

6.9.176 Also, in terms of maximum allowable contract length for franchised bus services, Article 4(3) of EU Regulation 1370/2007 generally places a limit on the length of public bus service contracts of 10 years. This regulation has been adopted directly into UK law under the European Union (Withdrawal) Act 2018.

6.9.177 Contract lengths of between three and five years are proposed for both school contracts and small franchises. This is in line with current practice for GMCA tendered routes and, as described further at section 25.2.5 of the Assessment, is reflective of the size and financial capacity of SME bus operators, whilst at the same time provide scope to evolve their business over time and enabling GMCA to set a lower pre-qualification threshold.

6.9.178 Therefore, nothing in the period since the Assessment, including the impact of Covid-19, has occurred that has changed TfGM's previous conclusion that the proposed contract lengths of large franchises in the steady-state of five years with an optional extension, initially at GMCA's discretion, of up to two years remain appropriate.

Shorter term contracts

6.9.179 Responding to the first consultation, OneBus state that "*short-term contracts may be unattractive to some operators and will be met with a higher cost per annum charge to TfGM than for a longer contract. Operator setup costs will be spread over a much shorter timescale and vehicle leasing costs will be higher for a shorter term*".

6.9.180 Responding to the first consultation, Go North West suggested that "*the difference in duration between large franchise contracts and small franchise contracts may present difficulties for an operator considering whether or not to rebid for contracts with a lack of certainty as to its contractual position*".

6.9.181 Responding to the second consultation, a member of the public commented that "*School contracts [are] not long enough, [this] could cause [a] lack of school busses based on resources or termination of services to schools*."

TfGM response:

6.9.182 It should be noted that the steady-state shorter franchise lengths of three to five years apply to smaller franchises only. As no further context is provided as to what OneBus are classifying as 'short-term contracts' it is therefore assumed that this comment relates to small franchises only rather than all franchises. The small franchise length has been set to support the achievement of the commercial model objective of maintaining access to the market for SMEs. Whilst the small franchise length may be unattractive to some operators and may result in a higher cost to GMCA than for a longer contract, this is a trade-off in order to support maintaining of access to the market for SMEs.

6.9.183 GMCA recognise the potential implications of different durations of large franchises compared to small franchises and school contracts, but there is a clear rationale (Section 25.2.5 of the Assessment) for this:

- SMEs are unlikely to be of sufficient size or financial capacity to commit longer contract lengths;
- Shorter franchise terms provide SMEs with greater flexibility and scope to evolve; and
- Lower pre-qualification threshold for small franchises and school contracts would increase GMCA's risk in signing long-term agreements.

6.9.184 Therefore, nothing in the period since the Assessment, including the impact of Covid-19, has occurred that has changed TfGM's previous conclusion that the proposed contract lengths of small franchise in the steady-state of three to five years remain appropriate.

Other contract terms

6.9.185 Question 20 of the first consultation asked for any comments on the proposed allocation of risk between GMCA and bus operators under the Proposed Franchising Scheme as set out in the Commercial Case. The Proposed Franchising Scheme is intended to allocate risk to those best able to manage it, which supports value for money and ensures that risks are most efficiently managed on an ongoing basis. The operator's risk profile changes to facilitate GMCA gaining greater control of the passenger offer in order to achieve its strategic objectives, and GMCA's risk profile adjusts to control and mitigate any commercial risks imported through the process (Section 25.3 of the Assessment).

6.9.186 Ipsos MORI's June 2020 Consultation Report (Section 9.3) shows that, generally, responses in relation to the first consultation from members of the public to the proposed allocation are supportive, with 108 favourable comments versus 76 unfavourable comments. However, comments from statutory consultees (9 favourable comments versus 8 unfavourable comments) and non-statutory consultees (7 favourable comments versus 4 unfavourable comments) were generally mixed. The positive comments from non-statutory consultees and members of the public included the potential for simpler fares and tickets achieved in GMCA taking revenue/patronage risk. The overarching concern of the unfavourable comments was that GMCA will retain too much risk or responsibility.

6.9.187 In response to the first consultation, the responses received from operators, local authorities and transport user groups relating to other contract terms largely focused on the performance regime and revenue risk.

6.9.188 In response to the second consultation, the responses received from the CMA, operators, operator groups and MPs relating to other contract terms largely focused on the performance regime, revenue risk, brand ownership and the speed at which the network can adapt to change.

Performance regime

6.9.189 In response to the first consultation, Arriva and Go North West state that they agree with the principle of a performance regime being applied to franchise contracts.

6.9.190 In response to the first consultation, Arriva also suggested that the calibration of the performance regime should be "*reflective of the interventions and action of GMCA to address issues which are outside the control of operators and such impact our ability to deliver to the performance standards (e.g. congestion hotspots, poor roadside infrastructure or lack of bus priority measures)*".

6.9.191 In response to the first consultation, Go North West made several suggestions around the design of the performance regime. In their view it should be kept within clear and workable rules; that it should only measure aspects of service delivery that are within the bus operators' sole control; and that "*it is important that funding arrangements are set up in such a way that GMCA is not reliant on penalties for non-compliance to fund payments for good performance; GMCA's budget should be based on paying 100% of incentives*".

6.9.192 In response to the first consultation, Rotala state that they have "*considerable concerns with the proposed risk allocation between GMCA and the bus operators*". If GMCA take the wage inflation risk, they question what incentive operators will have to resist requests for wage increases and, if it includes pensions, what incentive would operators have to resist increases in these only partially controllable costs. They state that "*The Commercial Case*

Risk Allocation Paper envisages that bus operators will take the congestion risk. However, there is no commentary as to how this might affect tender prices and certainly more details should be provided before GMCA can take an informed view on this element of the Proposed Franchising Scheme".

6.9.193 In response to the second consultation, the CMA noted that better quality services could be enforced by combining the "*appropriate ability for TfGM to take remedial action*" with the creation of "*a single point of contact for customer service*".

6.9.194 In response to the second consultation, Debbie Abrahams MP commented that "*Many Oldham and Saddleworth residents have told me… routes don't meet their needs and on too many occasions are late or do not turn up without any explanation as to why*."

6.9.195 Ipsos MORI's March 2021 Consultation Report (Section 9.3) shows that, although not specific to any one option, some members of the public felt that the Commercial Case lacked information or detail on the potential incentives or rewards available to operators.

TfGM response:

6.9.196 It is recognised that there are factors, such as congestion and others noted above by consultees, outside of the control of operators, and these will be taken into account in the contract and performance regime. For example, these could be taken into account directly in the calibration of the performance regime or by reflecting them in the franchise network requirements (e.g. timetable requirements) contained in the contract specification. Additionally, operators will have the opportunity to take into account such factors at bid stage. The intention is that all bid documentation, including contract and performance regime calibration, are shared with the bidder market prior to the commencement of the procurement of Sub-Area A to obtain preliminary feedback and will also be subject to negotiation with bidders as appropriate during the main tender stage.

6.9.197 A bonus mechanism that relied on income from penalties for non-compliance would not be applied. Conversely, GMCA's aspiration is that operators deliver franchise operations to the required operational and service quality standards such that 100% of performance adjustments are earned, as this will support GMCA's ambitions to drive patronage, revenue and benefits realisation.

6.9.198 TfGM agrees with the views expressed by CMA regarding the benefits to service quality of the combined approach of a single contact for customer service and the ability for remedial action. Under the proposed franchise commercial model:

- The GMCA would take control of the customer relationship as these sit most naturally with the party taking revenue and patronage risk.
- The performance regime described at sections 25.3.8 to 25.3.14 of the Assessment would incentivise both operational performance and service quality of franchise operations. This would be backed up by further contractual measures, including performance improvement plans, and ultimately the ability for GMCA to terminate a franchise contract in the event of (amongst other things) ongoing poor performance by a franchise operator.

6.9.199 TfGM agrees with the views expressed by Debbie Abrahams MP regarding operators being held accountable for their operational performance, and as set out at section 6.9.198, under the proposed franchise commercial model, the performance regime would incentivise operational performance of franchise operations.

6.9.200 Therefore, nothing in the period since the Assessment, including the impact of Covid-19, has occurred that has changed TfGM's previous conclusion that it is appropriate to incentivise both the operational performance and service quality of franchise operations.

Revenue Risk

6.9.201 In response to the first consultation, Transdev suggested that there should be an element of revenue risk-sharing "*which incentivises operators to deliver high standards and to promote and market the network to maximise customers and revenue in a collaborative manner with TfGM".* HCT Group goes further than this in suggesting that *"In subsequent tranches, GMCA should consider reallocating the revenue risk to operators. This increases the incentive of providers to deliver and invest*".

6.9.202 Responding to the first consultation, Abellio, First, some local authorities and TravelWatch NorthWest stated that the allocation of risk between GMCA and operators is considered to be appropriate. For example, Abellio stated that they "*believe that the proposed allocation of risk is appropriate in order to achieve the submission of bids at the competitive margins indicated in the Assessment*".

6.9.203 In response to the second consultation, Debbie Abrahams MP provided a positive comment that "*We need to ensure routes, timetables, tickets and standards are set by the Greater Manchester Combined Authority and not individual bus companies… There is also an urgent need to reform the current complex and expensive ticket system and ensure we have an integrated public transport system*."

TfGM response:

6.9.204 It is considered that risk and reward are appropriately allocated with GMCA having control over the customer relationship, given that this sits most naturally with the party taking revenue and patronage risk, and will also set the franchise specification in respect of operational and service quality standards. However, as noted at section 25.3.11 of the Assessment, in the steady-state, GMCA would consider the introduction of offering franchisees direct patronage incentivisation via additional performance adjustments.

6.9.205 TfGM agrees with the views expressed by Debbie Abrahams MP, and Table 33 of the Assessment described how, under the proposed franchise commercial model, GMCA would define and specify the bus network whilst operators would develop timetables to meet TfGM specification. Table 1 of the Commercial Case Franchising Risk Allocation Supporting Paper also stated that TfGM would take all revenue risk, enabling it to implement multi-modal fares and ticketing policies and control the passenger offer.

6.9.206 Therefore, nothing in the period since the Assessment, including the impact of Covid-19, has occurred that has changed TfGM's previous conclusion that risk and reward are appropriately allocated.

Brand Ownership

6.9.207 In response to the second consultation, Transdev commented that "*we would strongly urge GMCA/TfGM to consider what skills operators can bring to developing the franchised network if adopted. We have had great success in growing customer numbers due to a very focused local branding strategy compared to our peers- many who focus on a standard national corporate identity. We are very concerned that the GM franchise may provide a one size fits all brand – whether for the flagship Guided Busway or the small local town* *minibus. Local branding and product segmentation works well and we would caution against a single Greater Manchester network identity. Put simply why should the town services in Rochdale and Altrincham (as two examples) look the same under a regional brand. Your peers at West Yorkshire Combined Authority have commissioned Transdev to deliver a network navigation project covering printed and at stop material to help customers clearly navigate the network. This is an excellent example of an authority recognising and using the skills of its operators for wider benefit*."

TfGM response

6.9.208 Section 25.3.3 of the Assessment describes how GMCA would take brand ownership in a franchise model, including the development and specification of branding. In developing a branding strategy for the Proposed Franchising Scheme, GMCA will consider a range of options, including factors such as those noted by Transdev, whilst the franchise contracts would enable operators to submit proposals that would deliver network benefits which would then be considered by GMCA.

6.9.209 Therefore, nothing in the period since the Assessment, including the impact of Covid-19, has occurred that has changed TfGM's previous conclusion that brand ownership is appropriately allocated.

The speed at which the network can adapt to change.

6.9.210 In response to the second consultation, OneBus commented that "*over the last 10 months the demands for bus travel have been changing on an almost day to day basis in line with the restrictions and social distancing brought about by the introduction of lockdowns and changing Tiers. Bus operators have been fast to respond to the changing demands by being agile in introducing temporary timetables to reflect the changing demands and to satisfy the financial support being provided to keep services operating for key workers. The commercial model of the industry allows these changes to happen quickly when required. That agility to respond to rapidly changing demands will be lost under franchising as the process for introducing changes will be laborious requiring Member approval, consultation, re- negotiation of contracts and time for the operator adjustments. The financial impact of this will be borne by TfGM and we doubt this is included in the assessment. We appreciate that stability of service is an important customer need but so is the ability to respond to the demands for change and we see franchising being not able to satisfy this*."

6.9.211 Conversely, in response to the second consultation, Abellio commented that "*The Proposed Franchising Scheme allows change to be delivered more quickly when it is required than could be achieved through either a Partnership or a continuation of the 'do minimum' deregulated market*."

TfGM response

6.9.212 TfGM agrees with OneBus' comment that "*Bus operators have been fast to respond to the changing demands by being agile in introducing temporary timetables to reflect the changing demands and to satisfy the financial support being provided to keep services operating for key workers*". However, given that bus services have been and continue to be supported by Government subsidy, and service changes have required TfGM sign-off, this is a clear example of TfGM and operators working efficiently to agree and implement changes to respond to changing demand levels. Changes under the franchise model would be subject to appropriate levels of governance to facilitate the efficient and responsive implementation of change. In addition, a franchise model enables a coordinated network approach rather than operator by operator patchwork response. More generally, it is noted that, on the assumption that, if a decision were made to introduce the Proposed Franchising Scheme, franchise operations would not commence before early 2023. It is anticipated that current levels of volatility will be likely to have dissipated by that point with a stable network in place with levels of volatility more akin to that experienced pre-Covid rather than over the last 12 months, and therefore the requirement to respond to rapidly changing demand levels is much less likely than it is in the current operating environment.

6.9.213 Therefore, nothing in the period since the Assessment, including the impact of Covid-19, has occurred that has changed TfGM's previous conclusion that GMCA are well placed to facilitate the efficient and responsive implementation of change.

Procurement

6.9.214 Question 25 of the first consultation asked for any comments on GMCA's approach to procuring franchise contracts under the Proposed Franchising Scheme as set out in the Commercial Case.

6.9.215 In response to the first consultation, the responses received from operators largely focused on bidder appetite and the ability to award contracts directly for interim services.

6.9.216 In response to the second consultation, the responses received from operators largely focused on bidder appetite, the risk of contracts being awarded on the basis of lowest price, social value, the risk of operator insolvency, transition risks and the contractual framework.

Bidder appetite

6.9.217 Ipsos MORI's June 2020 Consultation Report (Section 9.8) states that the majority of the responses in relation to the first consultation from non-statutory consultees (4 favourable comments versus 1 unfavourable comment) and members of the public (48 favourable comments versus 38 unfavourable comments) to the approach for procuring franchise contract are positive. Positive comments included the approach being fair and accessible (comment from the University of Manchester at section 9.8.2) and the likelihood of it driving up competition between competitors. However, responses from statutory consultees were largely mixed, with 7 favourable comments versus 6 unfavourable comments including. Ipsos MORI's June 2020 Consultation Report further noted that in response to the first consultation, Go North West were very unsupportive of the proposed approach as set out at section 6.9.234 of this report and that Rotala, as set out at section 6.9.77 of this report, queried whether a general opposition to franchising from operators may drive down competition.

6.9.218 Ipsos MORI's March 2021 Consultation Report (Section 9.3) stated that members of the public provided positive comments that the contracts or franchises are suitably attractive to encourage operators to bid.

6.9.219 **Competition from non-GM operators**: In response to the second consultation, Go North West commented that "*The uncertain levels of bus patronage arising due to the Covid-19 pandemic, and the risks associated with depot access and quality bus availability, would create significant uncertainties and risks for out-of-area bus operators and result in significant barriers to competing for these contracts. These operators are less likely to have had the expertise of operating in the relevant markets and so are likely to face different levels of knowledge in preparing tenders for any franchising opportunity*."

6.9.220 **Evidence to support TfGM's conclusion that franchising will likely be more attractive to the bidding market**: In response to the second consultation:

- Go North West commented that the Covid-19 Impact Report "*acknowledges that 'the uncertainty created by Covid-19 could impact the appetite of operators to bid for franchises during transition' but then concludes that '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.' There is no evidence provided for this conclusion and so it would be* *useful for TfGM to share responses from operators where it has sought views on the appetite for franchising by operators to support this*."

- Stagecoach commented that "*It is unclear what analysis/consultation/evidence gathering has been conducted by the GMCA to determine bidder appetite since the 2018 exercise to which it refers. Stagecoach is the largest operator of buses in Greater Manchester. However, the GMCA has not recently asked whether it would consider bidding for franchises if they became available, particularly in the light of the impact of Covid-19. Presumably, the GMCA believes that bidder appetite would exist post Covid-19. However, we have seen no evidence to support this. It is a significant risk to leave unmitigated. It could lead, for example, to the GMCA paying higher margins to attract bidders, which would increase the cost of the Proposed Franchising Scheme and put more pressure on the public purse. This could ultimately lead to reductions in the services people in Greater Manchester can expect from the GMCA*."
- The Chartered Institute of Logistics and Transport commented that "*reducing the network would appear to be counter-productive to the aims of franchising…and it is possible that the number of interested bidders for franchises will fall*."
- The CMA commented that changes "*necessary if reduced demand for bus services results in a reduction in operated mileage…should carefully consider the effect on bidder appetite*."

6.9.221 **Likely SME impact**: In response to the second consultation, Go North West also commented that the Covid-19 Impact Report "*acknowledges 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.' In other words, the impact of the Covid-19 pandemic may actually reduce operator appetite, but again a lack of evidence of views from SME operators is not provided to conclude that this would be the case*".

6.9.222 **The rail franchise market**: In response to the second consultation, Go North West commented that "*The report concludes that '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.' Go North West would question the validity of this statement, particularly given the recent experience of rail franchises and the withdrawal of a number of operators from that market due to the recent downturn in patronage and the anticipated recovery period and costs*."

6.9.223 Conversely, in response to the second consultation:

- Abellio commented that "*Implementation and transition to a PFS has also now become less risky for GMCA as a result of the Covid pandemic and, as such, the PFS has become even more attractive than partnership following the pandemic. Abellio does not believe that the partnership option is a lower-risk option for GMCA compared with franchising, on the assumption there remains no transfer of revenue risk, given that with CBSSG and CBSSG Restart all revenue risk currently lies with the state and will do so for the foreseeable future*."
- Warrington's Own Buses commented that "*We do not foresee their being reduced appetite from bidders - in fact, the impact of Covid-19 may increase the appetite*."

6.9.224 Also, in response to the second consultation, the CMA "*acknowledge the GMCA's consideration of the implications of the pandemic on asset strategy and any resulting changes in bidder appetite and trust this will continue as the situation develops*".

TfGM response:

6.9.225 **Competition from non-GM operators**: Operational service levels would be set by GMCA rather than operators, with patronage and revenue risk being taken by GMCA. As such, uncertainty and any volatility regarding levels of patronage will be managed by GMCA, and therefore non-GM operators should not be disadvantaged from this perspective in comparison to incumbent operators.

6.9.226 As set out at section 6.9.80 of this report, the responses received to the consultation from non-incumbent operators does not indicate that Rotala's concern regarding there being a lack of appetite for franchising in Greater Manchester to be correct.

6.9.227 TfGM agrees with the statement that lack of depot access would likely result in significant barriers to out-of-areas bus operators in respect of large franchises. As described at section 26.1 of the Assessment and Section 4.2.27 of the Covid-19 Impact Report, GMCA would seek to take control of strategic depots and provide these to large franchise operators to remove a key barrier to entry for bidders for these services.

6.9.228 TfGM does not agree with Go North West's view that bus availability is a significant barrier to entry for non-GM operators.

- Section 26.2.4 of the Assessment described how a mixed-age fleet requirement would not be specified for this reason.
- Section 26.2.5 of the Assessment and section 4.2.33 of the Covid-19 Impact Report described how GMCA would introduce a residual value (RV) mechanism that would guarantee the future value of franchisees' bus fleets at franchise end. This approach protects operators from stranded fleet assets and further minimises potential barriers to entry. Application of the RV mechanism for the first round of franchising is also considered at section 6.8.53.

6.9.229 **Evidence to support TfGM's conclusion that franchising will likely be more attractive to the bidding market**: Section 4.2.51 of the Covid-19 Impact Report describes the main rationale for TfGM's conclusion that the commercial opportunity of the franchise contracts is likely to outweigh any wider drivers of lower bidding appetite is GMCA's taking of revenue risk compared with commercial services where patronage volatility and uncertainty is likely to increase operator exposure. In addition:

- In response to the Second Consultation, Abellio stated that "*PFS has become even more attractive than partnership following the pandemic*", and Warrington's Own Buses stated that "*We do not foresee their being reduced appetite from bidders - in fact, the impact of Covid-19 may increase the appetite*" (see section 6.9.223).
- No operator responses to the second consultation indicated that they would not want to bid for franchises or that their appetite to bid has reduced as a result of Covid-19.
- Stagecoach Group plc's annual report 2020 states that "*The markets we are focusing on are those where we see relatively low political/regulatory risk, contract opportunities that offer an appropriate risk-reward balance, a positive economic outlook, supportive public transport policies*", and notes that it is looking at "*capital light and low revenue*

risk opportunities" in the Middle East. Both of these statements are consistent with the key principles of the commercial model for the Proposed Franchising Scheme, including a risk-reward model where GMCA takes patronage risk and an asset strategy that minimises investment in strategic depots and provides a residual value mechanism that reduces capital requirements at the start of a franchise contract.

- Stagecoach Group plc's interim results for the half-year ended 31 October 2020 state that "*While COVID-19 has significantly affected the profitability of our regional bus business, we have grown the profitability of our London bus business over the past year or so*." They also state that "*As we emerge from the pandemic, we anticipate strong support from government in pursuing our shared objective to drive modal shift from car to public transport. That, combined with … further contracts wins in London and the potential for international diversification leaves us positive on the long-term outlook for the Group*". TfGM also notes that some of the international markets include franchises. Therefore, it does not appear that Stagecoach's appetite for bidding for work in similarly franchised areas has diminished as a result of Covid-19.
- Go-Ahead Group plc's trading update for the period from 28 June 2020 to 2 December 2020 state that their performance is underpinned by "*Strong fundamentals - 90 per cent of Group revenues are secured through contracts with no revenue risk from changes in passenger demand*". Therefore, it appears that Go-Ahead Group plc attribute significant benefits to the certainty of revenue that franchising would provide.
- Rotala plc's interim results for the half-year ended 31 May 2020 state that "*The Board however does believe that the Company will be well placed after the pandemic has passed to take advantage of opportunities in the bus market… Therefore the Board expects there to be increased opportunities in the future both for organic growth and for sizeable acquisitions*." Therefore, it does not appear that Rotala's appetite for bidding for work has diminished as a result of Covid-19.
- Operators that are not currently involved in Greater Manchester have also made similar comments. For example, National Express Group plc's trading update on 12 November 2020 states that they have had "*further contract wins in recent weeks: further success in Portugal … In the UK, we have won a major employee shuttle contract; and, our first accessible transport contracts outside the West Midlands*." They also state that "*ALSA continues to benefit from its strong customer relationships and contractual protections, such as no revenue risk in over 40% of contract*". Therefore, it does not appear that National Express's appetite for bidding for contracted work has diminished as a result of Covid-19, and also that they appear to attribute significant benefits to the certainty of revenue that "*no revenue risk*" contracts bring to them as a business.
- As described above, there continue to be significant levels of interest from the market for bus franchises internationally with similar commercial propositions, including from a number of operators present in Greater Manchester.
- Competition for TfGM service contracts throughout the Covid-19 pandemic does not indicate that bidding appetite has reduced as a result of Covid-19, and, in fact, interest has increased due to the certainty of revenue associated with these contracts.
- As described at section 6.9.97, TfGM would continue to monitor the market and market appetite, and Section 4.2.54 of the Covid-19 Impact Report identified changes that

could be introduced to the procurement strategy, if appropriate, to strengthen competition.

6.9.230 Stagecoach commented that it is unclear what analysis/consultation/evidence gathering has taken place since TfGM undertook market engagement on the proposed commercial model in 2018. Whilst engagement on the proposed commercial model in the manner undertaken in 2018 has not been repeated, TfGM notes that:

- The responses to both the first consultation and second consultation provided bus operators with the opportunity to comment on the proposed commercial model, including in light of the impact of Covid-19.
- Stagecoach declined to provide a written submission in response to the 2018 market engagement exercise.

6.9.231 **Likely SME impact**: In their arguments on this issue, Go North West partially quote the following from the Covid-19 Impact Report: *"large and SME operators would not be impacted in a broadly comparable manner*". The quote in context is as follows "*Analysis has not identified any factors indicating that large and SME operators would not be impacted in a broadly comparable manner*”. SME responses to the second consultation do not provide any evidence to contradict the Covid-19 Impact Report in this regard. In its response to the second consultation, Warrington's Own Buses (see Section 6.9.126) stated that it does not foresee reduced bidder appetite, and that the impact of Covid-19 may increase the appetite.

6.9.232 **The rail franchise market**: Go North West’s response to the second consultation further questions bidder appetite for bus franchises by reference to rail franchises and the withdrawal of operators from that market due to “*to the recent downturn in patronage and the anticipated recovery period and costs*.” However, this is not a relevant comparison for the purpose of assessing likely market appetite for bus franchising as there are key differences between the commercial propositions, including in the risk/reward model, for the Proposed Franchising Scheme and for rail franchises where some operators have withdrawn. Furthermore, the future rail franchise market model which is currently being developed is expected to be more closely aligned to that proposed by TfGM and demonstrates that demand risk can be better managed by transferring it to the public sector where the specifying Authority can more effectively manage it across the network. In addition, it is noted that there continues to be significant levels of interest from the market for bus franchises with similar commercial proposition globally, providing TfGM with further confidence of market appetite.

6.9.233 Therefore, nothing in the period since the Assessment, including the impact of Covid-19, has occurred that has changed TfGM's previous conclusion that the commercial opportunity of the franchise contracts is likely to outweigh any wider drivers of lower bidding appetite.

Ability to award contracts directly for interim services

6.9.234 In response to the first consultation, Go North West suggest “*If GMCA invokes the CPO process for acquiring strategic depots, in order to ensure continuity of service and an effective transition to franchising, it would be necessary* commercial strategy (as described at section 24.2 of the Assessment) of driving competition for *to award interim contracts to the incumbent operators running routes out of those depots until such time as the CPO process is complete and the franchise awards can be made. Given that, prior to successful* *conclusion of the CPO process, the owner of each strategic depot will be the sole possible provider of bus transport services from that depot, we consider that interim contracts in respect of services from those depots can lawfully be awarded to the owner of the depot on the basis of the single supplier exception in regulation 50 of the Utilities Contracts Regulations 2016*".

TfGM response:

6.9.235 TfGM does not consider that there would be a lawful justification (under regulation 50 of the Utilities Contract Regulations 2016) for GMCA to award contracts directly for interim services to incumbent operators operating out of existing strategic depots and, to do so, would expose GMCA to claims for damages and other relief. No other statutory powers have been suggested by Go North West and no consultees have identified any exceptions to the general requirement for GMCA to tender local service contracts. However, GMCA could consider using other powers available to it under the Transport Act 1985 to justify the direct award of services of any services from those strategic depots prior to the effective date of franchising being operational.

6.9.236 Therefore, nothing in the period since the Assessment, including the impact of Covid-19, has occurred that has changed TfGM's previous conclusion that it is not able to award contracts directly for interim services to incumbent operators operating out of existing strategic depots.

Risk of contracts being awarded on the basis of lowest price

6.9.237 In response to the second consultation, Stagecoach commented that "*by seeking a franchised approach, the temptation for the Authority (particularly one who has not embarked upon this process before) is always to seek the lowest price bid, particularly if new entrants look to enter a busy market (and Greater Manchester already has a vast mix of different operators). The losers in this case are often the passengers and the staff as was seen in Wellington [New Zealand].*"

6.9.238 In response to the second consultation, Christie NHS Foundation Trust commented that "*the number of companies bidding for the franchise may be less than previously expected due to the implications of the pandemic. Although we support making the bidding process as simple as possible for companies, to encourage bidders, we would like it to be ensured that the risk either of GMCA failing to appoint the most economically advantageous tender or obtaining poor value for money is reduced*."

6.9.239 In response to the second consultation, Rotala commented that "*GMCA also accepts that if scenario 3 were to occur then it may create the risk of TfGM failing to appoint the most economically viable tender or provide poor value for money (due to the streamlining proposed at page 79 of the Covid Impact Report). This has the potential to put TfGM also in breach of the Public Contract Regulations 2015.*"

6.9.240 The CMA's response to the second consultation welcomed "*the GMCA's alertness to mitigating the risks of reduced bidder appetite.*"

6.9.241 Ipsos MORI's March 2021 Consultation Report (Section 9.3) shows that some members of the public raised concerns that some operators may put in low bids to win contracts.

TfGM response:

6.9.242 TfGM has significant experience in procuring contracts with the private sector through the letting of the Metrolink operating and maintenance contract and bus tendered services. The GMCA would award franchise contracts on the basis of the most economically advantageous tender, which will be determined in accordance with the criteria and methodology specified in the tender documentation. This will encompass a bid evaluation process that will assess both the price and quality of bids. As a result, the evaluation process will not solely seek to obtain the lowest price. Furthermore, if GMCA suspects that a bid price, or an aspect of a bid price, is abnormally low, then pursuant to regulation 84 of the Utilities Contracts Regulations 2016 it would seek an explanation and evidence from the bidder for that low price. GMCA would reserve the right to reject a bid where it concludes that the evidence and explanation provided by the bidder does not satisfactorily account for the low level of the bid price, or an aspect of it.

6.9.243 Rotala's response states that Scenario 3 may create the risk of TfGM failing to appoint the most economically viable tender or provide poor value for money due to potential changes to the procurement strategy that may be introduced by GMCA to strengthen competition. This is not the case, as clarified below by reference to the Assessment and Covid-19 Impact Report. In the event of Scenario 3, the process would be as follows:

- Firstly, GMCA would seek to procure franchises in the manner described at section 27.2 (Procurement Strategy) of the Assessment. It would not automatically introduce any measures to strengthen competition during the procurement process. Indeed, as described at section 4.2.4 of the Covid-19 Impact 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.
- As described at section 4.2.54 of the Covid-19 Impact Report, there are a number of changes to the procurement process that could be introduced in the event of reduced bidder appetite in order to strengthen competition. GMCA would only introduce these if there were significant concern over the impact of Covid-19 on the bidding market and associated competition. If this were the case, and as described at section 6.9.229, GMCA would consider which, if any, of these measures could best increase competition levels and avoid the risk of GMCA failing to appoint the most economically advantageous tender.

6.9.244 As such, TfGM does not agree with Rotala's view and is satisfied that nothing in the period since the Assessment, including the impact of Covid-19, has occurred that has changed TfGM's previous conclusion that franchise procurements would be based upon principles of the most economically viable tender and provide good value. There is no reason why, in the event of Scenario 3, the award of any contracts would not comply with relevant procurement regulations.

Social Value

6.9.245 In response to the second consultation, Community Transport Association stated that they "*encourage GMCA to incorporate social value metrics into future franchise contracts. Prioritising the needs of users when commissioning services creates both social and economic value that has impacts beyond the farebox.*"

TfGM response:

6.9.246 TfGM recognises that the key to responsible procurement is the balance between achieving value for money and the delivery of social value, in a manner which takes into account ethical, social equality and inclusion, environmental and sustainability factors. TfGM has adopted the GMCA's Social Value Framework, which GMCA refreshed in 2020 to help Greater Manchester build back better from the impact of Covid-19. GMCA's Social Value Framework 2020 priorities are:

- Provide the best employment that you can;
- Keep the clean air Greater Manchester;
- Create the employment and skills opportunities that we need to Build Back Better;
- Be part of a strong local community;
- Make your organisation greener; and
- Develop a local, Greater Manchester based and resilient supply chain.

6.9.247 TfGM expects behaviours and performance standards from suppliers, including any future operators of franchised bus operations, that are compatible with the GMCA's Social Value Framework, and the bid evaluation process for any procurement of franchised bus operations would include an assessment of social value against this.

Risk of operator insolvency

6.9.248 In response to the second consultation, Go North West commented that "*There remains the risk of an operator which has been awarded a franchise contract becoming insolvent, a risk which may be even greater in the early years of the Proposed Scheme given the impact of the Covid-19 pandemic. This would disrupt the implementation of the Scheme and may lead to GMCA incurring significant cost in making alternative arrangements*."

6.9.249 Ipsos MORI's March 2021 Consultation Report (Section 9.3) also shows that a member of the public suggested that plans should be made to cover the circumstances where an operator withdraws from their contract or ceases trading.

TfGM response:

6.9.250 As described at section 4.2.4 of the Covid-19 Impact Report, TfGM recognises that there may be some impact on the operator market during the first round of franchising due to Covid-19. However, this risk is greater in a wholly commercial market where operators bear patronage and farebox risk. Therefore, a franchise model where the procuring Authority takes this risk would insulate operators from some of the volatility associated with Covid-19 and therefore reduce the risk of insolvency compared to the current deregulated market.

Transition risks

6.9.251 In response to the second consultation, Go North West commented that "*Section 6.2.56 introduces the review of risk undertaken in the light of the Covid-19 pandemic, both in terms of transition/mobilisation risk and ongoing risks with the Proposed Franchising Scheme. The risk register, which was prepared previously to highlight the potential risks to the various options, has been reviewed as part of the revised analysis but section 6.2.63 of the report* *states that "The risk around operators' ability to support transition has been addressed by recognising an increased likelihood of the risk occurring after mitigation actions." This statement fails to recognise some of the key transition risks highlighted in the previous response from Go North West.*"

TfGM response:

6.9.252 TfGM notes Go North West's statement that section 6.2.56 of the Covid-19 Impact Report "*fails to recognise some of the key transition risks highlighted in the previous response from Go North West.*" However, TfGM is of the view that it has previously considered and responded to the issues that Go North West has identified as key risks, including those in respect of:

- Transition to the Clean Air Zone (Section 4.9)
- Depots (Section 6.5)
- Fleet (Sections 6.8.18 to 6.8.20 and Sections 6.8.24 to 6.8.31)
- Implementation timescales (Sections 6.9.29 to 6.9.35)
- Lessons learned (Sections 6.9.41 to 6.9.43 and Section 16)
- The labour market (Section 8.5.4)
- Customer confusion (Section 8.4.14)

Contractual framework

6.9.253 In response to the second consultation, Stagecoach commented that "*To date, the GMCA has not presented any substantive detail as regards franchise contracts which support the Proposed Franchising Scheme. This includes, for example, a draft or template franchise agreement or other critical elements such as performance regimes or parent company support which determine the appetite and ability of the market to engage with the Proposed Franchising Scheme. The First Consultation merely provided high-level information, and no further information has been provided to enable an assessment of whether the commercial arrangements were, or remain, appropriate, most particularly in light of Covid-19. It is therefore assumed that these details have not yet been determined. It is unclear to us how the GMCA can determine the Proposed Franchising Scheme is the best approach and its commercial arrangements are appropriate when the GMCA has not developed the detailed contractual framework which underpins the Proposed Franchising Scheme*."

6.9.254 Ipsos MORI's March 2021 Consultation Report (Section 9.3) shows that, although not specific to any one option, some members of the public felt that the Commercial Case lacked information or detail on the requirements of the procurement or the bidding process for services.

TfGM response:

6.9.255 The Assessment prepared by GMCA is comparable to the Outline Business Case stage of a public sector project proposal, at which point it would not be expected that the "*detailed contractual framework*", as referenced by Stagecoach, would be in place.

6.9.256 TfGM shared the core commercial principles underpinning the Proposed Franchising Scheme with bus operators as part of its market engagement exercise in 2018 and published the conclusions of this in the Assessment, and has also obtained comments from bus operators on the proposed commercial model via responses to the first and second consultations. In the event of a Mayoral decision in favour of franchising, the procurement approach includes the following processes to enable an assessment of whether the commercial arrangements remain appropriate:

- TfGM would undertake pre-procurement market engagement as described at section 4.2.70 of the Covid-19 Impact Report. This would include engagement on draft procurement documentation and a draft franchise agreement. The GMCA would use this process to invite initial comments from the operator market on these detailed draft documents in order to further test the commercial principles and contractual mechanisms prior to the commencement of the procurement procedures.
- Section 27.2.7 of the Assessment describes how a negotiated procedure would be used to procure franchise contracts until there was a suitably settled position, which allows for additional flexibility and consultation between GMCA and bidders.

6.9.257 A comprehensive overview of the procurement and bidding process is set out in the Assessment in Section 27.2. This summarises:

- That the procurement would be conducted under UCR 2016 regulations;
- That, as set out in Section 6.9.256, pre-procurement market engagement would be undertaken;
- That, as set out in Section 6.9.256, a negotiated procedure would be used to franchise contracts, until there was a suitably settled position;
- That a two stage ITN would be utilised for large franchises, and a one stage ITN would be utilised for small franchises; and
- The timeline of the procurement process.

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

6.9.258 In response to the second consultation, Abellio commented that "*Abellio currently sees a time-limited opportunity to avoid the risk of services being deregistered if GMCA via TfGM were to consider any formal agreement in the form of 'Direct Award' of proto-franchises, perhaps utilising the state aid provided via CBSSG Restart in order to secure stability of the network during transition to franchising. Critically any such agreement should include a sunset clause so that it did not extend beyond the minimum period necessary for procurement (through competitive tendering) and mobilisation of franchises. Such agreements would provide security for incumbent operators when linked to purchase at fair market value of their depot and vehicle assets*."

TfGM response:

6.9.259 The Department for Transport's National Bus Strategy is expected to contain information on the approach to recovery, including how Authority's work with operators; however, it is not expected that GMCA will be allowed to make payment of CBSSG (or similar) conditional on the transfer of assets, such as depots.

6.9.260 Section 6.9.235 describes consideration by TfGM of the lawful justification (under regulation 50 of the Utilities Contracts Regulations 2016) for GMCA to award contracts directly.

6.9.261 Therefore, nothing in the period since the Assessment, including the impact of Covid-19, has occurred that has changed TfGM's previous conclusion that, in the event of a Mayoral Decision in favour of franchising, GMCA would manage the risk that services operated by operators across Greater Manchester may be reduced or withdrawn through the measures set out at section 31.3 of the Assessment.

Employees

6.9.262 Question 21 of the first consultation asked for any comments on the potential impacts of the Proposed Franchising Scheme on the employees of operators as set out in the Commercial Case. Operators raised multiple points relating to employees. These are largely addressed at section 7.2.45 of the Financial Case and section 8.5 of the Management Case. This section focuses on those comments relating to risks associated with comprehensive data being made available at bid stage. This is to ensure a level playing field amongst bidders and minimise unnecessary risk pricing.

6.9.263 The findings of Ipsos MORI's June 2020 Consultation Report (Section 9.4) show that the feedback received in relation to the first consultation from members of the public tended to be favourable towards the proposals, reporting 171 favourable comments versus 136 unfavourable comments. However, comments received from statutory consultees were largely unfavourable (6 favourable comments versus 9 unfavourable comments) and comments received from non-statutory consultees were largely mixed (6 favourable comments versus 6 unfavourable comments).

6.9.264 Responding to the first consultation, some of the comments from statutory and non-statutory consultees on this question included:

- Abellio state that "*It is clear that full employment details (incl. pay rates, pension arrangements, all terms & conditions of employment etc.) of all staff in scope will be needed in order to avoid inclusion of unnecessary risk premiums that will inevitably flow through if gaps in knowledge exist within this vital cost area*". They also suggest that "*a short delay could also help TfGM ensure that all relevant employment details are provided by incumbent operators for inclusion in the data room*";
- OneBus stated that the complexities of pension arrangements and TUPE mean it will always be difficult to estimate the employment costs associated with the franchising proposal;
- Stagecoach state that they have concerns regarding the quality of data that will be made available at bid stage, especially around the risk of TUPE assumptions; and
- Transdev and Go North West stated that the application of TUPE is appropriate.

6.9.265 In response to the second consultation, Go North West commented that:

- The Covid-19 Impact Report states that "*all staff would transfer under TUPE and that the transfer of staff 'would not be affected by any of the Scenarios'. However, there is no supporting information setting out how GMCA has conducted its assessment on the staffing requirements of the Proposed Franchising Scheme under the scenarios and the basis for its view. For example, instance [sic], one of the mitigations proposed to address the issues identified with affordability with the scenarios is a reduction in the mileage and network, which may well affect staff, with the realistic prospect of large associated redundancy costs that do not appear to have been recognised in the supplementary assessment*."
- "*It seems inevitable that competition between operators for franchising will result in pressure on employee terms and conditions as lower cost tenders are more likely to be successful. Lower cost tenders could be driven by lower wages and tighter scheduling conditions, which would detrimentally affect operators' employees*."

6.9.266 In response to the second consultation, Stagecoach also made a similar comment that "*TfGM does not seem to have considered the effect of network reductions on staff levels and the consequent costs of redundancy, as well as the potential impact of such measures on the local economy*".

TfGM response:

6.9.267 It is not considered that a delay to the procurement process itself would resolve the specific issue raised by Abellio as incumbent operators are not required to provide employment data other than in respect of TUPE legislation.

6.9.268 It is anticipated, therefore, that GMCA will instead provide assumptions for bidding purposes in the first round of franchising to ensure consistency of bidding assumptions, particularly between incumbents and non-incumbents. It intends to mitigate and manage this through the following process:

- The procurement documentation would provide a set of bidding assumptions. This would ensure that all bidders price on the same basis;
- The local service contract will contain a mechanism to compensate the successful bidder (or GMCA) in the event that final TUPE data differs from that which bidders were instructed to use for bid purposes. This will ensure that franchise operators are compensated adequately for the true costs associated with TUPE transfer and do not benefit unfairly from any errors; and
- The local service contract will contain obligations on the incumbent franchise operator to provide relevant information to inform the subsequent procurement process, with this being made available to bidders and forming the basis of the biding assumptions noted above. This will ensure that bidding assumptions are based on the most accurate and recently available data.

6.9.269 As commented by Go North West and Stagecoach in their responses to the second consultation, a number of the Scenarios presented in the Covid-19 Impact Report consider potential reductions in the Greater Manchester bus network. It is recognised that reductions in the network may have implications for operator staffing requirements and, as an extension of this, for potential redundancies. However:

- Chart 6 of the Covid-19 Impact Report indicates that Scenario 1, Scenario 2 and Scenario 4 do not assume any further reduction in bus trips (and, as an extension of this, operated mileage) compared with pre-Covid-19 levels beyond mid-2021 and by early 2023 (being the time of anticipated commencement of franchise operations in Sub-Area A) bus trips are either stable or increasing. It is, therefore, considered likely that any redundancy costs associated with these scenarios will have been incurred by incumbent commercial operators prior to the commencement of franchise operations rather than being incurred by franchise operators. As such, the potential for franchising to incur the "*large associated redundancy costs*" referred to by Go North West is not considered likely. Although Scenario 3 assumes a long-term decline in bus trips beyond 2023, Chart 6 of the Covid-19 Impact Report indicates that this represents a gradual decline (from c.35% of pre-Covid-19 levels in early 2023 to c.25% of pre-Covid-19 levels by early 2026), which is likely to be manageable within usual staff turnover, with any actual redundancy costs being minimal.

- Notwithstanding the above point, the Scenarios, and therefore their implications for staffing requirements, would apply to all of the options for the Greater Manchester bus market. As such, these would not be implications of the Proposed Franchising Scheme itself and would therefore crystallise in the reference case rather than the Proposed Franchising Scheme. For this reason, they have not been explicitly considered in the Covid-19 Impact Report.

6.9.270 TfGM disagrees with Go North West's description, in its response to the second consultation, of a potential causal link between competition for franchises and a worsening of employee terms and conditions, lower wages and tighter scheduling conditions for the following reasons:

- Employee terms and conditions, including wages, in respect of the transfer of employment between operators as a result of franchise award are protected under TUPE regulations.
- Bus service employees are typically unionised, and therefore any attempt by operators to reduce terms and conditions would be met with opposition from trade unions.
- Franchise bid evaluation will consider the reasonableness of, amongst other things, costed wage structures and scheduling proposals contained in bids to assess whether they provide adequate confidence that required operational standards will be met. Where this is not the case, the evaluation procedure provides means for bids to be disqualified.
- Furthermore, if Go North West's argument were valid, this would be an issue for many if not all public procurements involving TUPE transfer of employees. However, no evidence has been presented by Go North West that this is the case.

6.9.271 Therefore, nothing in the period since the Assessment, including the impact of Covid-19, has occurred that has changed TfGM's previous conclusion that the TUPE regulations would continue to provide protection for employee rights and that it is not anticipated that the Proposed Franchising Scheme would result in additional redundancy costs for operators as any such costs would crystallise in the reference case rather than the Proposed Franchising Scheme.

6.10 Commercial Case Conclusion

The first consultation

6.10.1 The First Consultation Document asked a number of questions in respect of the Commercial Case. These questions covered the various aspects of the franchise commercial proposition, including asset strategy, the implementation timeframe, franchise design and procurement strategy, along with additional questions on the impacts of the options on the achievement of the objectives of neighbouring transport authorities and the partnership commercial proposition. The question relating to the impacts of the options on the achievement of the objectives of the neighbouring transport authorities is considered further at section 4.8 of this report. The questions relating to the partnership commercial proposition are considered further at section 4.10 of this report.

6.10.2 As reported in Ipsos MORI's June 2020 Consultation Report (Section 9.10), the majority of responses in relation to the first consultation from members of the public were favourable towards the Commercial Case conclusion with 108 favourable comments and 57 unfavourable comments from members of the public. However, the views of statutory consultees (5 favourable comments versus 5 unfavourable comments) and non-statutory consultees (5 favourable comments versus 6 unfavourable comments) were generally mixed, some specific examples of which are set out in this report.

6.10.3 In response to the first consultation, a number of challenges and critiques arose regarding the appropriateness of the proposed commercial arrangements, and specifically:

- A range of comments, both favourable and unfavourable, were received. In general, there was a distinction between large incumbent operators, who made more unfavourable comments, and other operators, who were more positive about the commercial proposition; and
- Comments covered a range of aspects of the commercial proposition, including the asset strategies in respect of depots, fleet and ITS, franchise packaging, contract length, risk, SME facilitation, procurement and employees.

6.10.4 Responding to the first consultation, most incumbent large bus operators raised challenges surrounding GMCA's proposals on depots. These areas of challenge included the following:

- The first area of challenge was whether GMCA should be providing any depots and, if so, which. TfGM remains confident that such an intervention by GMCA will deliver significant competition benefits and that the strategic depots identified in the Assessment collectively provide the most efficient model for delivery of large franchises during the transitional phase;
- The second area of challenge was whether incumbents would sell the strategic depots to GMCA voluntarily. TfGM notes the position of the respondents on this area; however, part of the rationale for the proposed approach was to reduce the impact of franchising on those operators as it would mitigate the risk of stranded assets as well as reducing the impact on employees. In the event of a Mayoral decision to introduce the Proposed Franchising Scheme, GMCA would, therefore, continue to seek its preferred option of negotiated depot transfer through proactive dialogue with operators;
- The third area of challenge was whether the alternatives for large franchises, apart from the compulsory purchase of strategic depots, are feasible. The Assessment sets out a

number of alternative routes to depot provision at the transitional stage. However, with the exception of CPO, there has been little comment in the consultation response in relation to these alternative routes. It is considered that they continue to provide viable strategies for the provision of depots;

- The fourth area of challenge was whether GMCA can legally use CPO powers to acquire strategic depots. TfGM remains confident that it has the legal powers to undertake CPO if required. TfGM's preferred route to depot control remains via negotiated transfer, which will also help mitigate operator impact, but in the event that this is not achievable, it would seek to deploy one or more of the alternative viable options described in the Assessment;
- The fifth area of challenge was the timeline for delivering the Proposed Franchising Scheme in the event that strategic depot owners are unwilling to sell those depots to GMCA. The Assessment considers a range of viable options available to GMCA to provide depots for the operation of large franchises and is not reliant on CPO, but it is accepted that if CPO powers are used, then the dates on which it was proposed that the Proposed Franchising Scheme would become effective would need to be changed, which is allowed for under the Act; and
- The final area of challenge was regarding the reasonableness of the costs allowed for in the Financial Case in respect of the depot strategy. The Assessment makes a prudent estimate of the cost of acquiring control of strategic depots, including a combination of a likely negotiated transfer valuation and an independently obtained CPO valuation. In addition, the Financial Case (Section 20 of the Assessment) includes a Quantified Risk Assessment that estimates the cost of specific uncertain events, including additional costs in the delivery of the depot strategy, which may occur.

6.10.5 TfGM's preferred route to depot control, therefore, remains via negotiated transfer, which will also help mitigate operator impact, but in the event that this is not achievable, it would seek to deploy one or more of the alternative viable options described in the Assessment.

6.10.6 In response to the first consultation, a number of operators argued that the success of the fleet RV mechanism is dependent on take-up by operators. However, to the extent that incumbent operators choose not to engage in RV negotiations with GMCA and/or agreement cannot be reached for the transfer of incumbent fleet into the RV mechanism, each franchise bidder would simply be responsible for the provision of fleet to account for any difference between franchise fleet requirements and RV fleet allocation. However, analysis performed by TfGM, which includes consideration of maintenance cost and fuel efficiency benefits, indicates that the whole life cost of new fleet would not materially exceed that of existing fleet. It has, therefore, concluded that the franchise cost implications of different courses of action by incumbent operators in respect of RV are likely to be neutral.

6.10.7 In response to the first consultation, there was a range of views on the appropriateness of the packaging strategy for franchising contracts, with comments ranging from those supporting the proposition to those arguing in favour of route-based franchises. Whilst a route-based model was considered in the development of the Assessment, it was concluded to be suboptimal for reasons of low depot density in Greater Manchester, customer confusion, multiple changing cross-boundaries, slow rollout of benefits, less efficient network management, and not benefiting from the economies of scale associated with larger franchises.

6.10.8 In response to the first consultation, some operators stated that the franchise term should be longer, either to encourage investment or to provide more efficient periods for leasing fleet. Other operators, local authorities and transport user groups stated their approval of the proposed contract lengths. The proposed contract length has also taken account of the need to provide GMCA with the flexibility to make changes to the franchising proposition at regular re-procurement intervals, whilst also noting that it is unlikely that contracts over 10 years would be permissible pursuant to UK law.

6.10.9 In response to the first consultation, there were positive responses about the principles of having an appropriately calibrated performance regime, although a number of operators were clear that the performance regime should not include measures outside of the operator's control. TfGM agreed with this principle and intends to manage this directly via the calibration of the performance regime or alternatively by reflecting such factors in the franchise network specification.

6.10.10 Having considered all of the responses to the first consultation in respect of the proposed commercial arrangements, it is considered that the principal challenge from respondents was in respect of the deliverability of the depot strategy in respect of large franchises. Although consultation responses from owners of strategic depots indicate that there is limited appetite to engage in negotiation with GMCA in respect of the potential transfer of depot control, the Assessment describes a number of alternative transitional models that would deliver franchising to the timescales described. In conclusion, it was considered that the proposed commercial proposition, including the impact on competition and the facilitation of cross-boundary services, remains appropriate.

The second consultation

6.10.11 The second consultation asked a single question in respect of the Commercial Case as to whether the respondent has any comments on the conclusion that the commercial arrangements described in the Assessment for franchising and the partnership option remained appropriate, notwithstanding Covid-19.

6.10.12 As reported in Ipsos MORI's March 2021 Consultation Report (Section 9.1), there were almost four times as many positive responses received overall about the Commercial Case than negative comments, the majority of which agreed that the commercial arrangements remained appropriate.

6.10.13 Whilst there were fewer negative than positive responses to this question overall, there was a greater range of negative themes raised. Most participants who left negative comments disagreed with the conclusions and did not feel that the commercial arrangements described in the Assessment for franchising and the partnership option were appropriate, whilst others felt they were no longer relevant or would change in the future. The main areas of additional challenge compared with the first consultation were:

- The impact of Covid-19 on operators' ability to raise capital to invest in new fleet. However, 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 should be sufficient to secure finance for the required investment in franchise fleet. It is also noted that operators in London are continuing to maintain existing orders and place further orders due to the contractual certainty that franchising brings.

- The need to make changes to the network due to ongoing volatility caused by Covid-19. TfGM recognises that there is a greater likelihood that changes may need to be made in the initial years of franchising, and the Covid-19 Impact Report describes the importance to GMCA of flexibility in its implementation, procurement and management of franchise contracts to enable the franchise model to deal with uncertainty, including those created by Covid-19.
- The extent of evidence to support TfGM's conclusion in the Covid-19 Impact Report that franchising will likely be more attractive to the bidding market. TfGM noted that:
  - No operator responses to the second consultation indicated that they would not want to bid for franchises or that their appetite to bid has reduced as a result of Covid-19, and some operators agreed that Covid-19 may increase the appetite.
  - There continue to be significant levels of interest from the market for bus franchise tenders internationally with similar commercial propositions, including from a number of operators present in Greater Manchester.
  - Competition for TfGM service contracts throughout the Covid-19 pandemic does not indicate that bidding appetite has reduced as a result of Covid-19 and, in fact, interest has increased due to the certainty of revenue associated with these contracts.

6.10.14 In addition, a number of responses to the second consultation commented more directly in response the overall commercial conclusion of the Covid-19 Impact Report that the commercial model remained appropriate. This included:

- Go North West commented that "*this is not a conclusion that Go North West agrees with.*" The reasons given by Go North West, and TfGM's response to each, are contained within the other sections of this Commercial Case response.
- Abellio commented that "*Abellio believes that the commercial arrangements described in the Assessment are appropriate to deliver either a 'Do Minimum' or a 'Do Maximum' Franchising Scheme. Abellio strongly believes that a 'Do Maximum' implementation of the Proposed Franchising Scheme is in the economic and financial interests of the people of Greater Manchester as well as being important to ensure early delivery of the strategic objectives*".
- Trafford Metropolitan Borough Council provided a positive comment that "*we consider the safer option is to stick with existing analysis, noting that all approaches carry with them a degree of uncertainty.*"
- Rochdale Metropolitan Borough Council provided a positive comment that "*A franchised model would give the public sector control over standards of service, fares, frequencies and vehicle quality that are key in providing attractive, affordable and effective bus service.*"
- Wigan Metropolitan Borough Council provided a positive comment that "*the Proposed Franchise Model will deliver the 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."

- Manchester Unison provided a positive comment that "*there is no realistic option [alternative] to franchising.*"
- Bury Metropolitan Borough Council, Manchester City Council, Oldham Metropolitan Borough Council, Salford City Council and Tameside Metropolitan Borough Council commented that they agree with the conclusion that, notwithstanding Covid-19, the commercial arrangements described in the Assessment for franchising and the partnership option remain appropriate. This was also the view of the Association of British Commuters, Centre for Cities, Manchester Metropolitan University, Oxford Road Corridor, Recovery Republic Community Interest Company, the Trafford Centre and TravelWatch North West.

6.10.15 The Covid-19 Impact Report concluded that there was no material change from the Assessment. Having considered all of the responses to the second consultation, nothing in the period since the Assessment, including the impact of Covid-19, has occurred that has changed TfGM's previous conclusions. It is therefore considered that the proposed commercial proposition remains appropriate.

7. Financial Case

7.1 Introduction

7.1.1 The Financial Case of the Assessment considered the income, costs and risks of the Proposed Franchising Scheme and the partnership options from GMCA's perspective. The Financial Case also identified the additional funding requirement for each of these options.

7.1.2 Under all bus reform scenarios, including the Do Minimum, the Assessment assumed that existing sources of public funding supporting bus services in Greater Manchester (which currently fund concessionary reimbursements, tendered services and Bus Service Operators Grant – or "BSOG" – from DfT) were retained and available over the appraisal period. The value of BSOG was assumed to be retained at the current nominal value over the appraisal period whilst the funding for concessionary reimbursements and tendered services, predominantly from local funding sources, escalated in cash terms over the appraisal period. This is explained further in the Assessment under Public sector funding from Section 40.1.7 to 40.1.27.

7.1.3 In relation to the Proposed Franchising Scheme, the Financial Case in the Assessment reported an overall net deficit, and an associated funding requirement, over the appraisal period to 2050-51, of approximately £28 million. However, the Assessment set out two distinct phases within this overall modelled requirement: (i) a transition phase up to 2024-25 at that time with a net funding requirement of approximately £122 million; and (ii) the subsequent ongoing phase, following 2024-25 to the end of the appraisal period, where there was a forecast net cumulative surplus of £94 million, with a mix of surpluses or deficits modelled for particular years.

7.1.4 As forecasting uncertainty was expected to increase over longer time horizons, the Assessment identified a range of credible funding sources that could fully fund the initial transition period requirement of £122 million, without reliance on any future modelled surpluses. GMCA also approved, for the purposes of the original consultation, a specific funding proposal reflecting a subset of the credible funding sources identified in the Assessment. Under this proposal, the total value of funding available during the transition period up to 2024-25 was £134.5 million and an ongoing source of revenue funding was provided through a Mayoral precept. The proposal would fully fund the franchising-specific net transition costs of £122 million identified in the Assessment and provided a further £12.5 million of funding over the transition period for the previously forecast growth in existing public funding that was required under all Scenarios, including the Do Minimum.

7.1.5 The majority of the £134.5 million funding in the proposal approved by GMCA was from 'earn back' (£78 million), with a proposed one-off contribution from the local authorities of Greater Manchester (£17.8 million). Other proposed sources of funding were GMCA's business rates receipts and a requirement from the Mayoral precept.

7.1.6 As set out in the 7 October 2019 report to GMCA, the funding proposal was considered to provide a proportionate and acceptable balance of contributions, and the proposed precept required during transition for this purpose also provided an ongoing source of revenue funding after the transition period to manage any annual deficits and provided a level of base funding for forecast future escalation in bus services budgets.

7.1.7 The Covid-19 Impact Report considered the impact of Covid-19 on the Financial Case of the Assessment, taking into consideration the uncertainties that now exist and the range of possible outcomes identified in the Scenarios.

7.1.8 In relation to the transition phase and costs, the Scenarios would result in these being deferred from those dates assumed in the Assessment. If the Proposed Franchising Scheme were to go ahead, the earliest possible implementation date would reflect a deferral of approximately one year. 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.

7.1.9 As a result of the uncertainties caused by Covid-19, it was not considered possible to provide a different central forecast of bus demand and a precise funding requirement for the Proposed Franchising Scheme. The Scenarios represent possible, rather than forecast, farebox changes to be compared with those in the Assessment.

7.1.10 The Assessment included a number of lines of defence, both financial contingencies and funding. Based on the analysis considered in the Covid-19 Impact Report, it is possible that, under some Scenarios (such as Scenarios 1, 3 and 4), the lines of defence could not accommodate the potential impacts upon farebox revenues and net revenues in the transition period. A number of mitigations were set out within the Covid-19 Impact Report that could be used to mitigate the farebox risk in such an event.

Consultations

7.1.11 The Financial Case in the Assessment concluded, based on the modelled position and funding sources identified, that GMCA could afford to introduce and operate the Proposed Franchising Scheme. In response to the first consultation, consultees were asked to consider the following questions in relation to the Financial Case:

Question 30: The Financial Case concludes that GMCA could afford to introduce and operate the Proposed Franchising Scheme. After completing the Assessment and in advance of this consultation, GMCA has proposed how it would fund the introduction of a fully franchised system. Do you have any comments on these matters?

Question 31: Do you have any comments on the conclusion in the Financial Case about the affordability of the partnership options?

7.1.12 Subsequent to the first consultation, further work was undertaken to consider the impacts of Covid-19: the Financial Case in the Covid-19 Impact Report concluded, that a package of 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.

7.1.13 It was 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.

7.1.14 In response to the second consultation, consultees were asked to consider the following question in relation to the Financial Case in the second consultation:

Question 5: Do you have any comments on the affordability to GMCA of the Proposed Franchising Scheme and partnership option in the light of Covid-19?

7.1.15 The matters considered in this section principally relate to the Proposed Franchising Scheme and the funding proposals for the consultations (Question 30 in the first consultation and Question 5 in the second consultation). Responses to Question 31 in the first consultation are considered collectively, with other questions on partnerships in the Strategic Case at section 4.10.

7.1.16 A summary of the key insights from the qualitative research undertaken by Ipsos MORI in Ipsos MORI's June 2020 Qualitative Research Report is also set out after consideration of the matters raised from the consultation.

7.1.17 Ipsos MORI's June 2020 Consultation Report found that the majority of members of the public made favourable comments on the Financial Case: 1,377 members of the public made favourable comments and 476 members of the public made unfavourable comments. Further information on some of the specific comments and points raised in responses from members of the public is set out at section 10 of Ipsos MORI's June 2020 Consultation Report.

7.1.18 Ipsos MORI's June 2020 Consultation Report also notes that 26 non-statutory consultees made favourable comments on the Financial Case, whilst 8 non-statutory consultees made unfavourable comments; and 8 statutory consultees made favourable comments, whilst 15 statutory consultees made unfavourable comments.

7.1.19 Ipsos MORI's March 2021 Consultation Report found that a slight majority of members of the public made negative comments: 327 members of the public made negative comments, and 300 members of the public made positive comments. Further information on some of the specific comments and points raised responses from members of the public is set out at section 10 of Ipsos MORI's March 2021 Consultation Report.

7.1.20 Ipsos MORI's March 2021 Consultation Report also notes that 13 previous statutory consultees made positive comments on the Financial Case, whilst 12 previous statutory consultees made negative comments; and 9 other stakeholders made negative comments, whilst 5 other stakeholders made positive comments.

7.1.21 The Financial Case is structured into the following sections, responding to the main themes identified from TfGM's analysis of responses in the first and second consultations and consideration of the Ipsos MORI reports, as follows:

- Income, cost, risk and financial modelling issues – principally reflecting responses from incumbent operators in response to the first consultation;
- Local authority comments on the funding proposal and related matters in response to both consultations;
- Other consultees' comments on the funding proposal and related matters in response to both consultations; and

- Financial risks as a result of Covid-19 and proposed mitigating actions in response to the second consultation.

7.1.22 TfGM has also considered other suggestions made by consultees that are not already included in the Assessment or the Covid-19 Impact Report, and summarised the findings of Ipsos MORI's June 2020 Consultation Report.

7.2 Theme 1 – Income, cost, risk and financial modelling issues

7.2.1 In response to the first consultation, a number of consultees provided responses on the modelling and assumptions in relation to the income, costs and risks of the Proposed Franchising Scheme. The majority of comments in relation to this were made by incumbent operators and by OneBus, through the Jacobs review.

7.2.2 OneBus accepted that GMCA could afford to make and operate the Proposed Franchising Scheme based on the conclusion of the Financial Case. However, they did not accept its accuracy as it stands and expressed concerns that the final cost of the transition and the ongoing annual costs were "*grossly understated*" and likely that revenues were overstated.

7.2.3 The comments from incumbent operators, for the most part, were unfavourable. They expressed concern that the costs of implementing and operating the Proposed Franchising Scheme were flawed and understated and that the sources of income were flawed and overstated. Incumbent operators raised a number of concerns over the forecasts for demand and farebox revenue, including the rate of fares growth and the impact of franchising interventions. Demand and farebox revenue are considered in the Economic Case section of this report at section 5. Concerns were also raised in relation to the costs of revenue protection staffing and, more generally, the costs of managing franchising, which are considered in the Management Case (Section 8.3) of this report. Concerns were also raised in relation to the cost of fleet replacement and technology, which are considered in the Commercial Case section of this report from Section 6.8.10.

7.2.4 Abellio commented favourably that "*In a franchised network, GMCA would have the necessary levers to manage revenue risk and decide on network priorities. Given the proposed balance of commercial risk under this model, the Proposed Franchising Scheme would create a competitive environment for operators and value for GMCA".*

7.2.5 The University of Manchester commented that: "*It is expected that plans will be in place for mitigating against significant change occurring mid-franchise. This would include the financial implications of low uptake. This is not clear from the documentation"*. In response, the commercial model was designed to achieve an appropriate balance of risk and reward for franchised operators and, in turn, achieve VfM and stimulate bidder competition. As regards change during franchises, financial security measures (such as guarantees) were proposed in the Assessment, as set out at section 42.2.10. The financial security proposals would act as incentives for franchisees to meet their contractual and service standard obligations, lessen the likelihood of any network disruption from the unplanned withdrawal of a franchised operator and provide financial recourse for the franchising authority.

7.2.6 Other issues raised in response to the first consultation and considered in this section, related to:

- The value of BSOG funding assumed on an ongoing basis;
- The value of concessionary reimbursement and concessionary funding;
- Revenue risk assessment;
- Baseline cost methodology;
- Employment costs;
- The assumed profit margin earnt by franchised operators;

- Cost associated with the provision of depots;
- Fleet costs;
- Disruption/service withdrawal during transition;
- Costs of legal challenge;
- Other costs;
- Sensitivity analysis;
- The financial "*objectives*" under franchising and the net surplus post-transition; and
- The financial position of franchised bus services in London.

BSOG income and funding

7.2.7 BSOG was assumed to be retained at the current nominal value, of approximately £16.1 million per annum, over the appraisal period. Go North West considered that this was not realistic and considered it likely that BSOG may be reduced. It understood that *"BSOG will be under review for the next Government Spending round in 2020 [and] that there is risk of reduction in support. BSOG was reduced by 25% in 2012 during the austerity years and it is not unlikely that a similar cut might be implemented".* Rotala also stated that BSOG was under review and that there is, in any event, no entitlement for electric vehicles, thereby increasing operating costs. First stated that "*The reference in para 4.125 to BSOG is not correct – whilst the BSOG payments previously associated with tendered services were transferred to TfGM some years ago, commercial bus operations still receive BSOG payments directly from DfT".*

7.2.8 The Bus Services Act 2017 Franchising Scheme Guidance (at paragraph 1.15) requires authorities to consider how BSOG would be used and the Assessment acknowledged that the availability and value of BSOG is a risk. However, it is considered unlikely that Government would withdraw, reduce or reform BSOG without first consulting upon any proposals.

7.2.9 TfGM considers the assumed value and availability of BSOG in the Assessment, in the absence of any specific guidance from DfT, is a realistic assumption as it reflects the current known value of the settlement devolved to GMCA and the value and availability are assumed to be the same for all bus reform options. Furthermore, as the assumed value of BSOG is only maintained in nominal terms, this means the real inflation-adjusted value of BSOG does reduce over time. If there was a reduction in BSOG, TfGM considers it would very likely impact all options given BSOG is a national scheme. However, given that GMCA would face this risk more directly under franchising, a specific quantified risk was provided in the event there was an unforeseen reduction in BSOG. As noted, Go North West cite a previous reduction in BSOG, which TfGM was aware of and used to inform the quantified risk.

7.2.10 In relation to Rotala's statement regarding electric vehicles, it is acknowledged that entitlement under the national scheme rules is different for electric vehicles compared with diesel vehicles. However, in Greater Manchester's case, the DfT has devolved a funding settlement for tendered and commercial BSOG to GMCA and, under the terms of this settlement, the overall value of BSOG is expected to remain available even if there were increased electric vehicle usage, for example.

7.2.11 In relation to First's statement that only tendered BSOG has been devolved and that commercial operators still receive BSOG payments directly from DfT; in fact, both tendered and commercial BSOG have been devolved to GMCA (the commercial element having been devolved in 2017-18 as explained in the Assessment at section 40.1.10). TfGM, therefore, considers the Assessment was accurate in this regard.

Concessionary reimbursement and concessionary funding

7.2.12 Jacobs and Stagecoach contended that the modelling of revenue assumes, unrealistically, that the journeys made under the English National Concessionary Travel Scheme (ENCTS) would rise over the appraisal period. This contention has been addressed in the response to the Economic Case above from Section 5.3.7 of this report.

7.2.13 Comments were also provided on concessionary reimbursement, principally by Rotala and Stagecoach.

7.2.14 Rotala considered that the assumption that reimbursements would begin to rise in 2020-21 when TfGM became the payee was flawed for two reasons: (i) the assumption of an increase of 0.7% is overstated as DfT concessionary guidance makes plain that the reimbursement factors should be dampened to account for passholders paying zero fare when real fare increases are implemented and (ii) the number of passes in issue in Greater Manchester in 2017-18 reduced by 11% indicating a likely continued decline, and there is no evidence to support an increase from 2020-21.

7.2.15 Stagecoach considered that the assumptions around future demand under the Proposed Franchising Scheme seem reasonable but was surprised that no impact of the Our Pass concession had been modelled. Stagecoach also raised a concern that a benefit had been claimed in respect of concessionary reimbursement for franchising in the Assessment at section 42.1.10, whereas it merely referred to the situation if additional concessionary trips occurred under the Do Minimum.

7.2.16 In relation to Rotala's comments, it should be noted that the value of concessionary reimbursement, and associated funding, was initially forecast with reference to the Do Minimum (and not with reference to franchising or TfGM/GMCA becoming the 'payee') and the same level of public sector support forecast for the Do Minimum was applied to the franchising and partnership options.

7.2.17 Concessionary reimbursement forecasts were a function of forecast concessionary trips and the forecast reimbursement rate. The forecasting of concessionary trips is described further at the Economic Case section of this report, from Section 5.3.7. The rate of commercial fares growth under the Do Minimum, as set out elsewhere, was projected as RPI+1.4% per annum, and as concessionary reimbursement has a relationship with commercial fares growth, the rate of reimbursement growth was projected as RPI+0.7%. This was 'dampened' from the real rate of commercial fares growth (by half) to account for generated demand.

7.2.18 Rotala considered that this rate of reimbursement growth is overstated. The Assessment acknowledged at section 40.1.14 that the DfT publishes concessionary guidance and a reimbursement calculator. In practice, however, there are a range of factors to consider which can be complex in determining reimbursement. TfGM consider the reimbursement growth rate is a reasonable assumption and, under the Do Minimum, concessionary trips were forecast to represent an increasing proportion of overall trips over the appraisal period, which would likely put upward pressure on the reimbursement rate due to the increasing marginal costs of concessionary trips.

7.2.19 It is also important to note, in the context of the concern that concessionary reimbursement forecasts are overstated, that, whilst ENCTS is a national mandatory scheme, in practice, the risk of variation in concessionary reimbursement costs (and the associated funding) sits locally with GMCA as the travel concession authority in Greater Manchester (and with the 10 local authorities who provide funding through the statutory contribution, rather than with central Government).

7.2.20 As explained in the Assessment at section 40.1.18, in the short-term, concessionary reimbursement growth was lower than the long-term average as forecast ENCTS trips are subject to mandatory increases in entitlement age tied to pensionable age increases but pension age equalisation is due to end in 2020. It thus acted to suppress ENCTS concessionary trip volumes in the periods prior to 2021-22.

7.2.21 In response to the point relating to Our Pass, TfGM acknowledge that this is a significant and important intervention. As acknowledged by Stagecoach, however, Our Pass is only committed for a trial period at present which was the reason as set out in the Assessment at section 40.1.13 why 'Our Pass' was not included in the Do Minimum (or any other bus reform scenarios set out in the Assessment).

7.2.22 Stagecoach also raised a concern that £96 million of benefits had been claimed under the Proposed Franchising Scheme through the reallocation of central Government funding and the removal of the requirement for GMCA to reimburse operators for journeys made under the ENCTS scheme.

7.2.23 To clarify, section 42.1.10 in the Assessment stated: *"… the modelled franchising interventions increase demand, including concessionary trips, and there is no requirement to directly reimburse external operators for these additional trips on franchised services. Using the method previously described to forecast concessionary reimbursement, if the equivalent level of additional concessionary trips occurred under the Do Minimum, there would be an additional reimbursement cost and funding requirement of approximately £96 million in nominal terms over the appraisal period. Under franchising, this requirement is therefore 'internalised', and budgets and funding requirements would be set by reference to total operating costs and total sources of income".*

7.2.24 As explained, it is advantageous that, under franchising, GMCA could set budgets and funding requirements by reference to total operating costs and total sources of income. However, the analysis referred to the situation if additional concessionary trips occurred under the Do Minimum. There would then be an additional reimbursement requirement which would be avoided under franchising. There was, however, no net benefit claimed in the franchising economic NPV for this advantage.

Revenue Risk Assessment

7.2.25 A number of aspects in relation to the modelling of risks are considered in the Economic Case section of this report at section 5.6.

7.2.26 In relation to the quantified risk assessment, Stagecoach raised a specific concern in respect of the value of the revenue risk portion of the Quantified Risk Assessment and that this was low. Stagecoach said: "*Allocating only £24.5 million of risk to revenue over a 30-year assessment feels very optimistic, allowing only a 0.4% margin of error. No UK rail bid* *(typically modelled over a 7-10-year timeframe) since franchising commenced in 1996 has progressed with such a low margin of error, so we fail to see how a 30-year plan with so many unknowns can have allocated so little risk to revenue*".

7.2.27 Whilst the nature of the specific risks clearly differ between rail and bus, TfGM recognise that GMCA would be exposed to revenue risk and acknowledge that this would include both endogenous risks (such as poorly executed network design) and exogenous risks (such as adverse changes in population growth, demographics and car ownership). This is explained at section 2.1.14 of The Risk and Optimism Bias Supporting Paper which was published alongside the Assessment. The Risk and Optimism Bias Supporting Paper further explained how these two different components of risk were analysed. The QRA considers specific 'influenceable' or endogenous type risks that could reasonably be controlled and mitigated, i.e. factors that are "*specific to an intervention and may be quantified and managed*" (HMT Green Book – p89), whereas economic and exogenous risks were considered through the sensitivities set out in the Assessment at section 42.7 of the Financial Case and Section 15.5 of the Economic Case. As explained at section 15.5 of the Economic Case, these 'what-if' scenarios considered the impact of general uncertainties surrounding modelling forecasts and parameters.

7.2.28 Whilst it is possible that there may be favourable, as well as adverse, impacts on affordability due to exogenous factors, GMCA would retain control of fares policy and retain the ability to alter the service between franchises (and during franchise contracts through contract variation) so that it would be able to adapt the cost of the network in response to an adverse scenario that impacts affordability (as explained at section 42.7.6 of the Assessment).

7.2.29 The Jacobs report referred to by Stagecoach notes the reasonableness of the methodology used to assess risks to revenue as follows. Jacobs said that: "*The methodology used has focussed on "endogenous" risks within TfGM's control with other external risks such as economic growth, population growth, demographics etc. considered separately through sensitivity tests. The methodology for the risk assessment seems reasonable in terms of assessing and modelling these by scale of impact and length of duration, combined with probabilities of scenarios occurring*".

7.2.30 Sections 2.1.15 and 2.1.16 of the Risk and Optimism Bias Supporting Paper explained that the revenue risk provision calculated was based on a range of impacts to revenue. It was a statistical estimate designed to provide an appropriate level of provision to capture the value of risks in 80% of circumstances, taking account of the fact that the risks that materialise against revenue would vary in impact value year to year (modelled at impact values from 1%–5% of revenue over varying durations of time, from 1 to 12 months).

7.2.31 Whilst 0.4% (referred to by Stagecoach) was broadly similar to the value of the revenue risk as a percentage of farebox revenue included in the Assessment, TfGM quantify that the risk value was approximately 0.55% of farebox revenue. Stagecoach do not set out the derivation of their 0.4% figure; however, it appears their calculation may be based on prior years' revenue rather than revenue that was forecast in the Assessment.

7.2.32 The revenue risk approach in the Assessment only considered 'threats'; it is equally possible that there are positive factors, such as realising additional commercial income from a common brand, that affect revenue that could offset 'threats' that materialise: positive factors were not estimated within the QRA.

Baseline cost methodology

7.2.33 Rotala raised a specific concern in relation to the methodology to derive baseline cost estimates and considered in their response that the concern identified would mean that costs are underestimated. They contended that the Financial Case did not take into account recent inflationary increases in the costs of providing bus services. Rotala said that when leaving Green Bus tenders and school contracts aside, they operate tendered live miles annually at a cost of £1.89 per mile and had recently tendered at a cost of £2.44 per mile, an increase of 28% due to increased driver rates of pay, increased overheads and changing depots. Further, TfGM assume that the cost of replacing vehicles increases in line with RPI, but this is inconsistent with Rotala's experience and a higher vehicle specification under franchising is likely to lead to higher costs. Rotala also comment that: "A*s regards fuel costs and drivers' wages, these are based on service mileage and hours only, ignoring dead miles, paid breaks, and testing and so forth".*

7.2.34 Rotala also considered that it appeared to be assumed that, under franchising, the current network would be reproduced and that the costs bid by potential franchisees would match those estimated for the incumbent operators today, which in its view was a dangerous assumption as it presupposes that such bidders could replicate the levels of skill, local knowledge and competence and that the benefits of economy of scale and geographic location will be replicated. OneBus expressed a similar concern, in their response to Question 37 (Impacts of the Proposed Franchising Scheme on operators), around new operators bidding for franchising contracts who have limited experience of the road network in Greater Manchester.

7.2.35 With regard to inflationary increases and Rotala's experience of its tender costs, the cost assumptions developed from the 2016-17 base year were escalated annually by actual and forecast inflation factors, predominantly from national indices. It is possible that inflation for Greater Manchester bus operations has differed (higher or lower) from the Assessment position; however, if this were the case, it would affect all scenarios. TfGM cannot comment on the specific tender cost experience Rotala refers to as it does not set out the relevant time periods and whether this cost experience of an individual operator is representative of the broader market (for example, it appears to refer to a change of depot location as a factor which would not be expected to be recurring or representative of other operators' experience).

7.2.36 In response to Rotala's concern over the assumed rate of cost growth for vehicle replacement, the assumed rate of growth for vehicle depreciation was higher than Rotala state, albeit marginally, at approximately RPI+0.1% per annum as set out in Table 44 of the Assessment. Rotala also considered the assumed rate of growth is inconsistent with their own experience but do not state whether this experience is higher or lower, or an alternative assumption.

7.2.37 TfGM do not consider the proposed vehicle specification under franchising would lead to materially different costs compared with the Do Minimum, as the vehicle specification was closely aligned with the fleet operating in Greater Manchester. Furthermore, the preferred option was to acquire existing fleet (which would result in a materially similar specification) through the proposed Residual Value mechanism. As noted at section 7.2.75 and elsewhere, it is acknowledged that additional capital costs for retrofitting or replacing fleet vehicles to meet environmental standards are not included in the Proposed Franchising

Scheme costs. GMCA has made clear the requirement for the Government to provide financial support for these proposals.

7.2.38 Rotala's observation that the network 'supply volumes' (meaning the size of the network in this instance in terms of operating hours and operating distances) which are used as a component of cost forecasting do not include, for example, non-service distances ('dead miles') was acknowledged and this is set out in the Financial Case Supporting Paper. However, TfGM are satisfied this does not mean the baseline costs were inherently underestimated as, where available, the total costs estimated have been controlled to audited financial statements or information disclosed by operators. In terms of the methodology specifically, the unit cost rates have been derived to be consistent with the relevant supply volume; so, by way of example, the unit wage rate relating to 'in service' hours only is higher than would be the case if the rate were derived to be consistent with all hours.

7.2.39 In relation to First's comments, it is correct that initially, the Proposed Franchising Scheme would replicate the existing network at the point the services are introduced. In response to the concerns over bidders' knowledge and the basis for franchise bids, it should be noted in the first instance that the existing commercial market is not static as new operators periodically enter the Greater Manchester market, such as Go North West's acquisition of First's Queens Road depot and fleet in 2019. Franchise bidders would not be expected to assume revenue risk and would be tendering for a network specification and risk allocation provided by GMCA. Bidders would also be provided with detailed information (such as TUPE data) to inform their tenders or, if this was not available at tender stage in the first round of franchising, assumptions would be provided to bidders to reduce risk pricing. TfGM consider this approach would provide bidders with a high degree of understanding of the franchise specification, the risks assumed by franchisees and data to support tenders.

7.2.40 In relation to geography and economies of scale, the preferred approach set out in the Assessment was GMCA would acquire or control existing strategic depot locations and as such geographic location would replicate existing structures to a large degree under this approach. The commercial model also set out that there would be a range of contract values under franchising (similarly there is a range of operator sizes in the current market).

7.2.41 Notwithstanding these points, it is recognised that during the first round of franchising, tendering risks may be greater as there would be a transition from the deregulated market to franchising. The QRA included a number of risks that are weighted towards the first round of tendering, resulting in a higher risk provision over this period compared with subsequent rounds of tendering. A summary of these risks was set out in Table 59 of the Assessment, Key Transition and Mobilisation Risks (Procurement section).

Employment costs

7.2.42 A number of incumbent operators cited concerns that employment costs would increase under franchising.

7.2.43 Rotala commented that: "*Mayoral Intervention into drivers' pay is, in Rotala's view, inevitable (as has occurred in London in 2002, 2016 and 2017). This has not been accounted for in the Assessment and it is arguable that this is more likely to occur given the unification agenda of franchising which logically includes pay parity*".

7.2.44 Similarly, Stagecoach commented that: "*We note that the Assessment assumes no change to the labour models adopted in today's market and that these would be expected to* *continue throughout franchising. This feels at odds with the views of key stakeholders such as the Unite Trade Union who have backed franchising with one of the reasons stated for their endorsement being the ability to enhance pay and benefits for its members. Unite believe that its members will gain more advantageous terms and conditions with a greater influence provided by the public sector, due to the ability for the Mayor and politicians to intervene. This belief is underpinned by precedents from various Mayors of London in that franchised bus market. Yet this does not appear to have been taken into account by the Assessment".*

7.2.45 Operators also raised a number of other employment-related concerns which are considered in the Management Case section of this report at section 8. The Management Case also includes correspondence from the Mayor's office setting out that any introduction of franchising should not lead to any worsening of terms and conditions. It is acknowledged, however, that the ongoing costs of the Proposed Franchising Scheme do not allow for a 'levelling up' of employment terms and conditions. TfGM considers that a high level of protection is afforded to transferring employees through the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) and the specific pension protection contained in the Act. This means that franchised operators would remain responsible for employing and managing the majority of the workforce with an appropriate balance of incentives provided under the commercial model. Disparities in terms and conditions already exist within individual operators and there is no reason to assume that they would necessarily disappear under franchising.

7.2.46 TfGM does not consider that Mayoral intervention to 'level up' employment terms and conditions is inevitable or more likely than the position set out in the Assessment and the responses do not set out how such an intervention would arise. Even if a Mayor did seek to intervene as suggested, then they would necessarily have to consider the effects of such an intervention, its benefits, its costs and, if necessary, the provision of appropriate funding.

Profit Margin

7.2.47 The Assessment assumed that under the Proposed Franchising Scheme, the financial return/profit earned by franchised operators would be an EBIT margin of 7.5%. There were contrasting comments made on this assumption, principally by incumbent operators Stagecoach and Rotala. No new prospective operators commented upon this assumption.

7.2.48 Stagecoach noted that the assumed margin for franchising was above the London / TfL benchmark point estimate of 7.1% and considered it to be unrealistically high. Their expectation from experience as a London operator was operator margins would be lower in any franchised market. Stagecoach commented that overall the levels appeared to be over-optimistic concerning the commercial position of many operators within Greater Manchester and, that to achieve them, more profit will need to be generated than exists in the market today; and that this appears counter-intuitive against the continuing trip rate decline and the additional costs associated with franchising.

7.2.49 Jacobs suggested that the margins on London bus operations are lower than in the regions and require subsidy by TfL. Jacobs also commented that TfGM did not appear to have considered the potential for variation in operator margins across franchise tranches and that some tranches will require a higher operating margin to be attractive to bidders.

7.2.50 Rotala considered that using the London model as a benchmark resulted in a low EBIT margin assumption which equated to a mark-up on operating costs of approximately 8.1%.

It raised a concern that London was not comparable due to differences in ownership and leasing of vehicles, the London model being based on leased vehicles as opposed to the ownership of vehicles (as tends to be the case in Greater Manchester). It commented that TfGM "*has not recognised that there is a higher lifetime cost to renting that has not been factored into the Financial Case*" and that "*To the extent that the proposal is that bus operators in Greater Manchester should be renting buses, the Financial Case profit and loss models will have been based on the wrong cost structures and would need to be subject to wholesale revision".*

7.2.51 Rotala also comment that "*TfGM's Financial Case appears to be based on the accounting standards for operating leases before the change to IFRS 16. Prior to the change, operating leases were charges in arriving at EBIT. After the change, the operating cost is split between depreciation and interest components in the profit and loss account. This will leave part of the cost of renting the asset above EBIT and part in the 'I' line and this in turn means that selection of the profit margin at the EBIT line is not sustainable".*

7.2.52 Rotala also cite the Jacobs review and comment that the "*blanket*" margin assumption ignores the fact that there will be differences between particular franchises and that actual operator margins are likely to vary across franchises.

7.2.53 TfGM consider that the London market is the most relevant and appropriate benchmark for which there is available data, as it is a franchised bus network, there is a similar regulatory regime, and it has a commercial model that is well understood and broadly comparable from a risk perspective to the franchising commercial proposals.

7.2.54 However, TfGM have adjusted the London benchmark upwards in developing the assumption for the Greater Manchester franchising proposal. The Assessment set out a summary at section 42.2.5 to 42.2.29 of the approach to establishing and adjusting the London EBIT benchmark. This explained that the weighted average EBIT margin for London operators over a five-year reference period was initially calculated as 6.4%, a lower initial benchmark figure than the assumption adopted in the Assessment and in line with Stagecoach's comments that its experience as a London operator suggested a lower margin in the London market. This section of the Assessment explained how this initial 6.4% margin benchmark was adjusted upwards to the higher Assessment assumption of a 7.5% margin in two steps: firstly, by excluding from the London benchmark data operators who made operating losses in at least three years over the reference period, resulting in a more conservative benchmark estimate of a 7.1% margin; and secondly provision of a further 0.4% as an allowance to account for any potential differences between the London market and Greater Manchester.

7.2.55 In relation to Stagecoach's comments regarding the need for more profit than exists in the market currently, it is not clear how this point reconciles with their observation that the margin assumed in the Assessment is higher (resulting in higher profit) than the London benchmark; however, it is relevant to note in response to this point, and declining trip rates being a factor, that the capital employed by a franchisee (fleet volumes principally) would also reduce as passenger demand reduced and GMCA has approved a proposal that would fully fund the additional costs identified in the Assessment to implement the Proposed Franchising Scheme.

7.2.56 In relation to the issue cited by Rotala over fleet costs and leasing, it should be noted that there is no proposed 'mandating' that franchised operators must provide leased vehicles (though operators could bid on this basis) and TfGM consider that the proposed Residual Value mechanism, as the preferred approach set out in the Assessment, provided a basis on which owned fleet can be provided over a franchise term without stranded asset risk for the franchisee.

7.2.57 In relation to the application of IFRS 16 (an accounting standard for leases) it should be noted that under franchising, the accounting requirements for fleet (whether owned or leased) would be a matter for franchisees. The financial model is from the perspective of GMCA and the Assessment considered (at section 42.6.6) that, in relation to any fleet provided under the Residual Value mechanism, GMCA would account for this as a contingent liability, as a possible, but not probable, liability.

7.2.58 TfGM is aware that some operators have cited a difference in the extent of fleet leasing versus fleet ownership and the associated accounting treatment as a reason why EBIT margins from different markets would not be comparable, and that a London based EBIT benchmark would be 'low' as suggested by Rotala. However, no specific evidence has been provided on this effect. Furthermore, as noted above, whilst the London EBIT benchmark was adjusted upwards in developing the Assessment assumption, TfGM consider there are other factors not specifically accounted for, such as the provision of depots, that could act to reduce margin compared with the London benchmark.

7.2.59 It is accepted that margins could vary across franchises. However, this observation is also true of the observed data informing the initial London benchmark margin assumption, whereby the average margin reflects a range of higher and lower margins. For the purposes of an Assessment it was reasonable to apply an average assumption across the whole network. Furthermore, as explained in the Assessment at 42.2.5 to 42.2.29, one of the upward adjustments to the London benchmark was to exclude 'low-margin' operators who made operating losses in at least three years over the reference period.

7.2.60 The Assessment also set out that the franchising margin assumption reflected a "*long term average*" (at section 42.2.9) across the network. The fact that margins could vary (upwards or downwards) does not invalidate the average assumption. TfGM did consider further variability around the long-term average assumption, and in doing so, reflected risks in the quantified risk assessment. These risks were valued in relation to additional bidder margin (such as the risk that the EBIT margin is higher due to a lack of bidders being attracted).

Depots

7.2.61 A number of concerns were raised over the costs associated with depot provision, including the more general point that the costs of GMCA acquiring or providing depots would be avoided under the partnership options.

7.2.62 Jacobs commented, "*Costs related to bus depots … appear to be lower than we expect*" and that "*The cost of acquiring bus depots currently owned by existing operators could be higher than currently assumed in the business case. Existing operators are unlikely to put depots up for sale in order to facilitate a franchising competition which they have a chance of losing*". Jacobs also commented that TfGM have assumed that the configuration of depots across Greater Manchester will remain the same but, since the network under franchising will have a different pattern, that may require the purchase of new depots, which would increase costs compared with those assumed in the Assessment.

7.2.63 Rotala considered it likely that the cost of acquiring bus depots had been understated. They cited various factors, including legal costs and the risk of legal challenge associated with a CPO process; that existing depots have an intrinsic value to bus operators over and above their market value which should be reflected in the costs of acquisition; and that key depots would need major capital expenditure after acquisition that had not been accounted for in the transitional costs (such as approximately £1 million required for the roof of the Queen's Road depot). They also suggested that it was unlikely that the configuration of depots will remain the same under franchising, given that different service patterns are likely to arise once franchises have been awarded.

7.2.64 Stagecoach considered the recommended approach of providing strategic depots for large franchises places a further debt burden on TfGM and GMCA and questioned "*whether the £58 million provision for the purchase of the ten strategic depots across the whole of Greater Manchester is reasonable, and what assumptions have been made in terms of management resource and timescales for just undertaking this activity. With interest payments this investment is set to cost £85.7 million".*

7.2.65 First also commented that they considered there were likely to be additional costs associated with the provision of depots but did not set out any specific examples of what those additional costs may include.

7.2.66 The Stagecoach response refers to provision of £58 million for depots and that interest payments would bring this to £85.7 million. As an important point of clarification, £85.7 million was the cost provision for the total acquisition and refurbishment costs and did not reflect any interest payments (the costs of repayment and interest being allowed for in addition to this sum and as summarised at Table 48 of the Assessment). Instead, the difference reflected further cost allowances for items such as plant, risk and improvements and refurbishments. For clarity the components of the £85.7 million, as set out in Table 47 of the Assessment, are:

NOMINAL DEPOT – CAPITAL COSTS	£m	DESCRIPTION OF BASIS
Depot base cost	58.1	Cost of acquiring the depots
Stamp Duty Land Tax (SDLT)	2.9	Estimated SDLT due based on the cost above
Plant and equipment	6.1	Plant and equipment purchase on acquisition
Quantified Risk Assessment	0.6	Outputs of Risk Model at P80
Initial acquisition costs	**67.6**	**Sub-total**
Initial improvements and refurbishment	18.1	Initial improvements and 0-5 year refurbishment costs
Improvements/refurbishment costs	**18.1**	**Sub-total**
TOTAL ACQUISITION AND REFURBISHMENT	**85.7**	

7.2.67 This also clarifies Rotala's comment where they consider that additional capital expenditure would be required and that this had not been accounted for, as the £85.7 million cost included provision of £18.1 million for improvements and refurbishment post-acquisition. These costs were assumed to be incremental compared with the Do Minimum and would be expected to improve the operational standard of the depots.

7.2.68 In response to the comment regarding financing depot costs through borrowings, TfGM is satisfied that financing capital costs through borrowings is a conventional financing approach that matches capital costs to ongoing revenue streams and, as set out in the Assessment at section 43.9.4 and 43.9.5, GMCA could accommodate borrowings of this scale well within its external borrowing limits.

7.2.69 In relation to the concern stated by Rotala and Jacobs regarding the configuration of depots, which TfGM understands to mean the geographic location of depots across Greater Manchester and whether new or additional depots would be necessary, the proposed network would initially replicate the existing network if franchising were introduced. The preferred approach to depot provision has identified 10 existing strategic depot sites across Greater Manchester and, in identifying these preferred sites, the geographic location and proximity to proposed franchise lots was one of the criteria considered. It may be desirable in the longer term to rationalise depot capacity or consider new sites; however, this decision would be subject to its own investment case and consideration of the incremental benefits and costs.

7.2.70 The Commercial Case section of this report from section 6.2 considers a number of further issues raised in relation to depot provision, including the availability of CPO powers, schedule considerations and other potential options for depot provision. It also restates that the preferred approach set out in the Assessment is to acquire or control depots through a negotiated settlement rather than a CPO basis and that the estimate of the cost of acquiring control of strategic depots reflects a combination of a likely negotiated transfer valuation and an independently obtained CPO valuation.

Fleet

7.2.71 A number of concerns were raised by incumbent operators regarding fleet provision, and associated costs, under the franchising proposals. A summary of the concerns stated include:

- A requirement, or increase, of vehicle leasing will increase costs;
- A lack of availability of used vehicles will mean new vehicles must be provided;
- There will be an improved fleet specification under franchising resulting in higher costs; and
- The impact of environmental standards on vehicle provision.

7.2.72 The concern, principally raised by Rotala, regarding vehicle leasing and resulting impact on costs is discussed further in the EBIT margin section, which concludes the preferred option under franchising is to provide owned vehicles through the proposed Residual Value mechanism and there is no ‘mandating’ that vehicles are provided on a leased basis.

7.2.73 The Commercial Case section of this report from Section 6.8.10 discusses further the availability of used vehicles and notes that in the event an increased proportion of new vehicles were provided (resulting in a higher capital cost) then there would be maintenance, reliability and other associated vehicle lifecycle cost savings.

7.2.74 The fleet specification under the franchising proposals was designed to be similar to the fleet currently operating in Greater Manchester and the Assessment set out the preferred option to acquire existing fleet, which would further ensure the alignment of fleet specification.

7.2.75 In relation to the implications of environmental standards on fleet provision, these issues are considered further in the clean air section at section 4.9 of the Strategic Case section of this report; however, it is acknowledged that additional capital costs for retrofitting or replacing fleet vehicles to meet environmental standards are not included in the Proposed Franchising Scheme costs (and nor are any ongoing lifecycle cost-benefits from upgraded fleet). The Clean Air Zone Outline Business Case included these requirements, and GMCA has made clear the requirement for the Government to provide financial support for these proposals.

Disruption / Service withdrawal during transition

7.2.76 First considered that operators may choose to withdraw services or abandon commercial networks as a key reason why, in their view, the net transition cost for the Proposed Franchising Scheme was underestimated.

7.2.77 The Assessment acknowledged under Table 59: Key Transition and Mobilisation Risks that "*There is a significant business continuity risk during the transition to franchising, as the incumbent operators may begin to reduce or deregister services (marginal service reduction or large-scale cessation of services*)".

7.2.78 The Assessment also set out the potential steps to mitigate the impact if this risk materialised, including through early engagement with operators; potential extension of deregistration periods; working with alternative operators to step in and run services on a commercial basis if required and tendering any withdrawn services on a short-term basis.

7.2.79 The quantified risk assessment also included a financial provision for this risk in the event that a decision was taken to tender withdrawn services on a short-term basis. This risk was therefore acknowledged; however, as set out, TfGM has considered steps that would mitigate withdrawal of services and the quantified risk assessment included a financial provision for this risk.

Costs of legal challenge

7.2.80 Rotala commented on the risk to bus operators, and the financial detriment, in the event of being unsuccessful in winning one or more franchises and further commented that there was no provision for the cost of potential litigation. It also reiterated this point in response to Question 37 relating to impacts of the Proposed Franchising Scheme on operators and commented that: "*Rotala PLC would like to make it clear that it considered there to be a real risk that implementation of the Franchising Scheme will result in operators exiting the market and losing their business. This will result in costly litigation for both GMCA and the operator which could delay introduction of the scheme. Ultimately, incumbent operators and GMCA need to behave in a constructive and supportive way for the scheme to be a success which, in its current format, simply will not happen…"*

7.2.81 Go North West commented in their response that "*GMCA would be at significant risk of legal challenge if it were to implement the Scheme because it does not appear to meet the statutory test for value for money. It is also possible that GMCA would face legal challenge if it sought to exercise CPO powers. It is not clear that GMCA has accounted for the cost associated with such legal challenges or the inflationary affect that any delay arising from* *legal proceedings could have on the cost base which further undermines the affordability of the Scheme".*

7.2.82 It is not possible to exclude the possibility of a legal challenge as that depends on the actions of other parties. Provision for costs associated with legal challenge was, however, recognised and provided through the quantified risk assessment. For example, a number of legal challenge risks were set out in the Assessment at Table 59: Key Transition and Mobilisation Risks.

7.2.83 In relation to Go North West's comment on the inflationary effect of any delay, various themes in this report consider concerns and mitigations in relation to the schedule. It should be noted that whilst not specific to any legal challenge arising, the quantified risk register did include the risk of delayed implementation due to mobilisation and complexity issues and was quantified in terms of prolonged management costs and resources.

Other costs

7.2.84 Stagecoach state that the Financial Case "*makes a number of assumptions, which appear to have been generated to create an overly-beneficial picture for franchising".*

7.2.85 Stagecoach also elaborated with concerns over a number of other costs. It said *"there is no allowance for any operator staff redundancy costs (due to changes in the nature of the business requiring different skill sets). There is no allowance for operator equipment write-downs, where new equipment is required by GMCA, for example, for radio, automatic vehicle location (AVL) or Intelligent Transport Systems (ITS) equipment. Nor is there any provision for the increase in costs of operators to operate in a contracted franchising world, where the recruitment of contracting managers will be required for example. The Assessment provides significant focus on the number of FTEs required within TfGM but provides no assumptions for the recruitment of contract management and performance regime analysts within bus companies. Similar roles are prevalent in London bus operating companies and within train companies operating in a franchise market".*

7.2.86 With regard to Stagecoach's point on allowances for redundancy and allowances for operator-equipment write-downs for radio, AVL and ITS, then to the extent any such losses arise, it is correct that no provision was reflected in the financial costs of the scheme as this would be a matter for operators. The legal and procedural section (see from section 16.6.59) considers comments in relation to compensation and notes that the legislation providing for franchising does not include any provision for the compensation of any person adversely affected by the introduction of such regulation and that GMCA and the Mayor will need to consider, and be satisfied, that the introduction of the Proposed Franchising Scheme does not impose an individual and disproportionate burden on any of them. Further issues in relation to redundancy and contracting resources are also considered in the legal and procedural section (from section 16.6.47 of this report relating to redundancy) and Management Case at section 8.3 of this report relating to costs of managing franchises) and at section 8.5 relating to employees and redundancy.

Sensitivity Analysis

7.2.87 In its response, Rotala considered that the cost sensitivities applied in the Assessment were "*too mild*" and cited as an example its view that wage inflation in the industry had "*recently been as high as 25%*". Rotala said "*Other examples are reinsurance costs and claims costs* *which are increasing faster than RPI + 1% for Rotala. Indeed, Rotala's reinsurance costs have jumped a staggering 25% this year".*

7.2.88 Go North West stated that, in their view, the sensitivity testing was "*inadequate*" though referred to their observations on the Economic Case for the reasoning.

7.2.89 TfGM cannot specifically comment on the cost experience of an individual operator such as Rotala. Cost sensitivities were reported in relation to fuel costs and wage growth, but not in relation to reinsurance and claims costs, in Table 50 of the Assessment. As explained in the Assessment at section 41.1.13, the rate of growth in fuel costs and wage costs were considered key assumptions in forecasting cost growth as these cost categories represent the majority (greater than 70%) of operating costs in the base year and hence represent a much larger value, and proportion, of typical operating costs compared with the reinsurance and claims examples cited by Rotala.

7.2.90 TfGM does not consider that the fuel and wage cost sensitivities are "*too mild*" as the sensitivities are applied at a network level (rather than, for example, at an individual route, franchise package or individual operator level) and are applied over the full 30-year appraisal period (rather than, for example, an individual year). In the case of downside sensitivities, it should also be noted that the outputs of the sensitivity analysis did not assume any utilisation or availability of the quantified risk provision and the outputs were stated before any mitigating actions that could be taken by GMCA.

Financial Objectives

7.2.91 First noted the reference to a net surplus under the Proposed Franchising Scheme of £94 million (post-transition) and observed that "*Given the objectives of Franchising – to provide a better bus service to Greater Manchester – would it not be more appropriate to manage the levels of fares and the provision of services to avoid this surplus? Or better yet, to adopt the partnership approach to also avoid the expenditure?"*

7.2.92 The £94 million surplus represented a modelling position that was above 'break-even' post-transition. It is acknowledged that the objective of the Proposed Franchising Scheme is not to make a surplus. In practice, any net surplus arising over the long term would be reinvested. The Assessment set out this principle, for example, at section 42.1.1 "*Under franchising, all sources of income would be reinvested into an integrated transport network".*

Financial position of London bus services

7.2.93 Arriva did not make any specific comments on the Financial Case, but it did draw, what TfGM understands is, a comparison to the financial position of London bus services by stating: "*We would highlight the current annual deficit and debt burden which can result from introducing and operating a franchised bus market, as can be seen in the only existing franchised bus market in the UK at present".*

7.2.94 Arriva did not provide further reasoning as to why they consider a deficit and debt burden would result from a franchising model. However, TfGM note their understanding that the 'deficit' in respect of London buses reflected the difference between revenues (passenger and commercial) and operating costs and was stated *before* the sources of public funding received by TfL. Whilst the sources of funding (and absolute scale of financial flows) were different between London and Manchester, in principle a difference between passenger revenues and operating costs already exist in Greater Manchester, as substantial public funding also supports bus services in Greater Manchester.

Second consultation

7.2.95 Given that a scenario-based analysis was produced for the second consultation, and that the comments under this theme from the first consultation predominantly relate to more specific modelling, forecast and assumption issues, there were few comments on these issues in response to the second consultation.

7.2.96 However, in response to the second consultation, Rotala stated: *"Finally, as noted in the opening section of our client's replies, all the risks identified in our client's response to the Consultation (dated 7th January 2020) remain prevalent and they have not been responded to properly, or at all by GMCA. For example, no account has been made for the cost of litigation in purchasing the depots from incumbent operators in the event that this has to be forced by Compulsory Purchase Order, or the costs of pension schemes/liabilities, or for challenges to the award of contracts for service under the Public Contract Regulations 2015."*

7.2.97 Stagecoach also states in its response: *"The GMCA has stated that historic pension costs will remain with the operators but those with defined benefit schemes may need to provide greater contributions to them if the Proposed Franchising Scheme is implemented. Whilst ongoing funding of liabilities would be calculated on a basis set by the local administering authority of the pension scheme, the magnitude of the funding stepup that could be required on a discontinuance basis even for one operator could be considerable."*

7.2.98 In relation to these specific points:

- The £58.1 million financial provision for depot acquisition set out in the Assessment did include provision for professional fees, including legal costs and surveys;
- In relation to pension schemes, costs and impacts a response to points raised during the first consultation is set out in the Management Case section 8.6.1, and these are considered to remain valid in light of Covid-19;
- In relation to Stagecoach's concern of funding pension liabilities on a discontinuance basis, this is considered further in the Management Case sections 8.6.24 to 8.6.29 which, in summary, set out TfGM's view that the likely extent of this risk has been overstated: it was noted in response to a similar concern raised in response to the first consultation that, absent franchising, it would be expected in any event that operators' funding of existing liabilities would increasingly tend towards a more conservative basis over time as active pension member numbers reduce; and
- In relation to the cost of legal challenges, as set out in the Costs of legal challenge sub-section (at section 7.2.82 specifically), instigation of legal challenge would depend on actions of other parties. However, financial provision for legal costs has been included through the quantified risk assessment.

7.3 Theme 2 – Funding Proposal and related matters: Greater Manchester local authority comments

7.3.1 In response to the first consultation, the local authorities of Greater Manchester raised a number of issues in relation to the proposed funding, and the affordability, of the Proposed Franchising Scheme, including:

- Clarification of each authority's share of the proposed total local authority contribution of £17.8 million towards the costs of transition to franchising and confirmation that this would constitute a one-off contribution;
- Concerns over any ongoing or additional funding requirement falling on local authorities;
- The desirability of additional central government funding and how any additional revenue funding would be utilised;
- A concern over the timing of the precept requirement relative to the phased roll out of franchising; and
- The financial risks of the Proposed Franchising Scheme and mitigations in the event of a funding shortfall.

7.3.2 Some authorities, such as Bury Council, also queried the implications of franchising on other priorities, such as future infrastructure programmes. A number of other consultees also made comments in relation to 'opportunity cost', which are considered in the Strategic Case section of this report at section 4.12.30.

Local authorities' share of the contribution towards the costs of the transition to franchising

7.3.3 The GMCA report of 7 October 2019 set out the proposed contribution of the 10 local authorities to the additional costs of implementing the Proposed Franchising Scheme as a one-off contribution and sets out the rationale for the preferred funding strategy.

7.3.4 The individual shares of the total local authority contribution are proposed to be split by population (and weighted as of June 2017), reflecting the same basis as the Statutory

Contribution and Transport Levy. On this basis, the share for each authority would be as follows:

Authority	**Funding Contribution Value (£millions)**
Bolton	1.80
Bury	1.20
Manchester	3.48
Oldham	1.48
Rochdale	1.39
Salford	1.59
Stockport	1.86
Tameside	1.43
Trafford	1.50
Wigan	2.07
Total	**17.8**

7.3.5 It should also be noted that, separately, GMCA at its September 2019 meeting allocated unbudgeted resources from retained business rates receipts to local authorities. These resources were of greater value than the contribution to the Proposed Franchising Scheme and therefore, taken together, it is anticipated that the proposed contribution would not result in a net impact on local authority budgets.

7.3.6 The Mayor's 2020-21 budget proposals to the January and February 2020 GMCA also set out that, in the event the Mayor makes a decision to introduce the Proposed Franchising Scheme, a further report would be brought to GMCA proposing that there should be an increase in the statutory charge of £17.8 million for 2020-21 to support the implementation of that decision and which would require the unanimous agreement of the members of GMCA. The Covid-19 Impact Report subsequently set out that the proposed one-off contribution from local authorities would be deferred until the end of any transition period (from 2020/21 previously to approximately 2025/26).

Ongoing impact on local authority finances

7.3.7 Bolton Council and Tameside Metropolitan Borough Council stated in response to the first consultation on the Assessment that it was important that the Proposed Franchising Scheme was fully funded without ongoing recourse to the GM local authorities. Rochdale Borough Council considered the approach to funding was appropriate but raised a concern that reductions in Government funding for local authorities would result in the Council having to contribute to the costs of the Proposed Franchising Scheme through their levy. Salford City Council commented that *"any further ongoing contributions will have a* *detrimental impact on what authorities can deliver locally and so should not become the normal source of funding".*

7.3.8 As detailed in the Introduction to this section, and in the Assessment at 40.1.7 onwards, existing sources of public funding were assumed to be retained over the appraisal period and the value of this required public sector funding is forecast to escalate in cash terms under all bus reform options, including the Do Minimum. This reflects forecast growth in the costs of concessionary reimbursement and the assumed retention of Greater Manchester's current local bus concessions such as half fare for children (ages 6 to 16); half fare for 16–18-year olds to and from a place of education; half fare for disabled passengers outside ENCTS provisions; and, extension of the free fare for severely disabled passengers to all times of the day. As explained in the Assessment at section 40.1.13, 'Our Pass' was not included in the forecasts as it is only committed for a trial period.

7.3.9 The Assessment also noted that the forecast escalation above the current baseline funding provided by the statutory contribution could, in practice, be met from a combination of funding sources, including the Mayoral precept, resetting the statutory contribution baseline provided by the local authorities and central government.

7.3.10 Whilst the Assessment did not set out the allocation of any increased baseline funding requirement between these funding sources, it should be noted in response to the issues raised by local authorities that:

- The funding proposal approved by GMCA would provide a basis to fund the franchise-specific net transitions costs of £122 million identified in the Assessment fully over the transition period; and the proposal also included approximately £12.5 million of funding for forecast cost escalation in current budgets over the transition period, that was forecast to occur under all scenarios, including the Do Minimum;
- As explained in GMCA's report of October 2019, the funding proposal also balanced providing one-off funding during transition and a precept requirement, which would provide an ongoing source of revenue funding to manage any annual deficits and provide a level of base funding for forecast escalation in funding beyond the transition period; and
- Bus services are a Mayoral function, and ongoing local contributions for bus services are funded from a combination of the statutory contribution and precept rather than the transport levy. Local authorities, through their members of GMCA, can exert influence over these funding sources through the respective governance arrangements. A variation in the statutory contribution requires unanimous agreement of the members of GMCA, and budgeting of the Mayoral precept follows a statutory process, which includes veto powers by the members of GMCA.

7.3.11 In summary, TfGM consider that the proposed funding arrangement that was previously approved by GMCA would provide a basis to fund the franchising-specific net transition costs of £122 million identified in the Assessment fully, and the proposal had considered the ongoing sustainability of funding both during and after the transition period. This includes approximately £12.5 million of forecast cost escalation during the transition period, which was forecast to occur under all options, as well as the Do Minimum. The precept required during the transition period would also provide an ongoing source of revenue funding to manage any annual deficits and provide a level of base funding for forecast escalation in funding beyond the transition period.

Central Government Funding

7.3.12 Stockport Metropolitan Borough Council, in its response to the first consultation, considered it would be beneficial if central government made a greater contribution towards the Proposed Franchising Scheme. As noted, the Assessment acknowledges the role of Government funding and the subsequent GMCA report of October 2019 further acknowledges the desirability of Government funding: "*Since the assessment was completed the Government has indicated that it will support Greater Manchester to 'deliver a London style bus system in the area' which could include revenue funding. If Government funding does become available this could offset any local contribution including council tax/precept requirement".*

7.3.13 The Government, in Spring 2020, made a number of positive announcements around the role of buses, including a pledge of £5 billion of funding to support bus and cycling services over the next five years. In this regard GMCA and TfGM officers remain actively engaged in making the case to Government to secure additional funding for bus services in Greater Manchester.

7.3.14 Whilst the immediate availability of additional Government funding would be welcome, it was not in itself a precondition of the Proposed Franchising Scheme being implemented as the Assessment set out credible sources of funding that exceeded the transition requirement; and GMCA approved a funding proposal for the first consultation that did not rely on additional Government funding and reflected sources of funding that were in the control of local decision-makers.

Timing of precept requirement

7.3.15 Stockport Metropolitan Borough Council raised a concern over the proposed phasing of the precept requirement before Stockport residents would realise the benefits of franchising in their area.

7.3.16 TfGM consider that it is necessary to adopt a phased implementation approach for the roll out of franchising. This approach allows a phased implementation of the future operating model, mitigates risks to passengers and increases the likelihood of successful implementation. A phased rollout does necessitate a sequencing of sub-areas, and this sequencing has considered the geographic, commercial and travel pattern characteristics of the sub-areas to determine the preferred sequence.

7.3.17 In GMCA's funding proposal as set out in the first consultation, the future years' precept requirement is phased from financial year 2021-22, and therefore is already deferred from the potential introduction date of the Proposed Franchising Scheme, and the requirement from 2021-22 to the end of transition is also based on a phased build-up of the precept requirement. The Covid-19 Impact Report noted that whilst the funding sources remained available in principle to prioritise for bus reform (or another as yet unidentified purpose), the phasing of implementation costs and required funding would now be deferred by at least one year, and consequently, the precept requirement would now be phased from financial year 2022/23 at the earliest.

7.3.18 TfGM consider this approach to funding would strike a balance between the transition costs that are necessarily incurred before services under the Proposed Franchising Scheme commence and the funding of those costs.

Financial risks of the Proposed Franchising Scheme

7.3.19 A number of authorities, including Bolton Council, Bury Council, Salford City Council and Tameside Metropolitan Borough Council, made comments in response to the first consultation relating to the financial risks of the Proposed Franchising Scheme. The issues raised included risks in relation to revenue risk/shortfalls, the mitigation strategy and consequences of fares and network policy mitigations. Tameside Metropolitan Borough Council, for example, stated that *"A major concern is income risk mainly through the farebox and whether it will be sufficient to pay for the franchised services. In such instances, the Proposed Franchising Scheme could either reduce the size of the operated network and/or increase fares or by allocating more funding to support the services".* Salford City Council commented that "*It should be noted that any further ongoing contributions will have a detrimental impact on what authorities can deliver locally and so should not become the normal source of funding".*

7.3.20 The Assessment acknowledged, at section 42.4.6 and elsewhere, that, allied to control of fares, services and integration of the bus network, the Proposed Franchising Scheme carried greater financial risks to GMCA than other options and that the majority of ongoing income and funding to meet the franchised network operating costs was from passenger farebox revenues which are inherently variable.

7.3.21 In relation to farebox revenues (and net revenues) under the Proposed Franchising Scheme, the modelled position after the transition period was a net cumulative surplus of £94 million to the end of the appraisal period; and a quantified risk provision, including an element of revenue risk provision, was included in the financial forecasts.

7.3.22 It was acknowledged that the modelled net cumulative surplus and revenue risk provision would not be able to accommodate all 'downside' scenarios without further mitigating actions. Sensitivity analysis was included in the Assessment to illustrate a range of outcomes (both positive and negative) and, in the event farebox revenues (or net revenues) were lower than forecast under the Proposed Franchising Scheme, and could not be accommodated within the net cumulative surplus or quantified risk provision, the Assessment Summary set out, under the summary of downside risks and mitigating actions section after section 4.134, the mitigations available to GMCA to set a balanced budget. The mitigations included increasing fares, reducing services and additional funding and this would necessitate prioritisation decisions to be made by the Mayor and GMCA.

7.3.23 In this regard, Salford City Council considered in its consultation response that, whilst the mitigation options would make commercial sense, they would be politically challenging to deliver, and there may be further financial support required in the future.

7.3.24 It is acknowledged that increasing fares or reducing services would be undesirable for passengers (under any option). With regard to financial support required in the future, the Assessment acknowledged increased funding above the level currently provided by the statutory contribution was forecast to be required over the appraisal period under all options, as well as the Do Minimum. The Assessment also set out how additional funding could be met from a number of options and sources, including a Mayoral precept, resetting the statutory contribution baseline provided by the local authorities and central government.

7.3.25 However, as already noted in this regard, GMCA approved a specific funding proposal for the first consultation which fully funded the identified requirement in the transition period and, in relation to Salford City Council's comment regarding further future financial support, the precept required during the transition period would provide an ongoing source of revenue funding after the transition period to manage annual deficits and provide a level of base funding for forecast escalation in funding beyond the transition period.

Second consultation

7.3.26 The Covid-19 Impact Report concluded that the funding sources included in GMCA's funding proposal, including the one-off contribution during the transition period from the local authorities of Greater Manchester, remained available in principle to prioritise for bus reform. It was also noted that, in view of the pressures on public finances, this proposed contribution would be deferred until the end of the transition period in approximately 2025/26 in the event the Proposed Franchising Scheme was introduced.

7.3.27 In response to the second consultation, local authorities were for the most part supportive of the affordability conclusions, whilst some authorities made specific comments on the financial risks and mitigation in relation to reducing the network or made their support for the Proposed Franchising Scheme conditional on there being no further funding requirement from the local authorities.

7.3.28 Oldham Council responded that "*Oldham Council is satisfied that the Proposed Franchising Scheme and partnership option remains affordable to GMCA in the light of Covid-19*" and Tameside Metropolitan Borough Council similarly endorsed the affordability conclusions in the Covid-19 Impact Report for the franchising and partnership options.

7.3.29 Manchester City Council responded that: "*The Council recognises that the Proposed Franchising Scheme would place the GMCA and GM districts at a higher level of financial risk than the partnership or Do Minimum options. However, we are confident that the proposed mitigations set out in the consultation document are sufficient to proceed with the Proposed Franchise Scheme, and the benefits of doing so in terms of realising the benefits to the network and the wider public transport system and all that that would achieve, outweigh this risk. It is the case that the bus network will require public subsidy both in terms of revenue and capital investment in order to arrest the decline in patronage and recover from the pandemic, whatever the reform option chosen, and to rely on either the partnership or Do Minimum options would mean providing this public funding against highly uncertain, uncoordinated and uncontrollable commercial decisions of bus operators, which is unlikely to achieve any of the Council and GMCA's vision for an integrated transport network.*"

7.3.30 Trafford Council, in its response, drew attention to the risks associated with the Proposed Franchising Scheme balanced against the costs of not intervening: "*There are evidently clear risks associated with the Franchising Scheme and given uncertainty as to the full impact of the pandemic these cannot be effectively ruled out or mitigated. However, there will also be an indirect cost of not proceeding – through likely continued decline in bus* *services and failure to link with other modes and the consequential adverse impacts for the economy, society and environment."*

7.3.31 Wigan Council, in its response, commented that: "*The major concern is the extent in which Covid-19 impacts the level of bus demand and associated farebox revenue. The most notable proposed method to offset reduced income from farebox revenue is to reduce the size of the network. This would be a last resort as further reductions to the existing network will reduce consumer confidence and contribute to a more rapid decline of patronage."*

7.3.32 Salford City Council considered in its response that both partnership and franchising options will be financially impacted as a result of lower patronage and contrasted where risk would predominantly lie under these options. In respect of the revenue risk and mitigations, it commented: *"The two most likely scenarios for future bus demand in Greater Manchester as a result of Covid show that patronage is likely to reduce between 20 and 30%. The net effect of this is reduced farebox revenue between £82 million and £96 million. Under Franchising the mitigation for this will be the responsibility of the GMCA. The report states that potential mitigation measures include changes to concessionary reimbursement, reducing transition costs, utilisation of other funding available to the GMCA including the Integrated Transport Block (ITB) and reductions to the network."*

"Salford City Council is supportive of the proposed Franchising scheme, however it is concerned that making savings through reductions to the bus network is contradictory to one of the central aims of franchising for Local Authorities, which is to improve local bus services for residents. Use of the Integrated Transport Block to mitigate the revenue shortfall is suggested in the report, this will impact on GM's ability to deliver wider transport interventions in the future. We therefore request that further consideration and discussion be held with the GMCA / districts on potential options to mitigate the impact of Covid on farebox revenue under a Franchised model during the transition period."

7.3.33 Bolton Council, in its response, made support for the Proposed Franchising Scheme conditional upon not resulting in extra financial burden on local authorities: *"The most significant risk to the scheme will be how it is funded. We appreciate that at this stage that farebox risks are anticipated to sit with GMCA, however we have concerns with regards to shortfalls in funding and ongoing Council Tax precepts on residents. However, it is important to stress and make it conditional that the franchising option must not lead to increasing and ongoing extra financial burden on the ten councils."*

7.3.34 It also highlighted that: *"... it has to be said that a strongest possible case needs be made to the Government to make good the stark difference that exists between the subsidy towards public transport in Greater London compared to North West; with figures of nearly £2,000 and £500 a head respectively. In other words, Greater Manchester cannot hope to have London style transport without substantial increase in funding from the Government; otherwise, a disproportionate burden would fall on local taxpayers, which is not possible because of other budget pressures. We have real concerns over the level of additional precept on council tax over the coming years and cost for residents at the time of uncertainty as many seek to recover economically in a post- COVID world."*

7.3.35 Stockport Metropolitan Borough Council commented in its response that it "… *would like to actively work with TfGM to monitor those areas without the franchise in the early phases to protect services and identify any package of measures needed to support this. This should* *be factored into the financial case for the proposals, albeit the exact costs will not be known at this stage".*

Network reduction

7.3.36 In response to the specific points raised by Wigan Council and Salford City Council, it should be noted that whilst network reduction is included in the Assessment and Covid-19 Impact Report as a financial mitigation, and in the first consultation it was acknowledged that this would not be desirable under any option from a passenger perspective, this was not the only mitigation reflected in the Covid-19 Impact Report.

7.3.37 Other mitigation options included in the Covid-19 Impact Report were the payment of concessionary reimbursements in line with actual, rather than the pre-Covid-19, number of journeys; a reduction in transition costs; and other locally controlled funding sources that could be prioritised for bus reform, including earn-back funding in 2025/26 and Integrated Transport Block (ITB) funding. In relation to Salford City Council's concern over any utilisation of ITB as a mitigation option, as it notes if ITB funding was allocated for bus reform then it could not be allocated for other as yet unidentified purposes. TfGM also notes that ITB in Greater Manchester has historically been 'top sliced' to fund major transport interventions (the Greater Manchester Transport Fund) and other funding sources announced by Government in the Spending Review 2020 (including the intra-city transport settlements) remain available to be prioritised.

7.3.38 Notwithstanding effects on passengers, in the event financial mitigations were required, TfGM considers it would be appropriate to maintain network reduction as a mitigation option, but it would be for GMCA and/or the Mayor to consider, in line with its public accountability, legal responsibility and control of key policy decisions in respect of the Proposed Franchising Scheme, to determine the extent to which any of the mitigation options would be implemented.

7.3.39 The Covid-19 Impact Report also noted (at section 5.3.5) that, in general, the uncertainties within the Scenarios were considered likely to affect all bus reform options, as well as the Do Minimum. If the Proposed Franchising Scheme were not implemented, it is considered highly likely that private sector operators would face similar choices, but these decisions would be made according to commercial principles. Stagecoach Group for example, acknowledges in its summary of *'mitigating actions'* included in its October 2020 interim reporting that: *"The key mitigation available would be to further reduce the Group's cost base, in particular reducing vehicle mileage to better match customer demand, which would result in variable cost savings and the reduction of capital expenditure".*

7.3.40 As noted in the Covid-19 Impact Report (at section 5.5.7), GMCA would need to determine how to respond in the event of further decline in bus services. If GMCA were to make more funding available to support services under the Do Minimum, this would still be a reactive process that adapted itself around decisions made by private sector operators.

Impact on local authority finances and precept

7.3.41 In response to Bolton Council's concern over any increased financial burden on local authorities, similar responses were noted in the first consultation as set out at sections 7.3.7 to 7.3.11. The Assessment and Covid-19 Impact Report acknowledge that the Proposed Franchising Scheme would expose GMCA to an increased level of financial risk. However, the proposed funding strategy considered both the transition period and the ongoing sustainability of the Proposed Franchising Scheme. As noted in the Covid-19 Impact Report (at section 5.3.38) the inclusion of the proposed Mayoral precept would provide an additional ongoing revenue stream of approximately £13.5 million per annum at the end of transition which would support the ongoing sustainability of the Proposed Franchising Scheme. As detailed in the Covid-19 report the proposed precept reflects an existing precept raised for bus reform purposes plus an additional precept requirement from future years' budgets.

7.3.42 Furthermore, the additional funding mitigation options included in the Covid-19 Impact Report of Integrated Transport Block (ITB) funding from 2021/22 which, based on previous years' allocations, would be up to £16 million per annum and uncommitted 'earn-back' funding of approximately £15 million per annum from 2025/26 would not directly impact existing local authority budgets, although if the funding were utilised for the purpose of bus reform it could not be utilised for other priorities.

7.3.43 In relation to the concern over the level of precept in the coming years, it should be noted that a significant majority of the proposed funding is from non-precept sources and approximately £11.0m of the proposed precept requirement has already been raised as part of the Mayor's 2019/20 budget for bus reform purposes (equating to £2.2m per annum applied each year over the transition period). The Covid-19 Impact Report acknowledged the pressures on local public finances and the report to GMCA of October 2019 noted that for the proposed future years' precept requirement GMCA would need to consider whether this was additional funding or to be met from savings elsewhere in the budget in the event the Proposed Franchising Scheme were introduced. In considering any impact of the proposed precept requirement, GMCA will need to consider its objectives for bus services, the costs and benefits of the intervention, the potential impacts of not intervening as highlighted by some consultees and the value achieved from the already significant ongoing investment in bus services which represent the largest element of the local transport budget.

Government funding

7.3.44 In relation to Bolton Council's point on Government funding (and similar points were noted in the first consultation) the Assessment and Covid-19 Impact Report fully acknowledge the importance of Government funding, both from a recovery and reform perspective. The unmitigated farebox revenue loss values set out in the Covid-19 Impact Report do not include any offsetting value of Government funding, were this to be available. The Government, in Spring 2020, made a number of positive announcements around the role of buses, including a pledge of £5 billion of funding to support bus and cycling services over the next five years. The Covid-19 Impact Report also acknowledges that the CBSSG Restart grant, or other Government funding, could be used as one of the mitigations during the transition phase.

Service protection

7.3.45 In response to Stockport Metropolitan Borough Council's point related to service protection, the response to the first consultation considered disruption and service withdrawal during transition which is set out at sections 7.2.76 to 7.2.79. The response acknowledged that reduction or deregistration of services is a key transition risk, and this would remain so in light of Covid-19. The mitigation strategy set out is considered to remain valid and some financial provision to mitigate service withdrawal was included via a quantified risk in the event that a decision was taken to tender withdrawn services on a short-term basis.

Conclusion

7.3.46 Having considered the responses provided by local authorities in the first consultation and second consultation, as well as the responses from the other consultees, TfGM is satisfied, for reasons given above and developed further below, that the consideration of the financial risks as set out in the Assessment, and subsequently in the Covid-19 Impact Report, and the development of mitigations against potential reductions in farebox revenue, represents an appropriate risk balance in order to achieve the objectives of GMCA. GMCA would retain control of the key policy levers under the Proposed Franchising Scheme and the objectives of GMCA are commonly supported by most or all local authorities.

7.4 Theme 2 – Funding Proposal and related matters: Other Statutory and Non statutory consultee responses

7.4.1 In the first consultation, there were mixed responses from other statutory and non-statutory consultees on the funding proposal and related matters.

7.4.2 Stagecoach, and a number of members of the public, raised a concern over the capability and expertise of TfGM/GMCA to manage a franchised network. This is considered in the Management Case section of this report from Section 8.3.16. A number of consultees also raised the issue of the 'opportunity cost' of the Proposed Franchising Scheme which is considered in the Strategic Case section of this report at section 4.12.30.

7.4.3 For the most part incumbent operators and OneBus responded with a number of concerns over the funding proposal in the first consultation. These are considered below.

7.4.4 Bus Users UK accepted the Proposed Franchising Scheme could be affordable but highlighted other alternatives available at lower risk: *"Just because a plan can be developed to make the scheme affordable does not mean it should go ahead when there are viable and prudent alternatives which would provide the same benefits without the same strain on the public purse and the unnecessary risk involved".*

7.4.5 Manchester Airports Group warned against pursuing bus franchising instead of other transport investment priorities.

7.4.6 Better Buses for Greater Manchester considered the precept to be a price worth paying for the average household to have a better bus network; TravelWatch NorthWest considered the proposed funding was practicable but considered it would be beneficial if Government supported the proposals; HCT Group considered that having a number of funding sources avoided over-reliance on a single funding source but that it would also be desirable to lock in long-term funding or additional revenue streams; and, Unison considered that the costs and funding proposal would be a "*price worth paying*" for a better bus network.

7.4.7 Manchester Friends of the Earth identified the importance of franchising in the context of tackling the impact and costs from the transport sector on public health and climate change emissions. Bruntwood suggested new ways of funding such a change, specifically concerning the devolution of road tax, or charges related to air quality or carbon taxes which could be further diverted.

7.4.8 In relation to these suggested funding sources, TfGM consider that other potential funding sources identified are currently less certain, and (other than Government funding) are less practicable, than the funding sources identified in the Assessment and the funding proposal approved by GMCA. However, TfGM acknowledge that they are relevant and, given the ambition for further 'Phase 2' interventions, should be further evaluated as a potential 'Phase 2' funding stream.

7.4.9 The concerns raised during the first consultation relating to the proposed funding of the Proposed Franchising Scheme include:

- The use of Mayoral precept / council tax to fund the Proposed Franchising Scheme;
- The availability of funding sources; and
- The 'fallback' position.

Use of Mayoral precept / Council Tax

7.4.10 A number of incumbent operators, including Stagecoach, Rotala, and other bodies, including Bus Users UK, raised concerns over the Mayoral precept, or council tax, funding the Proposed Franchising Scheme.

7.4.11 In this regard it should be noted that public funds, and the local tax base, have made and continue to make a significant contribution to the funding of bus services, including the local authorities of Greater Manchester who currently provide up to £86.7 million per annum of funding principally for concessionary reimbursement and supported bus services.

7.4.12 In relation to the local authority contribution to implement the Proposed Franchising Scheme, as already noted, GMCA separately allocated unbudgeted resources to local authorities from retained business rates and therefore, taken together, it is anticipated that the proposed local authority contribution would not result in a net impact on local authority budgets.

7.4.13 In relation to the Mayoral precept, it should be noted that the majority of the proposed funding to implement the Proposed Franchising Scheme identified for the first consultation is provided from non-precept sources and £11.0 million of the precept requirement for transition reflects the proposed allocation of existing precept raised as part of the Mayor's 2019-20 budget for bus reform purposes.

Availability of funding sources and fallback position

7.4.14 Go North West raised a concern over the ability to raise funding from the identified sources and that no 'fallback' position had been set out if the identified funding sources or the amounts anticipated were not available.

7.4.15 It should be noted that the Assessment set out a range of credible funding sources of a value between £213 million to £233 million, which substantially exceeded the forecast net costs of transition identified in the Assessment, so that there were 'fallback' options. As set out in the 7 October 2019 GMCA report, the funding proposal for the first consultation reflected a subset of the same credible funding sources identified in the Assessment, for the reasons set out in the report, including that those sources are in the control of local decision-makers.

7.4.16 The prioritised funding sources also reflected existing mechanisms and part of the funding required during transition was already retained in reserves. The concern identified is to a large extent mitigated as the proposed funding sources are based on existing mechanisms; reflect a subset of the sources and amounts identified in the Assessment; are in control of local decision-makers; and part of the funding has already been retained in reserves.

7.4.17 Whilst an element of the identified earn-back funding was already retained in reserves, the principal risk to the funding strategy, approved by GMCA in October 2019, was the release of the next five-year tranche of earn back covering financial years 2020-21 to 2024-25. The release of this funding has subsequently been confirmed by Government and has therefore consequently mitigated this risk.

Second consultation

7.4.18 In response to the second consultation on Covid-19, consultees provided further comments on the funding proposal and related matters.

7.4.19 Derbyshire County Council raised a concern over the sustainability of the Proposed Franchising Scheme and responded that: "*Whilst this is a decision for GMCA to make, DCC has a concern regarding the long term sustainability of funding the scheme with GMCA taking the revenue risk and the long term impact of Covid 19 still being such an unknown variable"* whilst Transport Focus responded that: *"People will need to be assured of the security of funding to support connectivity and give confidence in the ability to make journeys and return again later in the day, particularly at evenings and weekends and in support of a return to the retail and night-time economies."*

7.4.20 The Caribbean & African Health Network raised a concern over Government funding and responded that: *"If the government funding is reduced or withdrawn, the fear of having the user to pay any additional fee to make up the revenue is scary".*

7.4.21 The Chartered Institute of Logistics and Transport queried the availability of the funding set out in GMCA's funding proposal and responded that: "*We wonder whether the £134.5m will still be available – the £17.8m of funding from District Councils faces huge pressure on local funds, and a similar question mark must hang over the future £22.7m from precepts."* TfGM notes in response that the Covid-19 Impact Report makes clear that the previously identified sources of funding have not been committed for any other purpose and consequently the sources remain available for GMCA and local authorities to prioritise for bus reform. Subsequently at its meeting of 27 November 2020, GMCA approved the proposed funding arrangements and mitigations.

7.4.22 First Manchester and First West Yorkshire both raised a concern over the impacts of costs to Greater Manchester residents: *"The need for costs to be underwritten by local taxpayers at a time when local economic conditions are both unfavourable and uncertain also weighs heavily against franchising. Conversely, investing even a fraction of this sum through partnership working could deliver quicker and more consistent bus journey times with significant fleets of zero emissions buses."* Similar points were raised in response to the first consultation and this issue is considered further below.

7.4.23 The Confederation of Passenger Transport UK raised a similar concern and responded that: *"This will be funded by public money, and will result in higher taxes for local residents. It is unreasonable to expect tax payers to fund the cost of regulatory change, especially during a time when many are facing redundancy and increased uncertainty on how to cover their bills."* It also cited a YouGov poll from 2020 which it said found that 76% of people in Greater Manchester do not want public transport improvements to result in higher taxes. Go North West also cited a YouGov poll and made a similar comment in its response: "*Taxing Manchester residents (i.e. through the mayoral precept) to implement regulatory change, particularly right now when they are facing harder time, is neither sensible nor* favourable with Manchester residents".

7.4.24 TfGM refers to similar responses made during the first consultation set out at sections 7.4.10 to 7.4.13 of this report which in summary note that the majority of the proposed funding is from non-council tax and non-precept sources such as earn back funding and that an element of the precept requirement has already been raised as part of the Mayor's 2019/20 budget.

7.4.25 OneBus raised a number of concerns over the funding for the Proposed Franchising Scheme in its response and commented generally that: "*With the potential of post Covid-19 public spending cuts on the horizon it would be wrong for GMCA to commit to a Franchising Scheme and then find it is no longer affordable."* It also cited a YouGov poll and referred to budget pressures and consultation on services by Manchester City Council and stated: "*Now is not the time to invest in a new venture with so much financial risk when other key Local Authority services face being cut."*

7.4.26 The Christie NHS Foundation Trust responded that: "*As GMCA would open to accountable [sic] for the bus performance we are confident that a franchising model would be better value for money. It is recognised that any further impact from the pandemic may put pressure on GMCA to put more resources into the system to maintain levels of service, but at the same time it may or may not be possible to do so. However this is preferable to the uncertainly [sic] that would come with the do the minimum or partnership options."*

7.4.27 The Association of British Commuters responded, in the context of paragraph 2.91 which considers how GMCA may need to respond to pressures under the Do Minimum in a way that is adapted around the decisions of private sector operators, that: "*Agree entirely with paragraph 2.91. This is an example of the further perversity that covid-19 funding arrangements have created around buses. It is a terrible use of taxpayers' money to bail out bus companies only to have the profit motive remain the axis of decision-making and get nothing in return – no accountability and no chance to plan and improve an area's bus service!"*

7.4.28 A number of specific concerns regarding the proposed funding for franchising and associated mitigations set out in the Covid-19 Impact Report were raised, principally by Go North West, Stagecoach, Rotala and OneBus. The concerns raised are:

- A funding gap arises during the transition period;
- The availability of previously forecast surplus and ongoing revenue risk;
- Availability of funding sources included in the proposed funding strategy;
- Assumptions and valuation of the precept requirement; and
- Alternative uses and funding pressures as a result of Covid-19.

Funding gap during transition

7.4.29 Go North West considered there would be a funding gap of at least £32 million during transition and set out the following reasoning in its response:

"Table 10 of the report shows estimates of unmitigated change in farebox revenues accruing to GMCA compared with the original assessment under four scenarios up to 2025/26. Scenarios 1, 3 and 4 imply a loss of farebox revenue that varies between £82 million and £292 million over the transition period compared with the original assessment. Scenario 2 is the most similar in farebox revenue terms to the original assessment, but this scenario is one of those considered unlikely by Transport for Greater Manchester ('TfGM'). The funding strategy approved previously gives a total available of £134.5 million for transition. For the two most likely scenarios, the estimated loss of farebox revenue over the four year transition period is either £82 million or £96 million. If the transition period is extended for a further year (a probable outcome as explained above), this would see a

reduction in farebox revenue of up to £139 million, based on extrapolating the figures in Table 10. Some savings (£5-10 million) are expected on transition costs and an estimated £4.5 million may be saved on operating costs due to reduced slightly reduced service levels (paragraphs 5.3.32 and 5.3.31 of the report respectively). Even with these savings, the estimated transition cost over the next five years is around £259 million.

The report identifies that an additional £92 million of funding could be made available, based on forecasts of concessionary reimbursement 'overpayment' and five years' worth of future Integrated Transport Block (ITB) funding for Greater Manchester at £16 million per annum (based on previous years' allocations). Added to the agreed funding envelope, this gives a total of £226.5 million. This would still be at least £32 million below the updated estimate of transition costs, leaving a financial 'gap' in the affordability assessment."

7.4.30 Based on this stated funding gap, it considered that: "*Using future ITB funding for Greater Manchester at the assumed level would mean that an additional two full years of future local transport funding would be needed to cover the potential estimated 'gap' than already identified. Alternatively, if current priorities were re-aligned in the next five years, the £32 million 'gap' would require two years' worth of the current annual capital spend in the Greater Manchester Transport Fund, potentially delaying or even cancelling investment in other local transport priorities. It is unclear whether either of these mitigation measures would be acceptable to GMCA and the Greater Manchester Local Authorities. The impact of such mitigation measures on the Economic Case has not been assessed."*

7.4.31 TfGM does not agree with Go North West's reasoning (and omissions in it) on which it appears to rely to arrive at its stated £32 million funding gap. It states in the first instance that TfGM would be forced to extend the transition period beyond the current programme by one year. Section 8.9 of the Management case considers the risk of whether sufficient time has been allowed for the transition period. This concludes that the transition and the implementation of franchising should not result in increased timescales and further deferral.

7.4.32 Even if Go North West's assertion were accepted, the Covid-19 Impact Report makes it clear that the proposed precept would provide an additional ongoing source of revenue funding of approximately £13.5 million per annum which has not been reflected in Go North West's analysis. Further, Go North West's analysis reflects no utilisation of the quantified risk provision which included allowance for a number of risks related to a delayed transition period.

7.4.33 Go North West also cites overpayment of concessionary reimbursements and ITB funding (although it is not apparent how it arrives at £92 million) as mitigations which are reflected in the Covid-19 Impact Report. However, this analysis has omitted earn back funding of up to £15 million per annum from 2025/26 which is set out, alongside ITB funding, at section 5.3.33 of the Covid-19 Impact Report.

7.4.34 It also refers to an estimated £4.5 million that may be saved on operating costs due to '*slightly reduced*' service levels. This figure is referred to in the Covid-19 Impact Report at section 5.3.31. However, the report makes clear that this estimate, which is based on a 1% reduction in network size, is simply by way of illustration and that the value which could be saved if this type of mitigation were to be implemented would depend upon the timing and scale of any such change.

7.4.35 For these reasons, TfGM does not agree with Go North West's analysis that there is a financial 'gap' during transition.

7.4.36 Having stated its analysis set out above and the concern over a funding gap, Go North West made a further related point: "*applying the assumption used in the Economic Case that cost savings can be made at a 1:2 ratio compared to patronage/revenue, the mitigated downside risk over the transition period would be equivalent to around £150 million. This would add to any financial 'gap' and so it is unclear how the Proposed Scheme will continue to be affordable, even if the mitigated downside risk is lower than that suggested using the assumption in the Economic Case."*

7.4.37 It is not understood how Go North West considers that this assumption would add to any financial gap as, in its preceding analysis set out above, cost savings as a mitigation were reflected to a limited extent through £4.5 million of operating cost savings and £5–£10 million of transition cost savings. Applying a 1:2 ratio of cost saving change to demand change would result in a reduction in the (net) revenue risk figures presented in Table 10 and a greater level of cost reduction compared to the transition and operating cost savings previously stated. In stating the '*mitigated downside risk'* would be equivalent to around £150 million, it appears that Go North West may have taken the unmitigated revenue change figures for Scenario 3 (the most adverse scenario) of £292 million over the period and applied a 1:2 cost saving which would result in a deficit of £146 million. However, this omits other significant mitigations stated in the Covid-19 Impact Report including payment of concessionary reimbursements based on actual demand and local funding mitigations through Integrated Transport Block and earn back funding. In any event, the Covid-19 Impact Report accepted that under a more extreme downside scenario (such as Scenario 3) these resources would still leave a residual funding gap and 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.

Availability of previously forecast surplus and revenue risk

7.4.38 OneBus responded that*: "Our views about the affordability of the Proposed Franchising Scheme still give cause for concern over the financial assumptions of the Scheme throughout its life. These concerns are exacerbated by the potential of the reduced revenues caused by the decline in patronage as the economy and travel patterns are affected by the current restrictions on travel and movement."*

7.4.39 Go North West responded that: "*The significant financial risk related to the ongoing lower farebox revenue beyond the transition period has not been adequately addressed within the Financial Case and adds significant doubt to the viability of the Proposed Scheme. The original assessment estimated a cumulative surplus of £94 million for the operational phase, yet the fact that patronage might not recover to even the levels of the original Do Minimum assessment until the late 2020s means that this surplus seems optimistic."*

7.4.40 In response to the general affordability concern relating to reduced revenues, TfGM notes that the Covid-19 Impact Report specifically acknowledged, and tested by reference to the Scenarios, the potential reduction in farebox income that would accrue to GMCA during the transition period. The underlying causes of reduced bus demand and revenues considered in the Scenarios also include the causes of decline cited by OneBus (economic performance and travel restrictions) and, therefore, the Covid-19 Impact Report has considered the impact of reduced revenues and the causes of potential decline. Although the quantified scenario-based revenue risk analysis does not specifically extend beyond 2025/26, the Covid-19 Impact Report does consider that period and also considers mitigations in that period as set out below at sections 7.4.43 to 7.4.47.

7.4.41 The previously forecast surplus after transition over the remainder of the appraisal period was considered in the Covid-19 Impact Report (at section 5.3.12). It is important to note that the objective of the Proposed Franchising Scheme is not to generate a surplus and that this previously forecast surplus was not relied upon to afford the scheme.

7.4.42 It was accepted in the Covid-19 Impact Report that this surplus could provide limited headroom to cater for any adverse impacts of Covid-19: *"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."*

7.4.43 In relation to ongoing revenue risk beyond the transition period, Go North West do not set out any particular further reasoning for why they consider this has not been adequately assessed. It is important to note that, whilst the revenue risk values set out in Table 10 of the Covid-19 Impact Report are reported up to and including 2025/26 and the revenue change values increase each year over the period, this predominantly reflects the increasing share of revenues accruing to GMCA over the period (rather than a worsening trend in bus patronage overall). However, as noted by the percentage proportions of farebox revenue set out in Table 10, GMCA is responsible for the entirety of farebox revenue at the point of the final year of the analysis in 2025/26 and so this 'ramp up' effect is fully reflected in this analysis.

7.4.44 The Covid-19 Impact Report also accepted (at section 5.3.37) that, if a downside scenario materialised, then it would be reasonable to assume revenue would not revert to pre-Covid levels after the transition period set out in Table 10. In considering the affordability of the Proposed Franchising Scheme and financial risks for GMCA, it is relevant to note, as set out at section 5.3.19 of the Covid-19 Impact Report, that it is any impact on *net* revenues that are ultimately relevant and that a loss of farebox revenues is not in itself problematic from a purely financial perspective if this were offset by equivalent reductions in network operating costs. The unmitigated revenue change values set out in Table 10 do not reflect any specific cost savings relative to the network forecast in the Assessment. Instead, this was reported as a mitigation option (as well as others) for GMCA to consider if required. This is considered a cautious approach with regards to the possibility of such network cost savings if the Proposed Franchising Scheme were introduced, as to the extent that operators in the deregulated market make any reductions to the network by the time Sub-Area C is rolled out in approximately 2025/26, then any resulting savings are not assumed within this analysis. The extent to which such a saving could materialise may in part depend on the ongoing availability of government funding (such as CBSSG (including CBSSG Restart (CBSSG-R) and any future Government funding allocation(s) that may replace CBSSG), which it is acknowledged is not within the control of local decision makers. The most recent position on these funding streams is set out in sections 7.5.18 to 7.5.32.

7.4.45 Whilst such a private-sector adjustment could be not be relied upon to offset a revenue deficit wholly, the Covid-19 Impact Report also sets out significant local funding mitigations that could be available beyond 2025/26 (as well as other mitigations) to offset a net revenue deficit to the extent this arises. The local funding mitigations are the proposed 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 and uncommitted earn back funding of up to £15m per annum which could be available as a further mitigation from 2025/26 up to 2045/46. As Go North West pointed out, section 5.5.5 of the Covid-19 Impact Report also stated that: "*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.*"

7.4.46 The report further noted that over longer timeframes, uncertainty as to the effects of Covid-19 was 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.

7.4.47 TfGM, therefore, considers that the Covid-19 Impact Report did recognise and address ongoing revenue risk and set out a cautious approach with regard to the possibility of any network cost savings made in the deregulated market and further significant local funding mitigations that could manage this risk.

Availability of funding sources

7.4.48 Stagecoach states in its response: *"The £134.5m does not provide any new buses, lower fares or an expanded bus network. In our view it is by no means clear that £134.5m will be enough to transition. Further, we have traced the £134.5m through the Covid Impact Report to identify where the GMCA intends to source this funding requirement. It is clear that some of this funding is not yet secured (such as from the future precept, contributions from local authorities, and rates pooling) and in any case there will be competing pressure for that funding given the scarcity of resources caused by Covid-19."*

7.4.49 Stagecoach do not set out any particular reasons for querying the adequacy of the transition funding; however, it should be noted that in addition to the proposed funding for £134.5m, further mitigations, including local funding sources which could be available over the transition period, were included in the Covid-19 Impact Report. The proposed sources of funding and values were also set out in the first consultation, the Covid-19 Impact Report and Second Consultation Document.

7.4.50 It is not understood how Stagecoach considers that the proposed contribution from business rates is not *'secured'* as, in fact, GMCA to date has fully received and retained funding from its pooling arrangement of greater than the required value of £5m.

7.4.51 With regard to the proposed contribution from local authorities, as set out in the Covid-19 Impact Report, it is specifically proposed to defer this contribution until the end of any transition period (approximately 2025/26) in recognition of the financial pressures on local authorities; and Stagecoach itself acknowledges and refers to these pressures in its response which are considered at sections 7.4.66 to 7.4.68.

7.4.52 The precept requirement set out in the proposed funding strategy is split between the precept already raised in the Mayor's 2019/20 budget and a requirement from future years. TfGM understands Stagecoach's comment and apparent concern that this funding has not been *'secured'* to mean that the funding has not already been raised. This is correct and this position is not unconventional. The advantages of the progressive precept requirement set out in the funding proposal are that it matches funding to when transition costs would be incurred in future periods; balances a one-off funding requirement during transition whilst raising an ongoing source of revenue funding post-transition, and defers any immediate impact on the precept until future periods when it would be required.

Assumptions and valuation of the precept requirement

7.4.53 Rotala raises a specific concern relating to the precept requirement in its response to the second consultation. Rotala states its general concern as: *"GMCA also accepts that it is possible under the weaker economic recovery scenarios (scenarios 3 and 4) that an adverse impact on the tax base would result in a higher headline precept requirement. Whilst GMCA consider the requirement to, on balance, remain the samefor the reasons outlined in the Oxera Report it is very clear that this cannot be said with any certainty or reliability."*

7.4.54 It also raises this concern in the context of the role of the auditor and states: "*BDO note that Grant Thornton have not challenged or explained why precept assumptions in the Covid Impact Report are "less prudent" due to future uncertainty. This seems to be counterintuitive. Less prudent assumptions, in the context of uncertainty, suggests less caution in approach and may imply a greater margin for error. Where there is a greater margin for error the findings and conclusions should be considered to be less reliable, although BDO are unable to quantify the potential impact*."

7.4.55 Concerns over the role of the auditor more generally are considered at section 16.4. It was acknowledged in the Covid-19 Impact Report that the precept valuation may be potentially less prudent as a result of the potential for weaker (or negative) economic growth, which is one of the key variables in the Scenarios. In turn, reduced or negative economic growth could impact Greater Manchester's tax base and affect the headline precept required to raise a given level of funding.

7.4.56 However, prior to any impact of Covid-19, the headline precept requirement figures reflected a degree of prudence as a result of the following factors:

- The calculations for the precept value (i.e. the headline precept required to raise a given quantum of funding) reflected Greater Manchester's tax base for the 2019/20 budget period whilst compared to a future nominal funding requirement over the transition period. This would ordinarily be considered a cautious approach as it ignores any population and general tax base growth (based on historic trends) over the relevant future years and the proposed precept requirement is weighted towards the end of the transition period;
- There has been actual tax base growth in 2019/20 of approximately 1.8% not factored into the headline precept requirement which was based on a budgeted position for the year; and
- In originally calculating the precept requirement, the headline precept values were generally rounded upwards.

7.4.57 In the most recent 2020/21 period, there has been a tax base reduction of approximately 0.9% which remains within the headroom identified above. The Covid-19 Impact Report did not claim, with certainty, that the headline precept valuation could not be higher.

However, for the specific reasons set out above, it is considered to remain appropriate and continues to provide a degree of headroom.

Alternative uses and funding pressures as a result of Covid-19

7.4.58 OneBus commented in its response that: *"In addition to there being no certainty that the Transitional Costs are accurate the question should be asked if they are justifiable at a time when locally, there will be many more worthy projects that the funding set aside could be better used on."*

7.4.59 *"The assumption throughout the assessment is that Phase 2 funding will be necessary to deliver the main interventions of the Proposed Franchising Scheme and there is no guarantee that the Phase 2 funding will transpire. For that reason, we suggest that the Transitional funding be used for alternative needs across the Region. We believe at this point a partnership proposal is more affordable at delivering the network that will be required post Covid-19 as there will be no requirement for the unnecessary Transition Costs or the wasted time and customer inconvenience in implementing the transition."*

7.4.60 Stagecoach made similar points in its response and cited various funding pressures: *"The GMCA has acknowledged that there are significant pressures on its funds at this time which will necessitate prioritising scarce resources and making cuts to services. This is unsurprising in the context of the pandemic. However, instead of focusing on managing those risks, the GMCA is seeking to take on significant additional risk by committing to a major initiative now when the opportunity cost of that initiative for the GMCA and Greater Manchester residents is high because of the high level of uncertainty surrounding the benefits of this initiative. This uncertainty and the competing demands on public funds undermines the affordability case of the Proposed Franchising Scheme."*

7.4.61 It goes on to say that: "*there has been no real consideration in the Covid Impact Report of possible competing demands on public finances in relation to existing services for which the GMCA is responsible (for example in relation to transport, the Metrolink tram and the concessionary fare scheme for 16-18 year olds).*

Due to a fall in aviation demand, the dividend of circa £110m pa from Manchester Airport Group is likely to remain suppressed for some time. The GMCA are also funding borrowing costs to support Manchester Airport Group. However, when asked for its assessment of whether there were competing uses for the funds identified for transition costs, the GMCA stated that no such assessment or modelling had been conducted (in its letter of 15 January 2021)."

7.4.62 Stagecoach also cites a report to GMCA's November 2020 audit committee, GMCA's corporate risk register and Manchester City Council's 2021/22 budget consultation in further reference to the financial pressures upon Greater Manchester agencies. Stagecoach states that: *"Furthermore, if the Proposed Franchising scheme were implemented, the GMCA would see a reduction in funding both from lower farebox revenues and as a result of lower transport levies given the reduction in the overall council tax base as a result of Covid-19. There are therefore serious concerns that essential services would have to be cut to fund the Proposed Franchising Scheme."* Stagecoach concludes: *"We believe that the GMCA should likewise consider more flexible shorter and medium term* *options to address immediate needs in the bus market such as working with operators and Government to build Recovery Partnerships".*

7.4.63 In response to these comments generally, issues relating to partnerships are considered at section 10, 11, 12, 13 and 14 and issues in relation to opportunity cost are considered at section 4.12.9.

7.4.64 Financial pressures across Greater Manchester agencies were fully acknowledged in the Covid-19 Impact Report (at section 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."* Subsequent to the special meeting of GMCA, the Secretary of State for Local Government announced a further funding package for councils to help address Covid-19 issues, including a new scheme to reimburse councils for lost income from sales, fees and charges.

7.4.65 Notwithstanding this, the Covid-19 Impact Report specifically proposed to defer the local authority contribution if franchising were implemented by approximately five years from 2020/21 to the end of any transition period in 2025/26. This deferral ensures, from a timing perspective, the local authorities are able to prioritise funding for immediate Covid-19 related pressures.

7.4.66 Stagecoach also refers to a lack of assessment or modelling of competing use of funds. The full context of GMCA's letter (Paragraph 18 (B)) referred to is: "*We can confirm that TfGM has not conducted any formal modelling in relation to the probabilities of other potential competing uses of funds. We refer you to section 5.3 and 5.4 of the Covid Impact Report which sets out the possible funding mitigations available to GMCA and also considers the availability of the previously approved funding proposal."* Inevitably there are always competing uses of funds for any intervention. The fact is, however, that the proposed funding sources have not been committed for any other purpose and it is for GMCA to determine whether those proposed funds are prioritised for the purposes of bus reform or any other competing use. At its meeting of 27 November 2020, GMCA approved the proposed funding arrangements and mitigations set out in the report.

7.4.67 In response to Stagecoach's point regarding reduction in funding from both lower farebox revenues and lower transport levies, the Covid-19 Impact Report specifically acknowledged and analysed the potential for lower farebox revenues accruing to GMCA, and set out mitigations that could address a shortfall. In relation to the concern over lower transport levies, GMCA approved budget proposals at its meeting of 12 February 2021, which maintain the 2021/22 combined transport levy and statutory charge at pre-Covid levels.

7.4.68 Stagecoach also make related points regarding potential impacts: "*any further increases in council tax to finance public transport services would hit low income households harder. Meanwhile, the number of businesses struggling or closing permanently because of Covid-19 is likely to reduce the amount recoverable through business rates, with those rates also being an additional financial burden on surviving companies. If the GMCA were required to request additional Government funding to meet the costs of franchising (as has been* *necessary for TfL), this would also impact all taxpayers, both in and outside Greater Manchester".*

7.4.69 Stagecoach refer to amounts recoverable through business rates and this being an additional burden on surviving companies. It is important to note that the £5m of proposed funding from business rates is from GMCA's pooling arrangements and that this funding has already been received and retained from prior years and, consequently, this would not be a future requirement.

7.4.70 In response to impacts on taxpayers, it is already the case that deregulated operators in Greater Manchester are in receipt of additional public funding from local and central government in response to Covid-19, and this is generally the case for all modes of transport and regions (whether franchised or not). As far as TfGM is aware, TfL has received general financial settlements across all modes and activities, not just its bus operations.

7.4.71 On impacts more generally, the Covid-19 Impact Report concludes that, on balance, the VfM of the Proposed Franchising Scheme is likely to be robust to the uncertainty created by Covid-19 in all reasonably likely Scenarios – thereby demonstrating value. In respect of the Impact on Wider Society, whilst the scale of benefits is likely to be lower under all options are compared with those previously forecast in the Assessment, the Assessment demonstrated that the Proposed Franchising Scheme offers greater Wider Economic Impacts (Chart 12 of the Assessment) than the alternative partnership option.

7.5 Theme 3 – Financial risks as a result of Covid-19 and mitigating actions

7.5.1 The Assessment included a number of lines of defence which could be used to mitigate the risk of reduced farebox revenue. These lines of defence were:

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

7.5.2 As a result of the potential impact of Covid-19 on forecast farebox revenue, the analysis in the Covid-19 Impact Report accepted that in the event a lower demand 'downside' scenario materialised, the lines of defence identified in the Assessment could not accommodate the potential impacts upon farebox revenues and net revenues in the transition period without further mitigations.

7.5.3 The Covid-19 Impact Report considered in general that GMCA would have greater confidence over its ability to mitigate any shortfall in farebox revenue and its ability to afford the Proposed Franchising Scheme beyond the transition phase. The following further mitigations were considered in the Covid-19 Impact Report to mitigate the farebox revenue risk during the transition phase:

- Additional Government funding, although it was accepted this was not in the control of local decision-makers and therefore locally controlled mitigations were considered;
- Payment of concessionary reimbursements in line with actual, rather than pre Covid-19, demand over the transition period;
- Reduction in the size of the network and associated operating costs;
- Reduction in transition costs; and
- Additional local funding sources over the transition period, including Integrated Transport Block and further uncommitted earn back funding.

7.5.4 The Covid-19 Impact Report concluded that the Proposed Franchising Scheme remained affordable with the proposed mitigations under Scenarios 1, 2 and 4. It acknowledged that under a more extreme downside scenario (such as Scenario 3) these resources would still leave a funding gap, but GMCA would need to accept this residual risk. The Covid-19 Impact Report also noted that under the Do Minimum, GMCA would continue to support the bus network through subsidised services that are run on a tender basis and GMCA would also need to determine how to respond to this pressure.

7.5.5 The Covid-19 impact consultation raised a number of comments and concerns around increased risk to GMCA and the proposed mitigations in the event a downside scenario materialised.

Financial risk as a result of Covid-19

7.5.6 A number of comments were raised in the second consultation around the level of financial risk that would be solely on GMCA and whether the Proposed Franchising Scheme is the best option to address these increased financial risks.

7.5.7 CPT commented, "*The proposed franchising model places increased costs and risks entirely on Greater Manchester Combined Authority. There is now more uncertainty than when the* *report was first published and more financial risks if the patronage levels do not return to pre-covid levels."*

7.5.8 B&SLC Rail Partnership commented, "*We recognise that there are benefits to the proposed franchising system but at the same time consider that the current environment is so volatile, with a real risk that the drop in bus usage either never recovers to its current level or takes much longer than anticipated to recover, that other approaches may be more prudent. We do not consider that the 'do nothing' approach is appropriate. However, we note the willingness of the Greater Manchester operators to develop a partnership as an alternative to franchising. There is evidence (South Yorkshire and West Midlands) that where this has been tried, positive results have come out of it in terms of improved integration, information and shared ticketing."*

7.5.9 Rotala commented, *"By its own analysis, GMCA accepts that there will be a reduction in demand for bus services and furthermore, that the level of direct financial risk assumed by GMCA will be greater than in the do minimum option. It is also assumed that the same can be said for the partnership option once operators are able to restructure the partnership proposal (after the permanent changes to the bus market as a result of Covid-19 are established)."*

7.5.10 Christie NHS commented *"It is recognised that GMCA would be taking a transfer of risk through the proposed franchising model, risk that it would not need to take if the partnership model is chosen. But the partnership options as previously discussed, has uncertainties that may impact the chance of success."*

7.5.11 In response to the above comments, TfGM can confirm that level of risk to GMCA if the Proposed Franchising Scheme were to go ahead has been made clear in the Assessment and the additional increased risk as a result of Covid-19 in the Covid-19 Impact Report. This report has been reviewed and approved for consultation by GMCA along with the proposed funding strategy and mitigations which clearly set out that GMCA would have to underwrite any downside risks as a result of reduced farebox revenues if these mitigations were not sufficient.

7.5.12 There would also be financial risks to GMCA as a result of Covid-19 if the Proposed Franchising Scheme were not to go ahead. Local funding would still be required in the Do Minimum and any partnership options to fund subsidised services that are not commercially viable. These requirements are likely to significantly increase under both as a result of the increased risk of reduced farebox revenue.

7.5.13 In response to the comment from B&SLC Rail Partnership that, if the revenues do not return to normal, then the Partnership would be a more prudent alternative to the Proposed Franchising Scheme, TfGM agree that the Proposed Franchising Scheme would expose GMCA to an increased level of financial risk, as it would take on the revenue risk. However, if revenues do not return to pre-Covid-19 levels or take longer than forecast as indicated by B&SLC Rail Partnership, there would still be a financial risk to GMCA under the Partnership option. GMCA would have to continue to support the bus network through subsidised services and, as indicated by the operators (see section 7.5.45), they would likely use network reduction as one of the mitigations to offset reduced farebox revenues. This would place pressure on GMCA to support the network through increased levels of subsidised services with financial consequences to it.

7.5.14 Rotala state that "*As per the Oxera report, the scenarios are not unbiased and there is a real possibility of scenario 3 occurring, as opposed to it being an 'outlier' as described by*

GMCA. The Oxera Report categorically dismisses the use of that phrase, either as a statistical term of art or even colloquially. In effect GMCA is ignoring the real risk of making a huge and unaffordable loss which cannot be appropriate/lawful/rational."

7.5.15 The Use of Scenarios section includes a specific detailed response to the description of Scenario 3 as an outlier. This response concluded that the reasoning laid out in the Covid-19 Impact Report remains sound, and recent developments do not invalidate it. See section 3.7.

7.5.16 TfGM accept that there is an increased financial risk to GMCA if the Proposed Franchising Scheme were to go ahead. A number of mitigations are set out in the Covid-19 Impact Report that could be used to mitigate the loss by GMCA to ensure the affordability of the Proposed Franchising Scheme. The earliest date the Proposed Franchising Scheme could start to be implemented is 2022/23 and would also be undertaken on a phased basis over three years. This would allow time for GMCA to plan the implementation of the Proposed Franchising Scheme, taking into account the objectives of the scheme, revenues available and allowing the implementation of any proposed mitigations.

7.5.17 In summary, TfGM agree there are increased financial risks to GMCA for the Proposed Franchising Scheme as a result of Covid-19. A number of mitigations have, however, been agreed and approved by GMCA to reduce their financial risk. There would also be financial risks to GMCA under the Do Minimum and Partnership options as operators have stated they would require additional funding if Government funding were to reduce or be removed. Although the financial risks to GMCA would be lower under these options, the same level of benefits would not be achieved under these options as the Proposed Franchising Scheme.

Government funding

7.5.18 At the time of preparing the Assessment, CBSSG/CBSSG Restart was not in existence or envisaged. The Covid-19 Impact Report confirms that Greater Manchester received approximately £3.5m per month, from the start of the grant in March to June 2020, and has received similar levels of funding since then. The continuing availability of the Government's CBSSG Restart funding, or an equivalent, would be likely to provide a significant mitigation to a loss of farebox income, recognising, however, that this would likely only be for the period until social distancing or other restrictions on passengers are lifted or relaxed.

7.5.19 Abellio made the following comment *"….Abellio believes the affordability to GMCA of the Proposed Franchising Scheme (PFS) has changed – and improved - in relation to the 'Do Minimum". "Insofar as state-support via CBSSG Restart is provided to operators and the network is operated and maintained at pre-Covid levels irrespective of the number of passengers carried it is arguable that the affordability of the PFS is equal to the affordability of 'Do Minimum' during any transition period, at least while the current CBSSG Restart regime continues." "Abellio notes in the report the statement in paragraph 5.3.24 on page 98 that "It is important to note that the values set out in Table 10 do not include any offset for the value of Government funding [in the form of revenue support] which, in the form of CBSSG, was £3.5m per month between March and June 2020". Abellio believes this statement strongly supports its comments in the two preceding paragraphs in relation to this question.*"

7.5.20 CPT commented "*We recognise and appreciate that the CBSSG support operators have been receiving throughout the pandemic cannot and will not be able to continue* *indefinitely. CPT and its members have been working closely with the Department for Transport to develop proposals for exiting CBSSG. The best way to ensure the continuation of bus networks that serve both the needs of passengers in the immediate term and in the future is for local authorities and bus operators to work together in, new, agile, 'recovery partnerships'.*"

7.5.21 OneBus commented "*We have further concern about the pre-transitional period where the levels of CBSSG will decline and service levels have to be reviewed. We have suggested a way of working together with TfGM to discuss this at an early opportunity to ensure as much of the overall network can be made sustainable using the various funding streams that will still exist. To date, this offer has not been acknowledged and our concern now moves to the unnecessary impact this may have on bus users when it can be avoided through joint working.*"

7.5.22 TfGM agree with the comments from Abellio in that, to the extent that CBSSG Restart grant funding continues to be received following the implementation of the Proposed Franchising Scheme, the Scheme's affordability would improve under Scenarios 1, 3 and 4 where unmitigated farebox revenues are forecast to change adversely in comparison to the Assessment.

7.5.23 TfGM acknowledge the comments from CPT and OneBus, that CBSSG Restart grant cannot continue indefinitely and the removal of this would have a potential impact on the affordability of the network. Following the recent publication of the February 2021 Covid Recovery Roadmap, a letter has been received from DfT (Baroness Vere of Norbiton), on 22 February 2021, which was issued to all Local Transport Authorities, Local Education Authorities and Bus and Light Rail Operators.

7.5.24 The DfT letter sets out that "*Services may need to run at up to 100% of normal, pre-Covid levels, and in limited cases exceed this. I expect bus and light rail operators and Local Transport Authorities to work together to ensure that there are sufficient services available to ensure that the public can travel safely, and to support this the Department for Transport will continue to make funding for bus services available through the Coronavirus Bus Service Support Grant (CBSSG).*"

7.5.25 Confirmation has therefore been received from DfT that CBSSG Restart grant will continue, albeit for a currently undefined period, to allow service levels to increase to, and operate at, pre Covid-19 levels.

7.5.26 The earliest date that the Proposed Franchising Scheme would be implemented is in 2022/23 and, if the reduction and eventual removal of the CBSSG Restart grant occurs before this date and it is not replaced by an alternative funding source, the financial risk would therefore materialise prior to the introduction of the Proposed Franchising Scheme and lie predominantly with the operators. GMCA would be impacted financially in relation to subsidised services where they take revenue risk. De-regulated operators would have to implement similar mitigations to those proposed by GMCA in the Covid-19 Impact Report. 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. In the event that CBSSG Restart and / or any alternative government funding source were reduced or withdrawn after local service contracts were let, then to the extent necessary GMCA would need to consider how to react and the financial strategy sets out options that could mitigate the impact of such a risk.

7.5.27 TfGM disagree with the comment from OneBus that their offer of working with TfGM has not been acknowledged. As set out at section 13.1.7, TfGM has engaged with OneBus and a number of operators around their proposals for a 'recovery partnership'. These confirmed mutual objectives are delivering network stability and growing patronage as the network recovers, whilst maximising the benefits of any ongoing grant funding.

7.5.28 In response to CPTs comment that 'recovery partnerships' would best serve the needs of the passengers, TfGM have reviewed the 'recovery partnerships' in the section 13 and concluded that interim arrangements are required to help the local bus market. However, any such 'recovery partnership' would not be an alternative to a long-term arrangement, such as the Proposed Franchising Scheme, and instead would aid the short-to medium-term recovery of the market regardless of the long-term model for bus services.

7.5.29 "*Abellio does not agree with two parts of the statement in the report at paragraph 5.5.7 on page 104 that "It is important to note that although the PFS exposes GMCA to an increased level of risk if patronage does not return to pre-Covid-19 levels" and "…under the Do Minimum option for intervention GMCA would continue to support the bus network through subsidised services…as it does at present". In the view of Abellio both these statements are incorrect representations of the current 'status quo' with state-aid in the form of CBSSG Restart and pre-Covid levels of both Concessionary reimbursement, Bus Service Operator's Grant (BSOG) and Tender revenue.*"

7.5.30 As the availability of the CBSSG Restart grant is not in the control of local decision-makers, the unmitigated farebox revenue loss values set out in the Covid-19 Impact Report do not include any offsetting value of Government funding, were this to be available. If patronage levels did not return to Pre Covid-19 levels and if the Proposed Franchising Scheme were to be implemented without the CBSSG Restart grant or an alternative funding source, it is considered there would be an increased risk to GMCA in comparison to the Assessment. GMCA would also, under the Do Minimum, continue to support the bus network through subsided services as it does at present. However, TfGM understands the substance of Abellio's points to be that there are significant public funding sources currently supporting the Do Minimum and that GMCA retains risks under the Do Minimum. This is acknowledged and the Covid-19 Impact Report noted that GMCA would still need to determine how to respond to pressures in the bus market under the Do Minimum and if it were to intervene, this would still be a reactive process that adapted itself around decisions made by de-regulated operators.

7.5.31 In response to Abellio's suggestion that payments that might be perceived as state-aid have been made to bus operators, in the November 2020 letter from Department for Transport (Matthew Crane) to transport authorities and operators, it was stated that: "*We recognise that there are concerns that reimbursing concessionary fares at pre-COVID levels when the number of journeys taken on concessionary fares is lower than this level might be perceived as state aid.*"

"TCAs will need to obtain their own legal advice if they have concerns about their particular circumstances. However, we can confirm that the principal terms of the original CBSSG scheme were notified to the European Commission (and the correspondence referred to maintaining concessionary fares at pre-pandemic levels). In response, the Commission expressed the (preliminary) view that the aid fell within article 5(5) of EU regulation 1370/2007, being an emergency measure as a result of a disruption in services, and

therefore that it did not constitute unlawful state aid. DfT will continue to keep the position under review as the circumstances in connection with the pandemic evolve."

7.5.32 In addition to the above guidance, DfT has laid a Statutory Instrument in March 2021 which removes the 'no better' requirement for concessionary reimbursement. The Statutory Instrument comes into effect on 24 March 2021 and is effective until 6 April 2022.

Concessionary reimbursement mitigation

7.5.33 The Covid-19 Impact Report noted that that local authorities/travel concession authorities were being directed by the DfT to pay concessionary reimbursement rates (and tendered services payments) at pre-Covid-19 levels. Therefore, due to the current reduced level of demand, there have, during the period since March 2020, been 'overpayments' to operators compared with actual concessionary usage and tendered service provision. If concessionary payments were to be paid based on actuals rather than pre-Covid levels, a reduction in payments could provide additional resources under lower-demand Scenarios and, depending on timings, release funding during the transition period.

7.5.34 In response to the Covid-19 Impact consultation, the Chartered Institute of Logistics and Transport (CILT) acknowledged this could be a mitigation: "*To mitigate these risks, it is essential to re-visit the current approach to maintaining unrealistic concessionary support levels, and also to re-examine the value for money from supported services*."

7.5.35 For a very short period of time after the Covid-19 Impact Report was published, concessionary reimbursement payments were reduced by the equivalent level of percentage reductions in the network. This was as a result of guidance published by the DfT in January 2021 (DfT Covid-19 – Local Transport & Highways During Lockdown). This has now been superseded by further correspondence from the DfT issued on 22 February 2021. This further correspondence confirms that, following the publication of the Government's Roadmap, service levels may need to return to 100% of pre-Covid-19 levels, and in limited cases, exceed this: see section 7.5.24, above. The current reimbursement method, based on pre-Covid-19 levels, will, it is assumed, therefore continue subject to further relevant guidance from Government and having regard to the continuing availability of CBSSG Restart or an equivalent funding source.

7.5.36 If Government funding and the DfT guidance for transport authorities to pay based on pre-Covid-19 levels ends, then the concessionary reimbursement payments will return to paying based on actual patronage, in line with the published scheme.

7.5.37 In response to CILT's comment about obtaining VfM from the supported services contract, TfGM can confirm that a decision was made to continue the subsidised network in its current form initially to ensure there was no impact on essential services. Approximately a third of subsidised contracts that were due to expire in April 2021 have been recently retendered. The approach to letting the contracts took account of the complexities around changes in passenger demand and revenue, as a result of Covid-19; and the contracts were let for a one-year period to coincide with the proposed implementation of the Clean Air Zone.

7.5.38 Warrington's Own Buses were also concerned about the impact of the removal of current levels of concessionary funding *"We are unclear on the concessionary payments point in this section. Under a gross cost franchise regime, the operator would not be [directly] paid for concessions (either actual or pre-Covid level). Is this stating that concessionary may move to actuals before franchising? If so, there is a serious implication for bus companies, many of which may not be able to operate – this could lead to withdrawals/fares rises to* *match services to available income – such withdrawals could damage the bus network and therefore GMCA's business case"*

7.5.39 The Community Transport Association were also concerned about the withdrawal of the concessionary reimbursement funding *"CT operators that run section 22 services (registered and timetabled bus services) therefore rely to a large degree on concessionary fares income. As non-profit making, small scale organisations, community transport operators have limited reserves and are unable to absorb costs in the same way that larger commercial operators running services at scale are able to." "….Should concessionary fares monies be reduced for CTs, the financial difficulties faced by operators would be further exacerbated, potentially placing many organisations at risk of closure in the face of obvious community need."*

7.5.40 In response to the clarification question from Warrington's Own Buses, TfGM can confirm their understanding is correct. Concessionary reimbursement payments would only be made for services that have not been franchised. Under the Proposed Franchising Scheme, all revenues and bus funding would remain with GMCA, which would include the current and future funding for concessionary reimbursements; and payments would be made to operators for operating bus services.

7.5.41 In response to the query from Warrington's Own Buses that concessionary payments may move to actuals before franchising, as stated above, payments are being reduced, where appropriate, for a very short period of time. However, the CBSSG Restart grant was still available during this period to ensure that there was no overall adverse financial impact on operators. Subsequently, and when the DfT guidance for transport authorities to pay based on pre-Covid-19 levels ends, the concessionary reimbursement payments will return to paying based on actual patronage, in line with the published scheme.

7.5.42 As acknowledged by Warrington's Own Buses and the Community Transport Association, there could be a potentially significant financial impact on bus operators (pre franchising) if concessionary payments were to revert to actuals, without a corresponding increase in passenger demand; and/or if the CBSSG Restart grant was to also end or reduce, and not be replaced by an alternative, such that it did not hold operators 'financially harmless'. In those scenarios, the operators would have to implement similar mitigations to those proposed by GMCA in the Covid-19 Impact Report. More generally the Covid-19 Impact Report noted that under the Do Minimum, GMCA would still need to determine how to respond to pressures in the bus market. If GMCA were to intervene, this would still be a reactive process that adapted itself around decisions made by de-regulated operators.

Network reduction mitigation and fares policy

7.5.43 A further mitigation option identified in the Covid-19 Impact Report is the ability to adapt the cost of the network to reduce operating costs. A number of consultees raised concerns regarding this mitigation, its alignment with the objectives of the Proposed Franchising Scheme and the impact this would have on the level of service for passengers. More generally, some consultees such as the Confederation of Passenger Transport UK responded that operators are best placed to ensure the network is fit for purpose whilst other consultees such as Manchester Metropolitan University considered franchising would allow GMCA to respond more effectively to the future bus market.

7.5.44 In relation to concerns over the impact of this mitigation, Go North West commented: *"The third suggested mitigation measure is the one that should cause most concern to Greater Manchester residents and businesses, as this is essentially saying that the way to offset the* *forecast 'gap' in revenue in the early years of the Proposed Franchising Scheme is to cut services. This is precisely the argument that TfGM has used in recent years as a sign of market failure and one of the principal reasons for pursuing an alternative model. Therefore, there is a major political and reputational risk for GMCA in pursuing the Proposed Scheme on the basis that it would improve bus services to all residents of Greater Manchester whilst at the same time identifying a mitigation measure for lost revenue that would involve service reductions in the early years of the new arrangements."*

7.5.45 Rotala also raised a similar concern over the possibility of network reduction in its response: "*It is noted from the Report that GMCA would reduce the cost of the fleet and therefore reduce services available in order to mitigate the cost of the farebox revenue. This completely contradicts one of the main reasons for the proposed Franchising Scheme, which was to provide a network not based on profit but to service routes required by the public. It is irrational for GMCA to seek to implement the Proposed Franchising Scheme at a time when, even by its own analysis, it will have to undermine the reasoning for the Proposed Franchising Scheme."*

7.5.46 Northern Care commented in its response: "*The options to mitigate and offset funding shortfalls would have a potential negative impact on the network and patronage as a whole. Key aims of the proposed franchising scheme are to make travel easier and more affordable for the user. We would also wish to see the consideration of the environmental and health benefits of a connected and strong public transport network also being considered as part of this affordability to prevent price and a reduced network being the main cost saving options*."

7.5.47 The Confederation of Passenger Transport UK responded in respect of this mitigation: "*This would have a negative impact on the level of service received by passengers who rely on the network to get to school, work and other essential services and if a service is removed, the future patronage levels are unlikely to return as passengers find alternative travel arrangements. Reduction in the network was also one of the initial concerns of the partnership model. It is in the commercial bus operator's interests to continuously strive to improve the level of service provided to customers and they are therefore best placed to ensure the network is efficient and fit for purpose for all passengers*."

7.5.48 Stagecoach responded that: *"Certain mitigations have been identified to offset a shortfall in revenue and given the uncertainty regarding the affordability of the Proposed Franchising Scheme mitigations are highly likely to be required. However, it is uncertain whether the mitigations identified would be available and how effective they would be. For example, adjusting the fares policy has been referred to as a potential mitigation option to deal with issues of affordability. Putting aside the fact that having lower fares is one of the GMCA's principle objectives in implementing franchising, the GMCA has not considered the detrimental impact an increase in fares would have on patronage in a consistent way in its scenario analysis. The GMCA has also not properly taken account of the negative social impacts of these mitigations. Any steps which result in higher fares or a reduced network will disproportionately impact citizens on lower incomes who do not have access to a car and rely on buses to access employment and public services. This would in turn impact their life opportunities, counter to the stated objectives of the GMCA. Furthermore, long-term network reductions would necessitate an assessment of any redundancy costs."*

7.5.49 Herbert Smith Freehills' (HSF) letter on behalf of Stagecoach makes substantially similar points to those stated in the section above: "*TfGM has also set out a number of mitigations that the GMCA could employ in the event that there is additional downturn and difficulties in financing the Proposed Franchising Scheme (at paragraph 5.3.22 onwards of the Covid*

Impact Report). While TfGM may consider these to be back-up options, given the level of uncertainty and the ongoing lockdown it is increasingly likely that these mitigations will need to be invoked. In their current form, the mitigation options lack sufficient detail:

- With regards to potential network reductions, TfGM does not seem to have considered the effect of network reductions on staff levels and the consequent costs of redundancy, as well as the potential impact of such measures on the local economy. A network reduction would also lead to a further reduction in passenger demand and revenue, and so any cost savings could be minimal.
- With regards to changes to fares policy, TfGM does not seem to have considered the potential impact of this on patronage. Any increase in fares would also undermine one of the principal objectives of the GMCA in conducting bus reform set out in the Strategic Case – fares offering value for money.
- The Covid Impact Report lacks analysis as to the linkages between the different mitigations and the wider effects which they may have."

7.5.50 In response to the general point made by HSF that TfGM may consider the mitigations as *'back-up'* options, it was accepted in the Covid-19 Impact Report that mitigations would be required in the event of a reduction in farebox, and net revenues. Furthermore, at its meeting of 27 November 2020, GMCA approved both the proposed funding and mitigation options set out in the report.

7.5.51 It should also be noted that, if the Proposed Franchising Scheme were to be implemented, the option to reduce the network to mitigate the risk of reduced farebox revenues is only one of a number of mitigation options set out in the Covid-19 Impact Report. In response to concerns over any negative impacts, the Equality Impact Assessment section (atsection 15.12.6) considers this further and makes clear that those mitigation options would be conditional on prevailing circumstances in the future, and any future proposed changes would be subject to due consideration by GMCA/TfGM having regard to the public sector equality duty.

7.5.52 It was accepted in the Assessment that making reductions to the network would be undesirable (under any option). However, it is incorrect to state, as Rotala do, that this would provide a network *"based on profit".* It remains the case that, if the Proposed Franchising Scheme were to be implemented, all sources of income would be reinvested and, if GMCA considered this mitigation, it would be with the objective of maximising economic and social value whilst constrained to achieve a balanced budget rather than to make a profit.

7.5.53 These objectives and the balanced budget constraint are in contrast to the position in a deregulated market. It is considered highly likely that private sector operators would face similar choices (albeit without some of the other mitigation options available to GMCA). This is acknowledged in Stagecoach Group's summary of *'mitigating actions'* included in its October 2020 interim reporting: *"The key mitigation available would be to further reduce the Group's cost base, in particular reducing vehicle mileage to better match customer demand, which would result in variable cost savings and the reduction of capital expenditure".* Similarly, the Go-Ahead Group, in its June 2020 year-end presentations, notes *'management actions'* against its regional bus scenarios of "*Service optimisation to* *match revised demand profile"* and "*operating and capital expenditure restricted and matched to service levels".*

7.5.54 Any cost saving decisions would be made according to commercial principles and, as noted in the Covid-19 Impact Report (at section 5.5.7), GMCA would need to determine how to respond in the event of further decline in bus services. If GMCA were to make more funding available to support services under the Do Minimum, this would still be a reactive process that adapted itself around decisions made by private sector operators.

7.5.55 In the event financial mitigations were required, TfGM considers it remains appropriate to maintain network reduction as a mitigation option, but it would be for GMCA and/or the Mayor to consider, in line with its public accountability and control of key policy decisions under the Proposed Franchising Scheme, to determine the extent to which any of the mitigation options would be implemented.

7.5.56 Stagecoach (and the HSF letter) also refers in its response to fares policy as a mitigation for affordability constraints and that GMCA has not considered the detrimental impact an increase in fares would have on patronage in a consistent way in its scenario analysis. Responses in relation to the scenario analysis more generally are considered at section 3. The Assessment acknowledged fares policy as a key 'lever' and mitigation which GMCA would control (along with network size and funding). However, in the Covid-19 Impact Report an increase in fares was not referenced as a specific mitigation against a reduction in farebox revenue as a result of Covid-19. Whilst it would ultimately be for GMCA to determine which mitigations would be feasible and appropriate, increased fares was not included as a specific mitigation as, in the event of potential structural shifts and lower passenger demand, TfGM considers balancing network provision with journeys would likely be a more appropriate and effective mitigation.

7.5.57 Stagecoach (and the HSF letter) refers to long-term reductions in the network, necessitating an assessment of redundancy costs. In the Covid-19 Impact Report, it was accepted that, if this mitigation option were used, then actual savings would depend on detailed factors: *"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".* This remains the case, and a deeper reduction to the network over a shorter timescale is considered more likely to involve consideration of redundancy.

7.5.58 However, the Covid-19 Impact Report also confirmed that the farebox revenue risk accruing to GMCA is relatively low during the early years of the transition period. For the Proposed Franchising Scheme, GMCA would not assume revenue risk until 2022/23 at the earliest, and this would allow GMCA to operationalise this mitigation and balance demand, revenue and operating costs if necessary. The Commercial Case (at section 6.9.271) also considers the extent to which this risk may materialise and other relevant factors such as staff turnover.

7.5.59 In response to CPT's comment that operators would be best placed to implement an efficient network, if the Proposed Franchising Scheme were to go ahead, GMCA would have the ability to plan the network as a whole across Greater Manchester. As stated above, in a deregulated market, operators would need to make decisions based on commercial principles in their own particular geographies, whereas, GMCA would be able to plan an integrated network that uses the funding and farebox revenues to plan and operate the best available network for passengers within the available resources.

Other comments on network mitigation

7.5.60 Other respondents to the second consultation considered that GMCA would be best placed to deliver the best possible network with the available resources, whilst the Chartered Institute of Logistics and Transport considered that reductions prior to the introduction of the Proposed Franchising Scheme would impact the eventual service.

7.5.61 The Chartered Institute of Logistics and Transport commented: "*We agree that operators will be looking to reduce mileage in 2021, and whilst this might reduce the risks associated with transition costs, it would also reduce the quality and quantity of service provided under franchising."*

7.5.62 A Greater Manchester councillor commented: "*Initial upfront costs will mean we can get a better bus network, run for the public over shareholders, with a much better service and far better value for the public money we currently give to buses. We do not have time to waste and need a better publicly controlled network that will use public money effectively now. We need buses that are clean, green and accessible and bus companies have not delivered."*

7.5.63 Oxford Road Corridor commented: "*It is clear that covid-19 has had a serious impact on bus patronage and fare box revenues. The consultation document acknowledges that all options carry a financial risk. We believe it's more important than ever that GMCA are able to have greater control over the bus network to ensure the delivery of the most equitable service for the residents of Greater Manchester with the resources that are available*."

7.5.64 Manchester Metropolitan University commented: *"It is clear that Covid-19 has had a serious impact on bus patronage, and therefore, the recovery of fare box revenue is difficult to predict. However, the implementation of a franchising scheme that has greater financial risk, also allows GMCA to respond more effectively to the future bus market as it has greater control over the bus services. As a result, franchising remains the more attractive option for changes to the bus market."*

7.5.65 Network reductions are one of a number of viable mechanisms available to GMCA to reduce costs to mitigate the impact of reduced farebox revenues. As set out, the Scenarios considered would also affect the Do Minimum and partnership options. Any reduction to the network would impact the level of service provided to Greater Manchester residents. However, TfGM and a number of other respondents agree that GMCA is in the best place to deliver the most effective network in Greater Manchester within the available resources.

Fares Policy

7.5.66 The Assessment set out an assumption that fares would rise by RPI+1.4% per annum under any market structure – the Do Minimum, a partnership and the Propose Franchising Scheme, in order for the market to be sustainable over the long term. The Assessment also set out that the ambition under the Propose Franchising Scheme was to ensure fares offer value for money to customers. The Assessment also set out levers and mitigations that would be available to GMCA in the event that the funding, and risk contingencies allowances set out in the Assessment were inadequate, one of these mitigation was fare policy. This mitigation could still be used by GMCA as part of a package of mitigations, however was not included as one of the mitigations options in the Covid-19 Impact Report.

7.5.67 Go North West commented, *"The Proposed Scheme still assumes that fares will rise by RPI plus 1.4% on average every year. Whether this assumption is still valid in the light of the Covid-19 pandemic, the impact on public finances and the identified 'gap' in the funded transition costs is questionable, and yet this is not reflected in the report."*

7.5.68 It is important to recognise that the assumption of RPI+1.4% applies to all options, including the 'Do Minimum'. TfGM can confirm that the level of public support (including from central government) was considered as part of the development of the Scenarios, including potential consequences for fares, and this was set out in the Covid recovery scenario planning document that was published alongside the Covid-19 Impact Report.

7.5.69 The option for GMCA to review the fares policy to mitigate any reduction in farebox revenues if the Proposed Franchising Scheme is implemented is still deemed to be applicable. However, it should also be noted that the option to adjust the fares policy to mitigate the risk of reduced farebox revenues is only one of a number of mitigation options available to GMCA as set out in the Assessment and the Covid-19 Impact Report. In response to concerns over any negative impacts, the EQIA section (at section 15.12) considers this further and makes clear that each of the mitigation options would be conditional on prevailing circumstances in the future and any future proposed changes would be subject to due consideration by GMCA/TfGM having regard to the public sector equality duty.

Transition costs

7.5.70 The Covid-19 Impact Report includes mitigation to reduced farebox revenues of a transition cost reduction under Scenarios 1 and 4. These cost savings are estimated to be between £5m and £10m, and further savings could be achieved under Scenario 3.

7.5.71 Go North West commented *"Paragraphs 5.3.10 to 5.3.34 of the report discuss some potential mitigation measures to fill the identified 'gap', including a change to concessionary reimbursement, lower transition costs, reductions in the network and local funding sources. Some of these are already assumed in the above calculations. Of the others, it is difficult to see how lower transition costs can be achieved particularly TfGM's assumption that operators awarded large franchise contracts would be able to make use of existing unused/underutilised depots in Greater Manchester or obtain land to build new depots. As GNW has pointed out, it will not be in the interests of the operators to sell their depots to other operators, requiring GMCA to exercise its CPO powers, which would need time and could be an expensive option."*

7.5.72 In response to Go North West's comment, TfGM do not agree that lower transition costs cannot be achieved. A review of the Proposed Franchising Scheme transition costs was undertaken for each of the Scenarios and savings identified due to the forecast reduction in demand for Scenarios 1, 3 and 4. Due to the reduction in market size and demand, some costs can be reduced, for example, a reduction in demand would lead to a reduction in the number of buses required and, in turn, a reduction in the requirement for on bus equipment.

7.5.73 The Commercial Case, at section 6.4, addresses the comments from Go North West around GMCAs ability to provide depots whilst reducing transition costs. This section addresses the risks around the purchase of the strategic depots from operators and what actions GMCA would undertake if strategic depot owners were unwilling to sell these depots to

GMCA. Alternative options are set out in the Assessment which are reflected in the section referenced above.

Qualitative Research

7.5.74 A summary of insights on the Financial Case from Ipsos MORI's June 2020 Qualitative Research Report exercise is set out further below. The full findings of the qualitative research exercise are set out in Ipsos MORI's June 2020 Qualitative Research Report. The questions posed to inform insights from this research were:

- "*What comments do you have in response to the Financial Case of the Proposed Franchising Scheme*?"
- "*What do you think about the investment necessary to move from the current operating model to the Proposed Franchising Scheme*?"
- "*What do you think about the proposed funding sources for the Proposed Franchising Scheme*?"
- "*The Financial Case concludes that GMCA could afford to introduce and operate the Proposed Franchising Scheme. After completing the Assessment and in advance of this consultation, GMCA has proposed how it would fund the introduction of a fully franchised system. Do you have any comments on these matters*?"

7.5.75 Ipsos MORI state in the June 2020 Qualitative Research Report that, generally, participants found this topic challenging to understand and had a number of further questions, including what the taxpayer money would be used for, how confident GMCA are in the numbers presented and what contingency plans were in place if the Financial Case was not correct.

7.5.76 With regard to the use of funds and risks, the Assessment and Assessment summary set out the components of the forecast net transition costs of £122 million identified in the Assessment (for example, in Table 45 of the Assessment). This included expenditure on assets, service quality and passenger interventions, systems and on-bus equipment and the costs of managing transition.

7.5.77 The largest element of the net transition costs identified in the Assessment was provision for £36.2 million of quantified risk allowance which was fully funded under GMCA's proposed funding arrangements set out for the first consultation. The inclusion of a quantified risk allowance, and the additional mitigations set out in the Covid-19 Impact Report, provide confidence that the overall financial strategy would be sufficient to implement the Proposed Franchising Scheme. The Proposed Franchising Scheme would result in a significant risk transfer to GMCA compared with other bus reform options. However, GMCA would also assume accountability and control of the key policy levers for bus services along with the specification of services and assets.

7.5.78 Ipsos MORI's June 2020 Qualitative Research Report found that participants in the deliberative workshops were split between those who thought this was a good use of council tax and/or GMCA resources more generally because it would improve public transport, and those who thought the money would be better spent elsewhere. Ipsos MORI report that these views were not necessarily related to current bus usage as some bus users were worried about double-paying (through fares and taxes) whilst some non-users thought the investment would be worthwhile for the wider benefits, even if they did not use them personally.

7.5.79 Many participants emphasised the importance of not repurposing funds already allocated to other council services, such as social care, in order to pay for the Proposed Franchising Scheme. Their support for the Proposed Franchising Scheme was contingent on it not leading to cuts in other services, as well as the Proposed Franchising Scheme realising the benefits described in the consultation.

7.5.80 In response to repurposing funds or detrimentally impacting other services, it should be noted that none of the identified funding set out in the Assessment, or the subset of funding identified in the Assessment and approved for the first consultation by GMCA, were funds previously earmarked or allocated for other projects or activities. For example, the value included for GMCA's devolved earn-back funding (the largest element of proposed funding) reflected the residual unallocated funding after taking account of commitments to fund existing schemes.

7.5.81 Ipsos MORI's June 2020 Qualitative Research Report identifies that most participants considered the proposed rises in council tax would be affordable for themselves but were concerned that if this was just one increase among other incremental rises in their council tax to fund other local authority priorities, then residents may not be able to afford this.

7.5.82 Participants may refer to council tax and a Mayoral precept interchangeably: in relation to council tax, it is anticipated that the local authority contribution would not result in a net impact on local authority budgets as GMCA has separately allocated unbudgeted resources to local authorities from retained business rates.

7.5.83 In relation to the Mayoral precept, it should be noted that the majority of the proposed funding to implement the Proposed Franchising Scheme was provided from non-precept sources and £11 million of the precept requirement for transition reflects the proposed allocation of existing precept raised as part of the Mayor's 2019-20 budget for bus reform purposes. If the Proposed Franchising Scheme were implemented, then GMCA would need to consider if the precept requirement for future years was additional or would need to be met from savings elsewhere. In considering any impact of the proposed precept requirement, GMCA will need to consider its objectives for bus services, the costs and benefits of the intervention, the potential impacts of not intervening as highlighted by some consultees and the value achieved from the already significant ongoing investment in bus services which represent the largest element of the local transport budget.

Other suggestions and comments – first consultation

7.5.84 TfGM have also considered other comments and suggestions not captured in the themes identified in this section. In response to the first consultation, the suggestions and comments were:

- Free services in all, or part of, Greater Manchester;
- Possible sponsorship and additional advertising revenues; and
- Levies on employers and drivers.

7.5.85 TfGM consider in relation to free services that, whilst passenger VfM is a key objective, this needs to be balanced with funding availability. Public transport provision typically reflects a funding mix between passenger charges and other sources of funding. A balance of funding is desirable and Greater Manchester already provides significant public funds for bus services and concessionary schemes.

7.5.86 In relation to sponsorship and additional advertising revenues, TfGM consider this could be an opportunity under the Proposed Franchising Scheme, aligned with an integrated transport network and unified brand. In the event of a decision to implement the Proposed Franchising Scheme, these opportunities, and other opportunities to commercialise assets, will be investigated further.

7.5.87 In relation to levies on employers and drivers, TfGM consider that these suggestions are less feasible and would carry greater uncertainty than the funding sources identified in the Assessment.

7.5.88 In response to the second consultation, further funding suggestions noted were:

- Increase traffic warden activity and use of parking penalties for funding; and
- A levy on car parking to provide funding.

7.5.89 TfGM notes in response that revenue from penalty notices is already a commercial income stream for local authorities and that any increased activity is unlikely to yield significant or available funding for this purpose.

7.5.90 In relation to a car parking levy, TfGM is only aware of a Workplace Parking Levy (WPL) on employers in the first instance as a mechanism to achieve this suggestion. TfGM understands there is only one authority (Nottingham City Council) that currently operates this scheme, although a number of areas have indicated they are considering similar proposals. Revenue from a WPL could, in principle, be used to provide funding for this purpose; however, there would also be costs to implement and operationalise a WPL, and it is considered the value of funding raised would be more uncertain than the sources of funding included in the funding proposal and funding mitigations set out in the Covid-19 Impact Report.

7.5.91 Other suggestions were made (and referred to in Ipsos MORI's March 2021 Consultation Report) which are already included, or are not considered to impact, the Scheme.

7.6 Overall Conclusion

7.6.1 TfGM have considered the consultation responses in relation to the Financial Case and other related matters from both the first and second consultations.

First consultation

7.6.2 In response to the first consultation, as reported by Ipsos MORI, the majority of members of the public made favourable comments on the conclusion of the Financial Case – 1,377 members of the public made favourable comments, and 476 members of the public made unfavourable comments. The majority (26) of non-statutory consultees also made favourable comments on the Financial Case, whilst 8 non-statutory consultees made unfavourable comments. A minority (8) of statutory consultees made favourable comments, whilst a majority (15) of statutory consultees made unfavourable comments.

7.6.3 A number of concerns were raised in response to the first consultation, principally by incumbent operators, in relation to the income and costs of the Proposed Franchising Scheme both over the transition period and on an ongoing basis. TfGM did not identify any omitted costs on the basis of these comments. However, it should be noted, in relation to employment costs, which represent the most significant ongoing cost, that the Proposed Franchising Scheme did not include provision for a harmonisation upwards of current terms and conditions. Additional capital costs for retrofitting or replacing fleet vehicles to meet environmental standards were not included in the costs of the Proposed Franchising Scheme or any of the options considered in the Assessment. Instead, the Clean Air Zone Outline Business Case included these requirements and GMCA has made clear the requirement for the Government to provide financial support for these proposals.

7.6.4 Some local authorities raised concerns in response to the first consultation over the financial risks of the Proposed Franchising Scheme and the potential impact on the delivery of local priorities; whilst, incumbent operators, for the most part, considered that a partnership option would avoid the transfer of risk to the public sector.

7.6.5 The Assessment acknowledged that, allied to greater control, the Proposed Franchising Scheme would carry greater financial risks than other options, and in the event of a downside scenario, GMCA would retain policy levers to address such risks principally in relation to fares policy, network scale and funding. The proposed funding strategy set out for the first consultation also considered the ongoing sustainability of the Proposed Franchising Scheme during and after transition through the precept requirement which would provide an ongoing source of revenue funding.

7.6.6 Some incumbent operators also raised concerns in response to the first consultation over the ongoing availability and value of public funding from BSOG and concessionary reimbursements. Greater Manchester currently receives approximately £16.1 million of BSOG per annum which, as set out in the Assessment, was assumed to be retained at the current nominal value over the appraisal period under all bus reform options.

7.6.7 The Assessment acknowledged the availability of BSOG from Government is a risk, which, if the risk materialised, TfGM consider would very likely impact all options. As GMCA would face this risk more directly under the Proposed Franchising Scheme, the quantified risk assessment included a risk provision in the event there were an unforeseen reduction in BSOG. However, a reduction in value or withdrawal of this funding over the long term could not be accommodated within the risk provision and would necessitate GMCA undertaking mitigating actions to achieve a balanced budget.

7.6.8 Similar concerns were raised in relation to funding for concessionary reimbursements and that a reduction in the value of this funding compared with the Assessment assumptions would represent a 'cost' or loss of Government funding to GMCA. However, TfGM considers that, whilst the English National Concessionary Travel Scheme (ENCTS) is a national mandatory scheme, in practice the risk of variation in concessionary reimbursement costs (and the associated funding) sits locally with GMCA, as the travel concession authority, and with local authorities who provide funding through the statutory contribution.

7.6.9 In relation to proposed funding, the Assessment set out a range of credible funding sources that could fund the additional net costs identified in the Assessment to implement the Proposed Franchising Scheme. GMCA, at its 7 October 2019 meeting, approved, for the purposes of the first consultation, a subset of the credible funding sources identified in the Assessment, for the reasons set out in the report, including that these sources are in the control of local decision-makers.

7.6.10 Under the funding proposal, the local authorities of Greater Manchester would provide a one-off contribution of £17.8 million for the additional costs to implement the Proposed Franchising Scheme. The Mayor's 2020-21 budget report to GMCA set out the individual local authority shares of the proposed contribution on a proposed population-weighted basis.

7.6.11 Some local authorities, whilst supportive of the Proposed Franchising Scheme more generally, made their support conditional on there being no further funding requirement from authorities after transition.

7.6.12 TfGM consider it relevant to note that, as set out in the Assessment, the value of required public sector funding was forecast to grow in cash terms under all bus reform scenarios; however, the funding proposal approved for the first consultation by GMCA included approximately £12.5 million of forecast cost escalation/indexation in current budgets over the transition period that was forecast to occur under all options, as well as the Do Minimum, and the requirement from the Mayoral precept would provide an ongoing source of revenue funds, providing a level of base funding for forecast escalation in funding beyond the transition period.

7.6.13 A number of consultees commented that it would be desirable if the Government provided additional funding. This was fully acknowledged in the 7 October 2019 report to GMCA and Government subsequently made a number of policy announcements in relation to the funding of bus services, including through the Spending Review 2020.

7.6.14 Whilst the immediate availability of additional Government funding would be welcome, it was not in itself a precondition of the Proposed Franchising Scheme being implemented, as the Assessment set out credible sources of funding that exceeded the transition requirement identified in the Assessment and the GMCA approved a funding proposal for the first consultation that did not rely on additional Government funding and that reflected sources of funding that were in the control of local decision-makers.

7.6.15 Incumbent operators, for the most part, raised a number of concerns in response to the first consultation over the funding proposal and associated matters, including the availability of the identified funding sources; and the appropriateness of using, and the impact on, the Mayoral precept/council tax.

7.6.16 In the context of these concerns, TfGM considers it relevant to note that local sources of funding already make a significant contribution to the funding of bus services (currently up to £86.7 million per annum is funded by the local authorities of Greater Manchester), and this would continue to be the case under all bus reform options, not just the Proposed Franchising Scheme. In relation to the Mayoral precept, it should be noted that the majority of the proposed funding to implement franchising was provided from non-precept sources and that the contribution from local authorities to implement franchising is anticipated to not result in a net impact on local authority budgets.

7.6.17 In relation to funding, whilst an element of the identified earn back funding was already retained, the principal risk to the funding strategy, approved by GMCA in October 2019, was the release of the next five-year tranche of earn back covering financial years 2020-21 to 2024-25. The release of this funding was subsequently confirmed by Government and consequently mitigated this risk.

Second consultation

7.6.18 The Covid-19 Impact Report considered the impact of Covid-19 on the Financial Case of the Assessment, taking into consideration the uncertainties that now exist and a range of possible outcomes identified in the Scenarios.

7.6.19 The report identified, in particular, locally controlled options that could mitigate a reduction in farebox revenues over the transition period as a result of the increased uncertainty caused by Covid-19. The locally controlled mitigation options are payment of concessionary reimbursements over the transition period in line with actual rather than pre-Covid journeys; a reduction in transition costs; a reduction in the cost of operating the bus network, and; additional locally-controlled funding sources (Integrated Transport Block and incremental uncommitted earn back funding).

7.6.20 The report also noted that under the Proposed Franchising Scheme, GMCA's financial risk ultimately relates to impacts on net revenues. The report noted GMCA would likely have greater confidence over the impacts of Covid-19, the ability to adapt the network and a planning period to implement mitigations if required to achieve a balanced budget in relation to affordability risks after the transition period. The report also set out further funding mitigations that could be available after the transition period, including the proposed precept, which would provide an ongoing source of additional revenue funding and uncommitted earn-back funding which could be available up to 2045/46. At its meeting on 27 November 2020, GMCA approved the funding proposal as previously set out for the first consultation and the further mitigations.

7.6.21 Ipsos MORI's March 2021 Consultation Report found that a slight majority of members of the public made negative comments on the Financial Case: 327 members of the public made negative comments and 300 members of the public made positive comments. Further information on some of the specific comments and points raised responses from members of the public is set out at section 9 of Ipsos MORI's March 2021 Consultation Report.

7.6.22 Ipsos MORI's March 2021 Consultation Report also notes that 13 previous statutory consultees made positive comments on the Financial Case, whilst 12 previous statutory consultees made negative comments; and 9 other stakeholders made negative comments, whilst 5 other stakeholders made positive comments.

7.6.23 In response to the second consultation, a number of affordability concerns in relation to the Proposed Franchising Scheme were raised. An incumbent operator considered that, despite the mitigations proposed, there was a financial ‘gap’ during the transition period and that ongoing affordability risk had not been adequately addressed. TfGM did not identify any funding gap as a result of these comments and noted in response how ongoing affordability risks had been addressed. It is also important to note that the Covid-19 Impact Report acknowledged that, whilst the mitigations identified could provide significant additional resources and resilience to offset a loss of farebox income, there was still a residual risk (for example, if the most adverse Scenario transpired) which GMCA would need to accept and underwrite with incremental local funding.

7.6.24 Whilst generally supportive of the aims of the Proposed Franchising Scheme, some Greater Manchester local authorities raised concerns or made their support conditional. A concern raised by some authorities related to the proposed network mitigation and that this should be a last resort. It is noted in response that network reduction was only one of the mitigations proposed and that similar choices would likely be faced by deregulated operators.

7.6.25 A further concern raised by some authorities was the impact of proposed precepts on residents, and Bolton Council made its support conditional upon there being no additional financial burden on the local authorities. Similar points were made in response to the first consultation. It is noted that the majority of the proposed funding, including the proposed funding mitigations identified in the Covid-19 Impact Report, are from non-precept sources and that the proposals were expected to not result in a net impact on local authority budgets. The Covid-19 Impact Report also proposed to defer the local authorities’ contribution until the end of any transition period in approximately 2025/26, which was approved as part of the funding proposals at GMCA’s November 2020 meeting.

7.6.26 Further concerns raised, particularly by incumbent operators, related to increased uncertainty and viability of the Proposed Franchising Scheme; a lack of detail on the impacts of the proposed mitigations; whether the proposed sources of funding were available and secured; and that there was a lack of consideration of alternative uses of this funding in the context of the financial pressures experienced as a result of Covid-19.

7.6.27 It was acknowledged in the Covid-19 Impact Report that there was and is significantly greater uncertainty as a result of Covid-19, which would likely impact all bus reform options, as well as the Do Minimum: this is the reason a scenario-based analysis was undertaken and that, as revenue risks would accrue to GMCA, rather than operators, more directly under the Proposed Franchising Scheme, mitigation options have been considered and previously approved by GMCA.

7.6.28 It is necessarily the case that the identified mitigations are options that GMCA would need to consider in light of prevailing circumstances in the future if the Proposed Franchising Scheme were introduced. Any proposed changes would be subject to due consideration by GMCA/TfGM having regard to the requirement of the public sector equality duty.

7.6.29 It remains the case that the proposed sources of funding, including those sources identified as mitigation options, have not been committed to another purpose and that, whilst significant financial pressures were acknowledged in the Covid-19 Impact Report, it is for

GMCA determine if it wishes to prioritise funding for the purposes of bus reform or other alternative uses.

7.6.30 Having considered the responses to the first and second consultations, TfGM considers that it remains the case that in light of Covid-19, there is now significantly greater uncertainty over future bus patronage and related factors. Whilst this uncertainty is not specific to the Proposed Franchising Scheme, and GMCA would still face risks under a Do Minimum or partnership, it would assume financial risks more directly under the Proposed Franchising Scheme. For this reason, it is important that GMCA notes this uncertainty and accepts the potential requirement to implement proposed mitigation options of the form and scale identified in the Covid-19 Impact Report. If this were the case, TfGM considers this would provide an acceptable balance of risks to achieve GMCA's objectives for bus services and that GMCA could afford to make and operate the Proposed Franchising Scheme.

8. Management Case

8.1 Introduction

8.1.1 The Management Case section of the Assessment considered how GMCA would make and operate the Proposed Franchising Scheme. Consideration was given to the proposed target operating models and risks, including for transition and implementation. Consultees were asked to consider three questions relating to the Management Case in the original consultation. These were:

Question 32: Do you have any comments on the approach to managing franchised operations under the Proposed Franchising Scheme as set out in the Management Case?

Question 33: Do you have any comments on the approach to the transition and implementation of the Proposed Franchising Scheme, and the conclusion that TfGM would be able to manage franchised operations on behalf of GMCA, as set out in the Management Case?

Question 34: Do you have any comments on the proposed approach to the implementation and management of the partnership options; and the conclusion that TfGM would be able to implement and manage partnerships on behalf of GMCA as set out in the Management Case.

8.1.2 Ipsos MORI's June 2020 Consultation Report identified a number of themes from the consultees that were consistent with the TfGM analysis of responses received through the consultation. Key themes on managing the Proposed Franchising Scheme from Ipsos MORI's June 2020 Consultation Report from statutory consultees, although relatively few, tended to focus upon the costs and difficulties associated with securing sufficiently qualified staff for the relevant core and support teams. There were also concerns raised around the risks associated with additional management costs. Members of the public making favourable comments thought that the Proposed Franchising Scheme would create jobs, boost employment and/or lead to the recruitment of more staff and drivers and that the Proposed Franchising Scheme would give TfGM/GMCA more authority and control of bus services, "*Allowing Manchester to control its buses for the benefit of its residents and visitors is a huge improvement to the current inadequate system*".

8.1.3 For transition, a number of the statutory consultees focused their response on timescales and the apparent lack of time built in for evaluating and reviewing progress during the transition period. Others expressed similar opinions that the associated risks and costs of this transition had been underestimated. Less favourable comments from members of the public raised concerns regarding the proposed objectives and the feasibility of timescales, referring specifically to the length of transition and potential for delays to implementation and viewed the approach to transition management as overcomplicated.

8.1.4 Some non-statutory consultees agreed that TfGM would be capable of managing franchised operations throughout transition and implementation. More favourable comments were made by members of the public, with the majority agreeing with the approach and that risk would be inevitable in such a change.

8.1.5 The response below covers the key themes identified from Ipsos MORI's June 2020 Consultation Report and the consultation responses but also responds to comments from the first consultation relating to pensions and employee terms and conditions that were not explicitly covered by Ipsos MORI. The key themes that had been identified and responded to were as follows:

- Theme 1: Management of the existing bus contracts;
- Theme 2: Cost and complexity of managing franchised operations;
- Theme 3: The difficulty of transitioning from a commercial to a franchised operation;
- Theme 4: Impact upon the employees and operators;
- Theme 5: Impact upon pensions as result of TUPE; and
- Theme 6: Confirmation statement on no changes to employee terms and conditions.

8.1.6 Section 11 of Ipsos MORI's June 2020 Consultation Report identified a number of further favourable and unfavourable comments, as well as suggestions, raised by consultees in respect to Questions 32 and 33, which did not relate to the Management Case. These are, therefore, addressed elsewhere in this document. These include:

- Unfavourable comments around increases to council tax and precept payments and the use of public funds for further subsidisation through taxation. This is covered at section 7.4 of this report;
- Consultees suggested that improvements could be made if there were more buses and they were more widely available with considerations being given to reorganising the routes and timings of the service and bus services running 24/7, 365 days a year. This is covered at section 8.6 of the Assessment. Franchising, however, creates the best opportunity to implement such investments but would have to meet VfM criteria. It is important for the start of franchising to minimise the network and service changes to avoid the risk of confusion for customers;
- Consultees suggested that consideration should be given to performance reviews of services and that poor performance should be penalised with fines, penalties or contract termination. The performance regime is discussed at section 25.3 of the Assessment. The Management Case for franchising identifies the resources (people and systems) to manage the performance regime and operator payments. A proportion of the operator payments are related to achieving operational performance targets. Performance improvement plans will be implemented where required; and
- Consultees suggested that there should be a simpler, single fare or oyster style system and that bus services should be run as 'not for profit'. The ticketing proposition is considered at section 7.3 of the Assessment. The proposal is that the commercial operators continue to operate the bus services and will be paid a service fee that includes an appropriate profit element. Profit margin is discussed at section 9.

Partnerships

8.1.7 Section 11.3 of Ipsos MORI's June 2020 Consultation Report notes that 168 responses were received, the majority of which 83 were favourable, with 69 unfavourable comments and a further 21 responses in the form of suggestions. Around a third of the unfavourable comments were specifically opposed to partnership options as they were supportive of the Proposed Franchising Scheme. A number of operators commented on GMCA costs for managing partnerships, stating that they were too high and could be managed with no additional resources. A number of the unfavourable comments from members of the public were on the costs and TfGM's ability to manage the partnerships.

8.1.8 GMCA's response to Question 34 is covered in 4.10.16 to 4.10.18 of this report and addresses the comment around the costs associated with managing partnerships

Second Consultation Introduction

8.1.9 The Management Case section of the Covid-19 Impact Report considered how GMCA would make and operate the Proposed Franchising Scheme in the light of the potential impact associated with Covid-19. Consideration was given to the proposed operating model and transition and implementation to reflect the uncertainty and impact of the potential recovery scenarios as described at section 3 on Scenarios in this report. In the Covid-19 Impact consultation, consultees were asked to consider a single question relating to the Management Case:

Question 6: Do you have any comments on the approach to the transition and implementation of the Proposed Franchising Scheme, including the proposed approach to managing the risks associated with Covid-19 (as set out in the Management Case of the Covid-19 Impact on Bus Franchising Report) and whether TfGM would be able to manage and implement a partnership on behalf of GMCA, notwithstanding Covid-19?

8.1.10 A total of 342 responses were received from the second consultation the majority (222) were positive while fewer (87) were negative.

8.1.11 Ipsos MORI found in its March 2021 Consultation Report that the majority of consultees agreed that Management Case proposals for the Proposed Franchising Scheme were appropriate in the light of Covid-19. Some participants felt that TfGM, on behalf of GMCA, would be able to transition, implement and manage the bus network and services with others expressing the view explicitly that they thought this would be the case for the Proposed Franchising Scheme specifically. Some participants made specific reference to the ability of TfGM to recruit and train additional or suitably qualified staff, TfGM's proven track record managing Metrolink and years of experience supporting public transport provision across Greater Manchester. Some participants made positive comments in relation to the management of risks, with others providing further detail that changes could be implemented quickly, financial risks could be managed, and workforce planning could take place. The Christie NHS Foundation trust suggested that: "*a better understanding of the risks and implications of Covid-19 should be understood at the implementation phase*". Others also felt that it would allow for monitoring and evaluation of operator performance and flexibility to adapt to change. Bolton and South Lancashire Community Rail Partnership noted the benefits of franchising but highlighted the volatility and risk in the current environment. The Northern Care Alliance responded stating that any option should not create a disparity in service provision.

8.1.12 Fewer negative comments were received during the second consultation in response to the conclusion of the Management Case overall, but these were spread across a wider variety of themes. Some participants raised their general concerns about transition and implementation. Others were more specific, raising concerns about the ability of TfGM, on behalf of GMCA, to implement the Proposed Franchising Scheme, to manage bus services and (from a member of the public) "*their track record of running services poorly*".

8.1.13 Some participants including Go North West and Transport Focus also expressed concern over the timeframe for transition and implementation as well as the lengthy transition period and timing of any changes overall. Some participants expressed general disagreement with the conclusions of the Management Case, with a small number referencing the inability to manage risk and the potential impact that this could have on passengers. Stagecoach raised a specific challenge around the cost of transition to the Proposed Franchising Scheme not offering VfM.

8.1.14 A number of participants also made comments specifically about the partnership option, stating that TfGM would be able to manage and implement this option – further detail was provided that stated this would enable cooperation and collaborative working. Positive comments were received. Rotala stated that it "*agrees that it would be possible to effectively manage a partnership option, despite the impact of Covid-19. This is because a partnership would be much more dynamic and flexible than the Proposed Franchising Scheme, with significantly less cost and risk for GMCA/the public and the private sector operators.*" OneBus commented: "*The partnership proposal would not require the additional staff required to oversee the commercial performance of the network, develop, procure, and manage the contracts and the contractual relationship with franchisees. The partnership proposal would be more manageable and create less inconvenience for bus users*". This is despite the fact that, as set out at section 10.8.3 of this report, OneBus commented in its response to the second consultation that its previous proposal is no longer valid and that it is not able at this stage to submit a detailed alternative proposal. Whilst GMCA notes that less additional resource would be required to manage partnerships as compared to franchising, this reflects the reduced scale of opportunity.

8.1.15 Four new themes emerged from the responses from both statutory consultees and other stakeholders during the second consultation. These were:

- Theme 7: GMCA has not adequately demonstrated in enough detail how the future operating model would be implemented by TfGM, particularly if Scenario 3 emerged at the likely recovery scenario.
- Theme 8: GMCA has underestimated the complexity of transition, has not allowed sufficient time and it will undoubtedly take longer due to risk and uncertainty surrounding the impact of Covid-19 leading to an even greater lag in patronage recovery and potential impact upon customers
- Theme 9: Treatment of risk under the Scenarios
- Theme 10: Transition expenditure is unrealistic and poor VfM.

8.1.16 There were a number of suggestions in the second consultation response provided by members of the public and other stakeholders who responded. These are summarised below with the TfGM consideration of each suggestion.

- Consultees suggested that TfGM should perform thorough due diligence and negotiation and plan and prepare properly. This would form a key part of the procurement of the franchises and the planning and implementation of the future operating model.
- Consultees suggested that GMCA should seek guidance from experts/TfL and follow the TfL/London model. Guidance was sought from a number of industry experts and would continue to be throughout the implementation. The transition to franchising would allow GMCA to adopt a similar type of model to bus operations to that in London.
- Consultees suggested that TfGM on behalf of GMCA should monitor and evaluate the performance and operations of existing operators. TfGM on behalf of GMCA currently

monitors the performance of all existing operators who currently run the existing tendered services.

- Consultees suggested that there should be recruitment and training of additional and suitably qualified staff. The proposed operating model articulated in the Assessment and considered in the second consultation would require the recruitment and training of appropriate qualified staff and the transition budget includes a provision for training where required.
- Consultees suggested the transition should be reviewed periodically and updated in response to developments. The transition plan in line with project management best practice would be continually monitored to ensure that the programme includes the impact of, and adapts to, emerging developments.
- Consultees suggested that there should be penalties and enforcement for failure to adhere to the standards of performance and operation. The proposed franchised contract would include a number of performance measures to ensure quality and service standards are maintained.

8.2 Theme 1: Management of the existing bus contracts

8.2.1 Question 32 of the original consultation asked whether TfGM would be able to manage the franchised operations on behalf of GMCA. Section 11.1.3 of Ipsos MORI's June 2020 Consultation Report notes that the most common suggestion received from the members of the public was that bus services should be "*run by a single operator and controlled by TfGM / GMCA*". From a customer's perspective of franchising, the bus services would appear to be run by a single operator (livery, brand and interoperability of tickets). The approach to the design and implementation of franchises and the proposal to maintain market competition through the tendering of the packages are discussed at section 6.9 above.

8.2.2 OneBus drew attention to what they saw as TfGM's poor track record of awarding and managing the current small number of contracts and the management of the Metroshuttle / Free Bus.

8.2.3 The first issue cited by OneBus regarding the late award of the school contracts in 2019 (not 2018 as stated by OneBus) and not having sufficient time to register the services, recruit sufficient staff or acquire vehicles was driven by unprecedented levels of staff sickness where three of the four operational planners were absent at various points in the spring and summer. However, the contract letters were issued in May / early June in line with normal timescales and not during the summer holidays as stated. This would have allowed sufficient timescales to secure any additional vehicles required and to recruit drivers. The route specifications, however, were issued during the school holidays and some in early September. Since then, TfGM's Bus Services Team have implemented a number of measures within the existing Operational Service Planning Team to increase its resilience and flexibility.

8.2.4 The second issue raised by OneBus concerns Metroshuttle / Free Bus, which is a free bus service provided in Manchester City Centre (a separate Metroshuttle service operates in Bolton) to connect the major stations and commercial areas of central Manchester. This service also promotes a secondary, but important, objective, to support the tourist economy, by providing a free city centre bus.

8.2.5 OneBus stated that, following four years of significant passenger decline, changes were made to services in October 2018 with revised routes and an expensive rebrand. Overall patronage fell by 15.7% in 2018-19 and further radical changes nonetheless had to be made in October 2019. Since 2008, the cost per passenger has increased as patronage has declined, and service levels reduced. The management of this service, OneBus claims, "*is a matter of grave concern*".

8.2.6 The four years of patronage decline coincided with the construction and subsequent opening of the Metrolink Second City Crossing (a new tram line through Manchester City Centre). During construction, all bus services in the city centre were severely disrupted, and customers would have sought alternate ways of making their city centre journeys including walking. After the opening of the new Metrolink line some customers will have switched to Metrolink and others will have continued to walk. The budget was reduced in 2017-18 and the TfGM Bus Services Team developed and implemented modifications to safeguard key elements of the services within reduced levels of funding.

8.2.7 As a result of the funding reduction the number of services were reduced, thus not serving all the same areas as previously. This resulted in a further decline which TfGM sought to address with additional changes. The team have also implemented extended evening services to increase the service relevance in supporting evening economy. Patronage continues be monitored and TfGM seeks to maximise the attractiveness of the service to customers with the significant financial constraints that exist. This is a unique service which Manchester City Council wish to continue to operate despite significant budgetary pressures and declining patronage. As a result of the patronage decline the cost per passenger has increased; however, it is worth noting that the cost per passenger is lower than the cost per passenger of the supported general services.

8.2.8 TfGM has over 30 years' experience of managing the supported and school services since deregulation. Despite a static budget since 2016-17 and the ongoing withdrawal of commercial services, TfGM continue to develop efficient and innovative ways to fill the gaps left by the commercial market deregistering services, where funding allows. The existing TfGM Bus Services Team currently manages over 500 contracts, which cannot be considered a small number. The annual spend on the subsidised network (including school services) reduced by £7.5 million between 2012-13 (£34.6 million net) and 2016-17 (£27.1 million net); since then the budget has remained static. These savings were delivered by seeking procurement efficiencies and service rationalisation where possible.

8.2.9 It is acknowledged that with the level of commercial de-registrations, TfGM is not always able to intervene. In the case of general commercial services, TfGM are given very little warning beyond the 70 days prenotification of a commercial operator's intention to deregister services. TfGM's Operational Service Planning Team will:

- Evaluate how it should respond to the proposed deregistration, including assessing:
    - The need;
    - The remaining network;
    - Access/population;
    - Demand;
    - Available budget;
- If it considers a need to intervene, how to meet the requirements achieving best VfM on behalf of GMCA and customers;
- Specify the required services and issue a tender for a supported service;
- Evaluate the responses;
- Seek internal and external approvals;
- Award a contract ready to commence mobilisation; and
- If required, support operators in the short notification application to the Traffic Commissioner.

8.2.10 Following contract award, TfGM's Network Performance Team ensures that the operators are both supported and held to account in delivering the requirements of the contact by monitoring performance to ensure operators comply with contractual requirements. The Network Performance Team:

- Works with the operators to address performance issues.
- Implements Performance Improvement Plans (PIPs) where operator performance issues are not resolved in a timely manner.

- Holds regular review meetings.
- Addresses queries or complaints raised by operators; and
- Runs a contract end date and performance tracker.

8.2.11 Given the funding constraints within which TfGM operates and the ongoing pressure of commercial deregistrations, it is considered that TfGM do award and manage their existing contracts effectively.

8.3 Theme 2: Cost and complexity of managing franchised operations.

8.3.1 This theme addressed Question 32 in the first consultation. Overall, Ipsos MORI reported that out of the 183 responses to managing franchised operations under the Proposed Franchising Scheme, 73 provided favourable comments while 56 were unfavourable. Of the 13 statutory consultee responses, 6 were favourable and 6 were unfavourable. Those which were unfavourable were mostly from bus operators. There were 62 favourable comments from members of the public with 47 unfavourable. The main favourable comments were: the Proposed Franchising Scheme would create jobs, boost employment and/or lead to the recruitment of more staff and drivers (7); and would give TfGM/GMCA more authority and control of bus services (3).

8.3.2 Of the 47 unfavourable comments towards the management of franchised operations, the most frequently cited comments concerned costs, affordability and VfM of the proposed approach (13).

8.3.3 Ipsos MORI's June 2020 Consultation Report noted that responses from statutory consultees, although relatively few, tended to focus on the costs and difficulties associated with securing sufficiently qualified staff for the relevant core and support teams. There were also concerns associated with additional management costs.

8.3.4 Comments from bus operators (Go North West, Rotala, First and Stagecoach) were generally unfavourable and operators agreed that the additional required full-time employees would be difficult and costly to attract, recruit and train and would not ultimately be sufficient to cover the necessary responsibilities. Go North West noted, critically, the proposed size of TfL operations compared with the additional resource proposed by TfGM. The members of the public making unfavourable comments were also concerned with costs, affordability and VfM of the proposed approach. The Chartered Institute of Logistics and Transport – North West Policy Group were of the view that the number of qualified staff required for TfGM to manage the bus network in Greater Manchester was underestimated, considering the intention to recruit.

8.3.5 The main points raised through consultees and Ipsos MORI's June 2020 Consultation Report were addressed below.

Operating resource required

8.3.6 The Assessment recognised the complexity in managing the delivery of the Proposed Franchising Scheme. The future-target operating model, with associated incremental resources, developed by TfGM on behalf of GMCA, has been designed to deal with these challenges and was created by using a combination of:

- A bottom-up view of the future requirements based around the development of new processes and capabilities required to plan and manage franchised operations;
- Data modelling (e.g. customer contact resources driven by volume of calls);
- Benchmarking with other organisations that manage franchises and have experience with Metrolink;
- Input from advisors with significant bus operations experience; and
- Benchmarking of salaries, including estimated market adjustments where salaries do not align to TfGM pay scales.

8.3.7 The Assessment identified that an additional 102 roles would be required to deliver the Proposed Franchising Scheme. This is made up of 71 management and supporting roles and 31 revenue protection roles. After taking account of roles that would transfer from the operators (25) and existing roles in TfGM that would no longer be required under franchising (20), the net impact anticipated was 57 additional roles. Section 46 and Section 47 of the Management Case of the Assessment identify that TfGM already have some of the existing capabilities. However, there would also need to be a significant organisational change to the way TfGM currently operate to manage or support franchised operations.

8.3.8 OneBus suggested that "*It is also very unlikely that there are 25 staff employed in roles by the operators that would TUPE to TfGM*".

8.3.9 OneBus provided no further evidence to support this statement. TfGM have used operator information to assess the likely number of individuals that would transfer and therefore believe the figure contained in the Assessment was accurate.

8.3.10 Rotala considered that the bus operators will be unlikely to be willing to release the best qualified and most experienced employees and it is likely to retain staff as its Bolton depot services the whole of its North West region activities. If an operator's bid was unsuccessful, they may choose to offer their best and most talented resources alternative roles within their existing organisation. If the "*principally connected*" rule applies (as set out below at section 8.5.2), then it is up to the individual to decide whether to transfer to the new operator or to remain with their existing employer if they are offered an alternative position. If an individual chose to stay with their existing employer, then the successful operator would need to recruit to fill the vacancy created by the individual not transferring. This is a risk that the successful operator will need to manage.

8.3.11 TravelWatch NorthWest suggested that Transport for London (TfL) could be looked at as a possible role model when setting up and managing new structures under the Proposed Franchising Scheme. In developing the Management Case, TfGM considered several organisations which manage franchised operations including TfL and the transit authority in Perth, West Australia.

8.3.12 A comparison was drawn by several consultees, including Go North West, between the proposed TfGM model and that of TfL bus, which employs 800+ people in non-operational roles and 200+ revenue protection officers, a total of circa 1000-1100 staff, suggesting that TfGM's proposed staffing levels are not realistic.

8.3.13 As mentioned above, in addition to the 102 new roles this would be supplemented with the need for a significant organisational change. There are a number of existing roles across TfGM that currently support bus, and will continue to do so. As bus services transition to franchising a number of existing roles will have an increased focus on bus as a priority under franchising. When these roles are added (to the 102) then the size of the organisation supporting franchising increases to circa 150+ FTEs. In relative terms, the proposed number of resources identified in TfGM is commensurate with TfL for the following reasons:

- TfGM is between 10%–18% of the size of TfL (in terms of passengers, revenue and PVR) depending on which metric is used. The 150+ is approximately 15% of the size of TfL bus resource;
- TfL has been set a 30% back and middle office efficiency target which will reduce the overall number of TfL non-operational roles;

- TfL manage the Intelligent Transport Systems (ITS) on behalf of the operators, whereas the TfGM model leaves the operational management with the operators;
- TfL buses run a semi-open network (two-door buses). The TfGM proposal is for a closed network (single door next to the driver) which reduces revenue protection requirements; and
- TfL has 500+ route-based contracts, whereas TfGM will have 10 large and 25 small franchise contracts.

8.3.14 Go North West suggested that GMCA may have underestimated the number of employees required to undertake direct monitoring of performance data and on-street monitors. This is not the case. The Management Case of the Assessment identifies additional people (12+) in TfGM to manage operator performance and a significant investment in systems to capture performance data and generate the required reports. Operational performance remains as it is today the responsibility of the operator and therefore on-street monitoring should be undertaken by the operators as it is at present. However, through real-time passenger information systems (or "RTPI"), TfGM will also be able to monitor and manage, where required, operational performance. TfGM bus station staff would be able to monitor some of the qualitative operational performance measures (such as external cleanliness of buses, driver appearance and displaying the correct destination blinds). TfGM have included a significant additional annual survey budget which makes provision for activities such as a 'mystery shopper' exercise which would provide feedback on the quality of service offered on the bus including driver behaviour and appearance.

Recruitment

8.3.15 Ipsos MORI's June 2020 Consultation Report identified additional favourable comments from members of the public that were supportive of the Proposed Franchising Scheme as it would create jobs, boost employment and/or lead to the recruitment of more staff and drivers.

8.3.16 In their 2020 Consultation Report, Ipsos MORI reported that unfavourable comments were received about a lack of competency, expertise and poor track record of TfGM / GMCA who they said should "*leave it to the experts*"; 'it' meaning managing the running of the buses. Additional conditional supportive comments of TfGM's ability to manage franchising from members of the public highlighted the need for:

- Openness, honesty and transparency (5);
- TfGM/GMCA to possess the required competency and expertise (4);
- Consideration of staff support and training (3).

8.3.17 Most bus operators responding to the original consultation provided unfavourable comments on the proposed recruitment plans. A number of operators including Go North West, Rotala and First commented upon the potential difficulties in recruiting employees. Stagecoach noted that individuals to fill a number of significant strategic level roles would have to be recruited from authorities (TfL and DfT) which have the necessary experience and expertise, that the talent pool for these roles is limited and that the individuals will have long notice periods. In its view, assembling the team halfway through tranche one is overly optimistic. There is also a risk that TfGM recruitment from the operators will damage delivery of the bus service, and that there will be over-reliance on contractors and consultants (who may themselves have limited experience) to fill crucial roles, increasing costs.

8.3.18 Go North West stated that TfGM will have to recruit individuals in an incredibly specialist area of expertise that exist only in TfL in the UK and it is not clear whether that is realistic. They also suggested that nine months is not a sufficient period for GMCA and/or operators to recruit and train the extra staff to deliver an effective scheme: recruitment processes can take months and some individuals may be subject to a three-months' notice period in leaving their current employer.

8.3.19 TfGM's HR Resourcing Department can demonstrate a successful track record in attracting quality talent to the organisation, including for senior leadership roles. TfGM have engaged with industry leading search and selection partners who have supported them in attracting quality candidates to senior leadership roles. TfGM have also completed high-volume recruitment campaigns, directly targeting the employment market for a wide range of skills, a highly successful apprenticeship recruitment programme and engaged short-term contractor resource where required. TfGM use a variety of leading and innovative sourcing and selection methodologies. In addition, the Project Management Services Team currently recruits assistant project managers, project managers and senior project managers to a talent pool. The people in the talent pool are then offered positions in TfGM when projects arise. This approach has worked very successfully for TfGM and could be expanded for other roles.

8.3.20 The business change costs in the Assessment includes additional and specialist resource to support the recruitment activity, acknowledging that the existing team may not have the capacity to recruit the volumes and calibre of people required in the short timescales.

8.3.21 During the transition period TfGM would need to employ a number of contractors and consultants to support these activities while concurrently recruiting to fill the permanent roles. TfGM's intention is to fill the permanent roles as soon as is practically possible but have costed (in the Management Case and in the risk register) the need for external support in the short term.

8.3.22 The Assessment acknowledged that the recruitment and resourcing will be challenging. There are a number of areas where TfGM will need to recruit specialist resource, including sales and marketing, procurement, asset management and finance. TfGM recognise that there are some skills shortages in the market more generally. TfGM would take and indeed already have relevant measures in place. For example, TfGM currently have 42 apprentices covering a range of disciplines including Commercial Procurement and Supply Chain, Transport Planning, Customer Services, Operational Management and Business Administration. The market for the key resources, however, is bigger than just the bus sector and local bus market. The following sections identify alternatives sectors, as well as TfGM's own employees, from where the specialist resources could also be recruited. This approach would allow TfGM to get a blend of bus expertise with that of other sectors importing new thinking and best practice approaches.

8.3.23 With regards to Franchise Management, bus is one of many sectors which operate in a franchised environment. TfGM would not look to recruit the extra required resources exclusively from the bus market but would look to attract talent from other areas including rail, logistics and from other sectors such as retail or facilities management where suppliers are managed against robust service level agreements. TfGM already employ experienced contract managers with significant local knowledge and there is the potential to continue to build on current capabilities and develop a high-performing team and combine these resources with the relevant experience and expertise from other commercial sectors. A capability development plan will be put in place to ensure that members of the existing team have appropriate opportunity to acquire additional skills and develop the right capabilities to drive impactful franchise management.

8.3.24 The second area is Network Planning. With the level of transport infrastructure investment nationally, the Assessment recognises that this resource is heavily in demand with market supplements where appropriate and a risk provision where higher salaries are required to attract people from the commercial sector. As with Franchise Management, TfGM would not just be seeking to recruit from the bus sector. With wider responsibilities for planning for both bus and trams, and potentially the rail network in the future, TfGM would be looking for wider transport experience. The pool for this resource could come from other transport sectors and transport planning consultancies. In addition, there is resource within the existing bus services team who, should they be successful in applying for these roles, would work with externally recruited network planners, blending wider network planning experience and perspective with bus experience and local knowledge.

8.3.25 Operators raised concerns that TfGM "*recruits from the operators themselves*" damaging current delivery. TfGM acknowledged that the recruitment of key resources could come from the operators. It is the right of the individual to apply for such roles. However, as previously discussed, TfGM believe the potential talent pool goes beyond the bus sector. By recruiting from a wider resource pool in other sectors TfGM increase the likelihood of securing resources locally. However, TfGM would not just be looking to recruit locally, and TfGM have experience in attracting talent nationally and from different sectors other than public transport. Individuals move between bus companies currently and the scale of the TfGM bus operations requirement in comparison with the scale of the whole bus sector is quite small. This combined with recruitment from other sectors should minimise the impact upon existing operators. It is expected that operators would be able to replace resource and should have sufficient resilience, if some staff successfully applied for TfGM positions, without adversely impacting existing operations.

8.3.26 Between six and nine months has been included in the programme for recruitment and the likely notice period for specialist and senior roles, experience of previous recruitments has shown that this is normally achievable. However, risk F026 includes a cost provision for the risk that there may be a delay in the recruitment of key resource.

Salary Costs

8.3.27 In the first consultation it was suggested by several operators that the salary costs may have been underestimated and that additional costs may be incurred to secure the right expertise. This included comments from the first consultation from Go North West and Rotala that indicated that they believe the required salaries "*are approximately 10% too low*" and therefore TfGM would not be able to attract staff with the requisite experience. Go North West note that given the specialist nature of the skills, there should be sufficient cost factored in to GMCA's estimates for attracting high-quality candidates.

8.3.28 In the second consultation Rotala reiterated the reference to perceived low contemplated salaries and the risk that this would not allow GMCA to attract the appropriately experienced resources.

8.3.29 The salaries that were included in the Assessment were developed by:

- Benchmarking with similar roles in TfGM;

- Developing and evaluating high-level role profiles for key and senior roles;
- Market comparisons for similar roles; and
- Applying market supplements to roles which are either specialist or a scarce resource.

8.3.30 Whilst a robust approach was adopted, and it is believed that the salary costs are not too low, it was recognised in the Assessment that higher salaries may still be required to attract key specialist resources. A provision was quantified and included in the risk register, see Risk F081 in the Assessment.

Revenue Protection

8.3.31 Stagecoach, Rotala and a member of the public commented during the first consultation on the scale of revenue protection stating that a) it is not sufficient and b) noting that the numbers drop down to 13 by 2027, which may potentially impact revenues.

8.3.32 The proposal increased the level of revenue protection to circa three times that of the current provision by the existing commercial operators to manage fare evasion. The Assessment did not include any fare evasion benefits associated with increased revenue protection. The introduction of significant additional resource reflects the need to bring a consistency in approach across the network which has seen a variety of approaches adopted depending upon the requirements of local operators. Currently, some parts of the Greater Manchester network have little or no revenue protection while other parts are better covered. This approach aims to bring in a consistent level across the network.

8.3.33 The subsequent reduction back to current levels reflected the need to assess future long-term revenue protection requirements and to ensure that there is a funding stream to support the higher level of revenue protection cover. There are a number of factors which would influence future approaches to revenue protection, including technological change and the opportunity for a joint bus and Metrolink approach. If a business case (post implementation of the Proposed Franchising Scheme) demonstrates that continuing with or increasing the proposed levels delivers financial and customer benefits, then the higher numbers would be retained or increased. This would be explored during the early phase of franchised operations and would need to be self-funding. At no point in the Assessment does revenue protection drop below today's existing levels.

TUPE and Other Costs

8.3.34 It was suggested by Stagecoach in the original consultation that transferred staff should be treated as an incremental cost as they formed part of the Do Minimum option. They asserted; therefore, that we have understated the costs.

8.3.35 This is not correct. The Assessment considers the incremental costs above the Do Minimum option. Therefore, to include any transferred resource as an additional cost in the Assessment would result in including the same costs twice, irrespective of whether the costs transfer from operators to TfGM and therefore this would overstate the costs.

8.3.36 Having reviewed the responses received in the first consultation and the evidence outlined above, it is considered that the approach to developing the future target operating model does not underestimate the cost and complexity of managing a franchised operation.

8.4 Theme 3: The difficulty of transitioning from commercial to a franchised operation

8.4.1 The Assessment recognised the scale and complexity of the transition and acknowledged the risks associated with it including the risk that it may not be delivered to the proposed timescale and budget. A number of considerations were taken into account in determining the most appropriate period for transition. These included the need to minimise the impact on customers by prolonging a transition period; enabling the market to manage the bid process; and enabling TfGM to reduce transition risk, including learning lessons from the procurement, and mobilisation of the initial tranche of procurement. The approach to transition and implementation detailed in the Assessment shows how the risks that the transition may not be delivered to the proposed time and budget were accounted for and how it was planned to mitigate them.

8.4.2 Question 33 of the first consultation asked for comments on the approach to the transition and implementation of the Proposed Franchising Scheme. Ipsos MORI's June 2020 Consultation Report notes that 130 comments were favourable, and 81 unfavourable, of the 258 comments that were received. Of the statutory consultees (13) who responded 5 provided favourable comments and 6 unfavourable. Of the non-statutory consultees (9) who responded 4 provided favourable comments and 1 an unfavourable comment. Of the members of the public who responded (236), 121 provided favourable comments and 74 unfavourable comments.

8.4.3 The most commonly cited favourable responses from the first consultation provided by members of the public were about general agreement/support for the approach to the transition and implementation period as set out by the Management Case (92). A further 13 members of the public were confident in TfGM/GMCA's competence and expertise to deliver the proposal, with nine members of the public stating that this transition is long overdue and should be implemented as soon as possible.

8.4.4 Around a third of those statutory consultees who provided comments in the first consultation made favourable ones while around a half made unfavourable comments. The main concerns were related to timescales and lack of time built in for evaluating and reviewing progress during the transition. Others expressed opinions that the associated costs had been underestimated. The feasibility of the timescales was the main point from unfavourable comments from members of the public. As Ipsos MORI's June 2020 Consultation Report noted, there were favourable comments from a non-statutory consultee, the University of Manchester, that agreed that TfGM (on behalf of GMCA) would be capable of managing franchised operations throughout transition and implementation; and favourable comments from members of the public agreed with the approach whilst accepting that there was a level of risk that would be inevitable in such a change.

8.4.5 In the first consultation, a number of bus operators focused their criticism relating on the proposed timescales. Arriva commented that the proposed timescales were highly ambitious and Arriva and Go North West specifically noted the lack of time built in for evaluating and reviewing progress. As noted in Ipsos MORI's June 2020 Consultation Report, the Oxford Road Corridor group stated their fundamental belief that the long-term benefits here would outweigh any short-term disruption that they acknowledged with implementation, recognising the potential challenges posed by transition.

8.4.6 A number of operators (including Stagecoach, Go North West, First) stated that GMCA may have underestimated the cost and complexity of the transition and as Ipsos MORI's June

2020 Consultation Report states, Stagecoach believed that the stated *"£1.7m earmarked for business change could be better spent enhancing existing services*".

Customer experience during transition

8.4.7 This section addresses customer experience and risk management during transition. The implementation timescales challenges have been merged and responded to with a similar section 6.9 above, in the Commercial Case to avoid duplication of responses.

8.4.8 Ipsos MORI's June 2020 Consultation Report identified that some members of the public have recognised that risk is inevitable with change and that there will be some initial challenges. Several operators indicated that TfGM may have underestimated the potential level of confusion for customers during transition and the inconvenience to them through journey disruption.

8.4.9 First emphasised that the complexity and confusion that bus users would experience should not be underestimated. The threat of franchising may lead operators to seek to maximise short-term profit on a temporary basis, removing the incentive for collaborative working, and they may also choose to cease service operation (which may require or warrant service replacement by GMCA).

8.4.10 In the first consultation, Go North West commented that the stability enjoyed by the existing market will be disrupted and may be subject to significant turmoil during transition. There is a risk that a lack of knowledge and experience could adversely affect the reliability and punctuality of services during transition and while a new operator mobilises. In Go North West's view, the arrangements for transition would expose passengers and GMCA to an unacceptable risk that services would not be operated and that the new arrangements would be likely to lead to customer confusion, especially when travelling between the franchised and non-franchised network. Passengers would experience a change in the appearance and livery of buses and would also be affected by the new fare structures that would be inconsistent across the three Sub-Areas during transition. Go North West also said that in their view, GMCA did not appear to have given any sufficient consideration to passenger communications.

8.4.11 From a customer perspective it is important that the transition period is minimised in order to realise the full benefits of the Proposed Franchising Scheme as soon as is practically possible and to minimise the period of operating a mixed commercial and franchised environment.

8.4.12 As noted by First in the first consultation, there is a risk some operators would seek to maximise short-term profits, withdraw services (which may require GMCA to replace them) and withdraw cooperation for working collaboratively. Whilst the risk register recognises this risk and the risk register has provision against services withdrawals (Risk F003) TfGM envisage that operators would not act in way that unnecessarily impacts their customers by withdrawing profitable services and behaving in a uncollaborative way which might impact customer experience and their incomes.

8.4.13 It is not expected that operators would abandon the commercial networks as many of the routes are profitable and this would impact upon returns to shareholders. However, the

Assessment recognises this risk and the risk and mitigation plans in this regard are included at risk F003 of the risk register.

8.4.14 The Assessment recognised that there is a short-term risk of confusion to some customers during transition with the introduction of franchised services. A number of mitigating measures have been identified in the Assessment including:

- The use of the marketing and communications materials to inform customers of the change ¬– this expenditure is included in the transition costs budget. University of Manchester suggested a need for timely communication material to be circulated with contact details for specific queries to support the transition. TfGM has significant experience in using marketing material (in all media, digital, paper, TV and radio) to engage with customers including the launch of new or changed Metrolink services and with the launch of the Metrolink Zonal Fare structure across Greater Manchester. TfGM would draw on this experience to support transition; and
- The early recruitment of the customer contact resources.

8.4.15 The transitional ticketing arrangements will ensure that for customers who need to transfer between franchised and non-franchised services the additional costs are largely eliminated or significantly reduced. The detail of the transitional ticketing arrangements, in the event that the Proposed Franchising Scheme be made, would be developed in conjunction with the existing operators post a Mayoral decision.

8.4.16 The proposal to minimise network changes when procuring the first round of franchises will also minimise the impact upon customers and operators.

Risk Management during transition

8.4.17 Stagecoach stated in their response to the first consultation that the risk assumptions appear overly simplistic and favourable to franchising. It stated that two stood out: (i) no reference is made to the negative image already existing among passengers UK-wide regarding franchising, particularly passengers in the North, and (ii) there is a question whether the potential two-to-four-year delay from not being able to negotiate depot sales has been costed in a meaningful way. Further it claims that the cost of tendering, contracting and paying for any new depot has not been fully factored in.

8.4.18 The risk cost and mitigation plans were developed following a robust and rigorous process adopting best practice approaches (which is known as a Monte Carlo simulation). A significant number of risk workshops were undertaken by TfGM to identify and quantify the risks that needed to be managed; and detailed mitigation plans were developed for each of the risks where appropriate.

8.4.19 The mitigation plans were reviewed for deliverability; and sections 46.7 and 48.4 of the Management Case of the Assessment summarises how ongoing and transition risks would be managed under the Proposed Franchising Scheme. These sections contain a table summarising the risks and sets out the mitigations.

8.4.20 In the first consultation Stagecoach noted that TfGM made no reference to the negative image of franchising already existing among passengers UK-wide regarding rail franchising, particularly passengers in the North. However, this scheme proposes bus franchising and 4 members of the public who responded to the consultation management case questions suggested the transport systems should be based upon the TfL model which is franchised. In addition to London, bus franchising has also been successfully implemented in other countries such as Singapore and Australia. There is no necessary reason to assume that there is a significant risk that attitudes to rail franchising will materially affect the prospects of bus franchising in Greater Manchester.

8.4.21 Stagecoach's challenges in the first consultation on whether the potential two-to-four-year delay on depots and the consideration of the costs of tendering and procuring depots are dealt with adequately in the Assessment are addressed at section 6.8 of the Commercial Case response above.

8.4.22 It is considered that the approach to developing risk costs and mitigations plans were robust and thorough and that the mitigation plans are deliverable.

8.4.23 The risk register includes a provision and contingency plans for any potential overruns, notably in relation to risks F003, F004, F008, F012, F020, F026, F027 and F041. In addition to the risk mitigations set out above, GMCA would be able to postpone any of the dates included in the Proposed Franchising Scheme (such as the dates for when GMCA would enter into a franchise contract and/or when services would start to operate for each Sub-Area). Section 123I of the Act makes provision for this and as already set out at section 6.7.11 above, GMCA would be able to postpone these dates after consulting bus operators and others. This means that, even though the Assessment believes that the implementation timescale is achievable, there would be a number of options available to GMCA to either minimise the impact of any delays and/or postpone implementation of the Proposed Franchising Scheme.

8.4.24 Having reviewed the responses received from the first consultation and the evidence outlined above, it was considered that the Assessment did not underestimate the scale, complexity and costs of transitioning from a commercial to a franchised operation.

8.5 Theme 4: Impact upon employees and operators

8.5.1 The areas below cover the main themes raised from consultees from the first consultation in relation to impact on employees and operators from the Management Case perspective.

TUPE

8.5.2 The Act envisages that, whether or not it would otherwise apply, the provisions of TUPE will apply to an organised group consisting of those employees of a former operator whose employment is "*principally connected*" with the provision of local services in a franchised Area or Sub-Area. A number of concerns have been raised by operators around the application and definition of "*principally connected*" and the impact that this may have upon the workforce. The Franchising Schemes and Enhanced Partnership Schemes (Application of TUPE) (England) Regulations 2017, provide that, in the absence of agreement, a person's employment is treated as "*principally connected*" with the provision of affected local services if that person spends, on average, at least half of their working time assigned to the provision of affected local services assigned to activities connected wholly or mainly to the provision of affected local services.

8.5.3 Abellio thought that there would be no adverse impact on the employees of operators given these regulations. Arriva considered, however, that there may be employees "*left behind*" post franchise scheme commencement who may have to be made redundant. First considered that, while drivers and maintenance staff may have the opportunity to transfer to the new operator under the TUPE provisions, the same is far less likely to apply to its management and support staff. Go North West expressed concern about the potential for redundancies as a result of the Proposed Franchising Scheme. They are concerned that there will be persons working on the provision of services being transferred who are not 'principally connected' with them and will not be transferred but who may find that they are redundant, having lost part of their role. Go North West considered that an operator still operating commercial services outside Greater Manchester may have engineers and other staff who may never be principally connected with the services transferred while being directly affected by the loss of work who may be vulnerable to redundancy.

8.5.4 TfGM will work with the operators in detail, much of which will only emerge as the transfer approaches, to ascertain which employees may or may not transfer. TfGM's approach is to procure the large franchises around the strategic depots. This means that, by and large, services operating from that depot at the point of transition would continue after the transition. As a result of this approach, it is envisaged that drivers and engineers based at the depot would be likely to be covered by TUPE if the incumbent operator was unsuccessful. TfGM cannot guarantee that there will not be redundancies but the risk to many drivers and engineers should be small. As a consequence of implementing the Proposed Franchising Scheme there could also be a small number of local management posts and roles such as engineers who may also serve operations outside of Greater Manchester that may not be required by the existing operator in the future and may not be covered by TUPE. In the event that these members of staff are made redundant by the incumbent employer it is assumed that the operators would act in accordance with the law and collective bargaining agreements. Any head office roles which are outside the scope of TUPE and do not transfer to TfGM, which are made redundant because the Proposed Franchising Scheme, would need to be addressed by the operator. Any redundancy costs would be incurred by the operator. It has been suggested by Arriva that, if an employee declines to transfer to the new operator, the incumbent operator will incur the redundancy cost. This is not the case as, in the event that an employee chooses not to transfer, he or she will effectively have chosen to resign rather than work for the new operator.

Other effects on employees

8.5.5 OneBus stated that the allocation of contracts may mean staff not working from the depot nearest to their home. Transdev raised a concern that the planned use of strategic depots may require some employees to relocate, particularly employees that are currently located at non-strategic depots.

8.5.6 The current transition plan in the Assessment involves making use of the strategic depots and the intention, as noted above, is that franchise contracts replicate the services at the point of transition. Such service movements, therefore, are likely to be relatively limited in nature at the outset of franchising (to minimise transition risk). This will reduce the relocation issues rather than increase them.

8.5.7 First raised a concern about the uncertainty that the franchising proposal is causing to its workforce. Stockport Metropolitan Borough Council has raised a similar issue driven by the longer period until transition in the South and therefore a longer period of uncertainty for operators' employees. A similar comment was raised by Stockport Metropolitan Borough Council in the second consultation where they re-iterated their desire "*to work with TfGM to review the potential impact on bus companies and their employees before franchising comes into effect*". Ipsos MORI's June 2020 Consultation Report highlighted that of the 13 conditional comments made by the public offering support, three respondents identified the need to provide staff support and training.

8.5.8 TfGM's intention is to procure the franchised network as quickly as is practically possible which in part is driven by the desire to reduce uncertainty. Staff support and training is important and should be provided by the operators.

8.5.9 Rotala expressed concerns about the lack of work stability under franchising, stating that "*in essence every member of staff would need to re-earn their position every five years*", something inimical to job loyalty removing the sense that working for a bus operator can be a career for life, increasing concerns about job security considerably.

8.5.10 If an operator was unsuccessful in bidding, TUPE and the "*principally connected*" rules would apply to existing employees. They will not have to re-apply for their existing roles. The issue of having to "*re-earn their position every 5 years*" is no different from when there is a change in senior management or a director. In this case employees have to demonstrate the capabilities to a new manager. However, it is expected that operators managing franchises would have effective performance management systems in place and therefore employees during the life of a franchise would be given every opportunity to develop their skills and address any deficient areas. The transfer from one operator to another should be an extension of that system. Staff who have performed well during the duration of the previous franchise should have no concerns about performance related job security.

Effects on operators under local service contracts

8.5.11 In the first consultation OneBus stated that the operators would need to increase headcount, to:

- Ensure that data required by TfGM is collated and maintained; and

- Manage the punctuality and reliability of buses to provide the level of service as dictated by the contract and to ensure any operational penalties are avoided.

8.5.12 In the second consultation, OneBus reiterated this challenge stating: "*The Management Case has failed to build in the additional staff that operators will need to recruit to undertake their own control and management of operational compliance. This will be significant, and the cost will be included in the contract price*."

8.5.13 TfGM agree that operators will have to factor these costs into their bids. However, some operators already employ resource to ensure the level of their performance, and the benefits this brings, in customer satisfaction and patronage. Consistent standards will only be achieved if effort is made in these areas. Some costs have been assumed. OneBus have not disputed or justified why they are not adequate. In due course levels of services and calibration of the performance regime will be refined and managed by TfGM and informed by increased insight in this regard.

8.5.14 Whilst revenue risk transfers to GMCA, the majority of operating risk will remain with operators and therefore the associated operational management will remain with the operator as it does at present. Although data in relation to punctuality and reliability will need to be collated and monitored, this is also the case under the current market. Additionally, the proposed new ITS systems should generate most of the required reports and should minimise the need for manual intervention by operators. It is not expected that a franchised environment would require operators to increase their costs as day-to-day operational management should form part of the existing operation.

8.6 Theme 5: Impact upon pensions as result of TUPE

8.6.1 Pensions issues were considered in the Assessment and a separate supporting paper – the Pensions Impact Supporting Paper (PISP). These considered impacts on incumbent operators; impacts on prospective operators; and, set out options for how pension arrangements could be delivered under franchising to meet the requirements of enhanced pension protection under the Act.

8.6.2 A number of comments were raised around pensions implications. It should be noted, however, that the concerns raised in relation to pensions matters are related to defined benefit arrangements. As set out in the PISP, TfGM understand that the vast majority of current pension provision is now through defined contribution schemes. TfGM are not aware of any specific concerns raised in the context of defined contribution arrangements. The PISP, however, acknowledges that, for the minority accruing benefits in defined benefit arrangements, the issues are inherently more complex.

Exit Debts / Covenant Impacts

8.6.3 OneBus stated that there will be implications for pensions liabilities which should not be considered lightly but gave no independent assessment of them. First considered that the pensions implications would vary considerably dependent upon the circumstances at the time of any market closure – including wider economic considerations. Stagecoach suggests in its response, however, that, as franchising weakens the business model for an operator, it may result in a more cautious, more conservative funding basis and will also increase the risk that a pension exit charge could arise as active members are forced to transfer to other operators. Thus, the Proposed Franchising Scheme could crystallise a Greater Manchester Pension Fund (GMPF) 'exit debt' that could be in the range of £30 million to £60 million for all current GM operators. In their response to Question 39 regarding any positive or negative impacts for existing operators, Stagecoach also refer to pensions as a cause for concern. As set out at section 8.6.28 of this report, Stagecoach raised a similar comment to this in its response to the second consultation.

8.6.4 As set out in the PISP, franchising does not introduce a new requirement that an incumbent operator should be liable for any of its past-service pension liabilities. The PISP acknowledges, however, there is a risk that incumbent operators who participate in defined benefit arrangements may lose flexibility as to how and when they may be required to fund any past service pension liabilities. Essentially the risk that Stagecoach highlight, and seek to estimate in their response, is one which could arise if a cessation event is triggered by the last active member employed by an operator leaving the scheme.

8.6.5 The PISP sets out at section 1.2.3 the factors that would influence the likelihood and scale of this risk. It also sets out TfGM's understanding of the specific circumstances of the large operators who participate in the GMPF. In particular their schemes are closed to new entrants, have relatively low numbers of active members and do not have guarantors. When a scheme is already closed to new entrants, there will necessarily be a time when the last active member leaves.

8.6.6 The PISP considers these circumstances, the public information from GMPF's Funding Strategy and the high contribution rates to GMPF paid by operators over the 2016 to 19 period. This was 30.4% of pensionable pay for Stagecoach plus a further £2.4 million per annum; and 31.4% of pensionable pay for First plus a further £5.17 million per annum. This indicates that these operators' pensions costs are already assessed on a more conservative basis than an 'ongoing' employer. That would be likely to continue as their active members reduce and this would thus lessen any cessation impact.

8.6.7 Stagecoach notes its youngest active GMPF member is aged 45 and, absent franchising, they would expect to have active members in the GMPF for at least 20-25 years. They state that "*The Pensions Impact Supporting Paper wrongly alludes [at paragraph 1.4.7] that because there are relatively few active members employed by operators "there could be a cessation point in the near future" [leading to additional pension funding] – this is seeking to infer that the crystallisation of these punitive pension exit costs will not be caused by the franchising proposals. This is incorrect*".

8.6.8 Section 1.4.7 of the PISP in fact only describes the GMPF's Funding Strategy. TfGM's understanding of the substantial point that Stagecoach seek to make is that they consider that, in the absence of franchising, they would have between 20 to 25 years, based on the retirement age of the youngest current member, to plan for the last active member leaving the GMPF. TfGM is not privy to an employer's specific funding assumptions, but it would not normally be the case that GMPF or their actuary would use the age of the youngest member to assess the funding basis (as the member could leave the employer or retire early). It would be more usual for GMPF to use a basis, such as a weighted average of all the employer's active members, which would be a shorter time frame than the age of the youngest member suggested by Stagecoach.

8.6.9 Absent franchising, however, it would be expected in any event the funding assumptions would increasingly tend towards a more conservative basis over time as active member numbers reduce. The effect of franchising may be to reduce the remaining active members that Stagecoach and other operators may employ, depending on the outcome of the competition for local service contracts, with the possibility that the trustees of the scheme may seek more prudent funding arrangements if it is considered an operator's financial position has weakened. It was accepted in the PISP (at section 1.4.17) that franchising may increase the risk of an earlier date on which an operator's last active member may leave a scheme as a result of TUPE transfers to a new franchised operator.

8.6.10 No supporting evidence has been provided by Stagecoach to justify the estimate that current operators in Greater Manchester could be faced by franchising with an exit charge in the range of £30 million to £60 million. No explanation of the basis for that estimate was provided. It would appear to require all of the participating operators to have ceased employing any GMPF active members for the risk to occur. Whilst this eventuality cannot be precluded, it is considered unlikely that it would occur across all participating operators and operators can themselves influence this risk, for example, by bidding for local service contracts.

8.6.11 Even if a cessation event were to arise, TfGM consider there would be options for an operator to mitigate the impact of any debt, including negotiation with the GMPF around the basis on which exit debts are calculated and the associated payment terms.

8.6.12 In this regard, GMPF states in its Funding Strategy that mitigations could involve the GMPF entering into an agreement with the exiting employer to accept appropriate security to be held against any deficit and to carry out the exit valuation on a less prudent valuation basis or recover the deficit over an agreed period. The form of security could potentially include a bond, indemnity or guarantee (for example, a parent company guarantee).

8.6.13 The Ministry of Housing, Communities and Local Government (MHCLG) has also consulted on proposals in 2019 which, if enacted, could formalise future flexibilities around exit payments, including delaying triggering of exit debts when the last member leaves and the option to spread exit payments once crystallised.

8.6.14 In conclusion, franchising does not introduce a new requirement that an incumbent operator should be liable for any of its past service pension liabilities but, as acknowledged in the PISP, franchising may increase the risk of an earlier date on which the last active member may leave a scheme or, where the incumbent operator still continues to employ at least one active member, the possibility that the trustees of the scheme may seek more prudent funding arrangements.

8.6.15 Whilst TfGM cannot validate, or otherwise, the £30 million to £60 million exit debt estimate provided by Stagecoach, it is considered the likely extent of this risk has been overstated; and, even if an exit debt were to arise, GMPF's Funding Strategy sets out mitigations that an operator could seek to negotiate with it.

Future exit debts / pension costs for operators under the Proposed Franchising Scheme

8.6.16 OneBus (as set out in the Jacobs review) suggest that, if franchising is introduced, it is not clear which party would be responsible for meeting any potential pension deficits. Rotala raise a concern that a franchised operator could be left with exit debts or deficit payments at the end of its contract term, in particular should TfGM take the wage inflation risk. TfGM understand this concern is raised in the context of any franchised operators who become Admitted Bodies in the GMPF. No new prospective operators who responded to the consultation raised this point.

8.6.17 In response to these points, and the concern that a franchised operator could be liable for pension deficits, it should be noted that incumbent operators are liable for past service liabilities, and any associated deficits, built up to the point franchising is introduced. Furthermore, the pension liabilities and associated risks under franchising are expected to be much smaller compared with current arrangements as: i) there are relatively few active members of defined benefit schemes who could be in scope to transfer to a franchised operator and ii), on the basis incumbent operators are responsible for past service liabilities, liabilities under franchising would reflect future service.

8.6.18 A scheme actuary would set pension contribution rates with the expectation of fully funding liabilities. It is possible, however, that there could be a deficit or surplus at the end of a franchise term. The PISP sets out that, in circumstances when franchisees become Admitted Bodies and the administering authority requires financial security, the preferred approach would be the provision of a guarantee by TfGM/GMCA (for the reasons set out in the PISP at section 1.5.13) and that a contractual risk sharing arrangement would be put in place between the franchised operator and TfGM, in conjunction with the GMPF. The factors that would be expected to be included in the risk sharing arrangement are set out in the PISP at section 1.5.15, which specifically acknowledges exit and succession arrangements at the end of a franchise term.

8.6.19 Whilst the contractual allocation of risk is not formalised at this stage, the expected risk allocation principles are set out in the PISP at section 1.5.16. TfGM acknowledges that it would not be desirable, based on these principles, for a franchisee to bear risks (or opportunities) it cannot control or influence, such as a deficit (or surplus) at the end of a franchise term. It considers that the guarantee and risk sharing arrangement, with appropriate safeguards, would address these concerns.

8.6.20 In relation to pension contribution costs, as noted, the current GMPF contribution rates paid by operators are high relative to the fund's average, which TfGM considers is likely to be reflective of the nature of their participation as 'closed' employers without a guarantee. These current high contribution rates would not be expected to be reflective of the costs an incoming franchised operator would incur. For example, putting in place security or a guarantee is likely to result in a stronger covenant assessment which could mean lower contributions.

Response from Unions

8.6.21 Unite, in its response, sought protection for bus workers' pensions and ideally the ability for workers to re-join the Local Government Pension Scheme (LGPS) or the setting up of a Greater Manchester specific bus workers scheme. The TUC, in its response, considered that access to the pension schemes set out in the Assessment, including the LGPS, would be a positive step.

8.6.22 In response to these points, it should be noted that the Act specifically provides for enhanced pension protection compared with TUPE and requires "*broadly comparable*" pension accrual for transferring employees. TfGM's understanding is that this pension protection is 'enduring' (i.e. it applies upon the introduction of franchising, and for any original transferees the protection would also apply on any subsequent transfers).

8.6.23 The PISP also sets out at section 1.5.10 that continued access to the LGPS for employees currently accruing benefits in these schemes is considered the most practicable approach to providing "*broadly comparable*" benefits; and the options for defined contribution provision include a Greater Manchester 'master trust' scheme.

8.6.24 There were relatively few comments on pension related issues in response to the second consultation.

8.6.25 Rotala considered in response to the second consultation that no account had been made for "*the costs of pension schemes/liabilities*" but did not set out any further reasoning for this statement. The response to the first consultation noted that where relevant the funding of past service liabilities was a responsibility for existing operators.

8.6.26 Stagecoach stated in its response to the second consultation: "*We are conscious that the management of pension risk (and managing the transfer of pension liabilities) is likely to be complex. It is not clear to us that this issue has been given sufficient thought.*" Whilst it did not state any specific reasons why it considered this had not been given sufficient thought, TfGM notes that the Assessment provided a separate supporting paper – the Pensions Impact Supporting Paper – which considered pension issues, both from the perspective of existing arrangements and options for how pension arrangements could be delivered under franchising to meet the requirements of enhanced pension protection under the Act.

8.6.27 In response to the first consultation, (at section 8.6.2) accepted that the issues involved in the provision of defined benefit arrangements were inherently complex but also noted TfGM's understanding that the vast majority of pension provision was through simpler defined contribution schemes. This is considered to remain the case.

8.6.28 Stagecoach also stated in the second consulation that: "*The GMCA has stated that historic pension costs will remain with the operators but those with defined benefit schemes may* *need to provide greater contributions to them if the Proposed Franchising Scheme is implemented. Whilst ongoing funding of liabilities would be calculated on a basis set by the local administering authority of the pension scheme, the magnitude of the funding step-up that could be required on a discontinuance basis even for one operator could be considerable."* This appears to be substantially similar to the points that Stagecoach made in response to the first consultation, where it stated that the Proposed Franchising Scheme may result in a more conservative funding basis and / or could crystallise an 'exit debt' that could be in the range of £30 million to £60 million for all current GM operators.

8.6.29 TfGM's response to the first consultation set out a number of reasons, which are considered to remain valid (at sections 8.6.3 to 8.6.16), why it was considered the likely extent of this risk had been overstated. It was noted that, absent franchising, it would be expected in any event that operators' funding of existing liabilities would increasingly tend towards a more conservative basis over time as active pension member numbers reduce and that operators themselves could influence and seek to mitigate this risk.

8.7 Theme 6: Confirmation statement on no changes to employee terms and conditions

8.7.1 This section addresses a TUC request in response to the first consultation that "*It would be important that there is a statement of intent from GMCA that cost savings from operators who bid for franchises would not come from staffing reductions or worsening terms and conditions*". In the first consultation the point was also raised by Go North West that new entrants may use this "*race to the bottom*" approach to submit competitive bids.

8.7.2 In the second consultation Stagecoach also referenced an issue in New Zealand where "*tenders had been sought based on lowest cost, attracting Regional Operators with a rush to lower the cost of labour. In short, a number of older drivers then decided to leave the employment market and the rates offered were inadequate to attract a sufficient number of new properly trained drivers*." Go Northwest re-iterated their concerns.

8.7.3 Set out below are extracts from a letter that Andy Burnham, the Mayor of Greater Manchester issued to Unite on 24 December 2019 — this addresses the TUC and Go North West's concerns:

"However, I agree that in the event that bus franchising is introduced in Greater Manchester that should not lead to any worsening of Terms and Conditions of employment for staff working in bus companies that operate any franchise. Secondly, I would reiterate my commitment to ongoing and open dialogue with Unite and any other recognised Trade Unions to ensure that people working in the bus industry in Greater Manchester benefit from any improvements that franchising may bring.

In the event that the decision taken is to introduce bus franchising I am prepared to commit to the following actions at that time and I am happy for you to share these with your wider membership:

1. TfGM will provide, in advance of 5 January 2020, clarity on the additional protections that the Transport Act 2000 (as amended by the Bus Services Act 2017) provides with reference to transfers of staff and pensions under separate cover.
2. TfGM will enter into meaningful discussions with the bus operators and unions aimed at establishing a suitable minimum standards charter.
3. TfGM will discuss with the trade unions and bus operators the potential for establishing a Greater Manchester defined contribution pension for employees.
4. TfGM will set out the terms of reference of any steering group and confirm the mechanism by which consultation on the above items can take place."

8.8 Theme 7: GMCA has not adequately demonstrated in enough detail how the future operating model would be implemented particularly if Scenario 3 emerged as the likely recovery scenario.

8.8.1 During the second consultation there was a particular focus on whether TfGM, on behalf of GMCA, could deliver a Proposed Franchising Scheme considering the uncertainty Covid-19 had created.

8.8.2 There was continued support from the Greater Manchester councils that responded to the question concerning the Management Case in the second consultation that they were satisfied that the proposed approach to delivering the future operating model was sufficient considering the risks associated with Covid-19. Manchester City Council responded that the measures set out in the Covid-19 Impact Report, such as workforce planning, seemed appropriate to manage any risk associated with the operating model. Oldham Metropolitan Borough Council was satisfied with the proposed approach to transition, implementation and managing the risks associated with Covid-19. Wigan Metropolitan Borough Council thought the principles for the future operating model were still relevant and allowed TfGM to be "*flexible when allocating resources which can be aligned to economic predictions at the point of any decision*". Tameside Metropolitan Borough Council agreed with the approach to the transition and implementation of the Proposed Franchising Scheme, including the proposed approach to managing the risks associated with Covid-19. Stockport Metropolitan Borough Council were fully supportive of the opportunities franchising provided for communities to be more closely involved in decision making around bus services, and for local accountability to increase. Stockport MBC re-stated that: "*they would want to work closely with TfGM to identify mechanisms through which this can be achieved*". Trafford Metropolitan Borough Council broadly supported the approach to the transition and implementation of the Proposed Franchising Scheme and expressed support for the measures outlined for managing risks associated with Covid-19. They were keen that any further efficiencies which can be made in relation to risk mitigation and flexing of the operating model to meet future requirements should be explored. The points raised by the GM councils that responded to this question are all valid and the efficiency and effectiveness of delivery underpin how the future operating model will be implemented and processes and workforce management will be tailored to the requirement of the delivery model, as described in the Management Case of the Assessment.

8.8.3 The responses from other local authorities outside of GM focused on the approach to transition and the impact on cross boundary services. Lancashire County Council responded that transition would need to be flexible to account for market conditions at the time. Both Liverpool City Region Combined Authority and West Yorkshire Combined Authority expressed a wish for collaborative working during implementation due to cross boundary services. The collaborative working with neighbouring authorities would be part of the implementation process, if any decision is taken to introduce the Proposed Franchising Scheme.

8.8.4 The Competition and Markets Authority (CMA) welcomed the Proposed Franchising Scheme creating a single point of contact for customer service in terms of passenger complaints and customer service enquiries (a key function within the future operating model). The CMA stated that this, if combined with the appropriate ability for TfGM to take remedial action, could be used to enforce better quality services.

8.8.5 There was also support from other stakeholders. The Oxford Road Corridor said that "*TfGM would be able to manage a franchising system irrespective of the Covid-19 impact (Oxford Road Corridor)*". Other consultees such as Manchester Metropolitan University, Manchester UNISION Branch, The Caribbean and African Health Network and Manchester University Foundation Trust made similar comments in support. There was also strong support from Abellio who responded with "*Abellio agrees with the statement at paragraph 6.2.51 on page 114 that despite the level of uncertainty [created by Covid-19] 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 to manage the Proposed Franchising Scheme (PFS) while mitigating potential cost risks*". Abellio concluded by saying "*To summarise, in Abellio's view, implementation and transition to a PFS has now become less risky for GMCA as a result of the -19 pandemic and, as such, the PFS has become even more attractive than partnership following the pandemic*".

8.8.6 Rotala and Stagecoach suggested the Covid-19 Impact Report had not demonstrated in enough detail how the future operating model could be implemented, depending on the different outcomes of the Scenarios, particularly Scenario 3.

8.8.7 Rotala commented on GMCA's ability to implement the future operating model particularly if Scenario 3 was the emergent recovery scenario. They stated that "*Rather than saying that GMCA may need to increase resources and modify the processes associated with the implementation of the proposed franchising scheme in the event of scenario 3, GMCA need to explain what this would look like and whether this would even be possible*." The Covid-19 Impact Report notes that additional resource may be required in the short-term during transition due to the instability in the market. In the longer term as the network stabilises it is envisaged that the required resources would be at or a little above the current level in the TfGM Bus Services Team but with the additional capabilities required to manage franchising and therefore there would be a sufficient level of resourcing. The Covid-19 Impact Report sets out how GMCA would flex resources, using a mixture of permanent and fixed term contracts, to align resource requirements to emerging scenarios.

8.8.8 Rotala added that "*GMCA has not explained at all how the processes and capabilities would be modified in the event of scenario 3.*" In Scenario 3 it is envisaged that the process and capabilities largely remain unaltered but it would be prudent to review and determine if they could be delivered in a more cost-effective way with a much-reduced scale of operation. For example, GMCA could seek to consolidate a number of roles and their associated accountabilities into fewer resources. This may require an individual to be skilled in a number of different areas and a training plan would be developed to take on this multi-functional requirement if needed. The re-design of the future operating model will focus on aligning resources to the scale of operation and available budgets whilst ensuring that the processes and capabilities can continue to be delivered effectively and efficiently in managing the franchises.

8.8.9 Rotala queried whether the redesign of capabilities and process "*was even possible*". It is envisaged that the type of re-design indicated above is possible and within relatively short timescales supported by the proposed organisational change programme and utilising the experience of the existing team. The mapped processes provide the blueprint to how flows of work will happen, so the framework is already available to undertake any required redesign of workflows to meet the required outputs. In terms of capacity and capability, the future operating model has been designed to flex between the existing capabilities and capacity that exist within TfGM while providing a process to build the required new capacity into existing structures. If there is a need to adapt capacity to deal with peaks of workload, the processes can be reviewed and adapted to meet the requirements at that point. As is the principle of agile operating models, using workforce planning would allocate surge capacity as required and remove it when not necessary so that the operating model stays operational but also efficient. Rotala further contended that "*GMCA has not gone into sufficient detail as to how the implementation of the proposed franchising scheme would take place under each scenario.*" The report detailed how the future operating model would flex and adapt its requirements through process redesign and workforce planning depending on the requirements of delivery at that point in time. TfGM considers that this level of detail is appropriate and that should any decision be taken to introduce the Proposed Franchising Scheme, TfGM would supplement this by finalising the change management arrangements and plans and how change will be implemented within TfGM. The detailed design would include how TfGM would respond to the emerging scenarios including Scenario 3 to ensure that flexibility is safeguarded where required. However, any re-design would need to reflect the actual Scenario that emerged as it is unlikely to wholly reflect the Scenarios as described in 3 of this report.

8.8.10 Stagecoach has also raised the challenge of emerging alternative models such as DRT (Demand Responsive Transport) and noted that these changes "*could over time predicate a shift in the entire model of public transport delivery in Major cities*". This risk, or potential opportunity, exists in all options for bus reform. TfGM's Bus Services Team already manages DRT through services such as Local Link and Ring and Ride. The franchised operations will need to accommodate such a market shift. The advantage that franchised operations have over a commercial or partnership network is that in this specific it would be easier to take a network approach. This shift may require changes in the operating model which GMCA would need to accommodate as it or other market changes occur. The approach detailed in the Assessment and updated in the Covid-19 Impact Report provides the framework and flexibility to allow TfGM to accommodate changes in the operating model such as increased DRT.

8.8.11 In summary GMCA considers that the approach described in the Covid-19 Impact Report sets out a flexible approach with an appropriate level of detail on how GMCA would develop and adapt the operating model and address risks with any variant of the recovery scenarios. The proposed flexible recruiting approach articulates how GMCA would respond to emerging economic information and ensure the resources were aligned to the future requirements.

8.9 Theme 8: GMCA has underestimated the complexity of transition and has not allowed sufficient time; it will undoubtedly take longer due to the risk and uncertainty surrounding the impact of Covid-19, leading to an even greater lag in patronage recovery and potential impact upon customers

8.9.1 The Assessment set out a planned timetable of 21 months to deliver and implement the first tranche of franchises in the event of a decision to introduce the Proposed Franchising Scheme. This was not changed in the Covid-19 Impact Report. Go North West state in their response to the second consultation "*Transition to a franchising operation would be a very difficult and complex phase and the time period over which transition is implemented will be significantly longer than anticipated by GMCA. The uncertainty created by the Covid-19 pandemic is likely to make this an even longer period with the consequence of even greater uncertainty, resulting in an even greater lag in patronage recovery*."

8.9.2 The implementation of franchising and activities around recovery should not be seen as mutually exclusive and it is expected that these activities should run concurrently. Recovery activity would be required in all options of Bus Reform. Rather than increase uncertainty, the implementation of franchising from a customer perspective helps reduce it as it provides the customer with a vision of a more stable future in terms of the network, a consistent brand and a simplified and integrated fares and ticketing offer.

8.9.3 The existing Bus Services Team in TfGM will continue to support on the recovery activities on behalf of GMCA. In addition GMCA identified resources in the Assessment to support the existing Bus Services Team during the transition period as part of operational continuity and to support the planning and specifying of the franchised Network. The existing Bus Services and proposed franchising teams would work together to ensure that the recovery activities and the future franchising requirements are aligned. It is therefore expected that "*an even longer period with the consequence of even greater uncertainty, resulting in an even greater lag in patronage recovery*" could be avoided.

8.9.4 Go North West also commented that: "*GMCA states 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. This is again evidence of significant additional risk to the Proposed Scheme brought about by the Covid-19 pandemic*" The Assessment recognised the need for organisational change to support the implementation of the future operating model for franchising. The Covid-19 pandemic has accelerated a wider organisational change programme which will support the implementation of Bus Reform, Clean Air Plan and other strategic initiatives. The commencement of the "*Future Ready*" organisational change programme means TfGM will be more responsive to emerging challenges including those presented by the Covid-19 pandemic. The detail behind the Future Ready programme is only now starting to emerge. Should there be a Mayoral decision in favour of franchising the developing organisational change framework would provide the flexibility required to assist in supporting the franchising programme to meet the timescales for implementation of the franchising operating model.

8.9.5 Rotala argues for a partnership option stating that "*Manchester bus operators are better placed to deal with an uncertain and rapidly changing bus market due to their experience in the bus industry. As has already been demonstrated by the Manchester bus operators' response to the impact of Covid-19 on the bus market, they are able to adapt quickly to ensure the continued operation of the bus network when unexpected events occur*". It is agreed that local knowledge will be vital in the recovery process, which may stretch from the near term to a period after the first tranche of franchising. However, TfGM would have a role to play in supporting recovery, both in the short term and through any transition phases. In addition, local knowledge would be retained where the local management teams of an operator which was unsuccessful in its bid were transferred to an operator which was successful through the TUPE process.

8.9.6 Stagecoach has stated that GMCA "*has greatly underestimated the complexities inherent in attempting to move Greater Manchester to a franchising model, with or without the impact of the pandemic, and has been overly optimistic as to its capability to deliver franchising and manage the risks associated with it*." They further state, "*One stark example appears in paragraph 2.95 of the Consultation Document; GMCA's view appears to be that it can meet future requirements no matter what happens in the market. That cannot be right*".

8.9.7 GMCA recognises that transition to franchised operations would be a challenging process with or without the pandemic. This is reflected in the level of investment that GMCA has identified to ensure transition is effectively managed. The comment in section 2.95 of the Consultation Document stated, "*The report considers 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*." This relates to the proposed approach to flexing the operating model which sets out in outline terms how GMCA would respond to changing resource requirements in light of a range of emerging recovery scenarios. TfGM considers that the flexible approach would allow GMCA to change the operating model responding to any of the variant of the recovery scenarios.

8.9.8 Stagecoach also state that: "*It is not clear to us that TfGM has the appropriate operational, contract management, and procurement skills and expertise in place to develop and mobilise a large number of franchises in the short period contemplated. It would be unwise to target operators for recruitment of those who do have these skills, as otherwise it could risk the operational delivery of the actual network*". The Management Case in the Assessment sets out GMCA's approach to transitioning to and the management of franchised operations. It clearly identifies the resources required to manage the transition to and management of franchised operations. TfGM already has experienced resources within the organisation with the appropriate operational, contract management and procurement expertise to manage existing business as usual operations. TfGM has significant experience of procuring the complex Metrolink Franchises and regularly tenders bus contracts. This resource is not sufficient and may not have all the right skills to meet all the requirements of bus franchising and the Management Case includes significant supplementary resources with the new capabilities that are required to plan the network and manage franchises. GMCA would immediately commence the recruitment of the additional resources with appropriate skills and capabilities for transition if there is a decision to introduce the Proposed Franchising Scheme. The implementation plan allows for a mixture of advisory, contractor and permanent staff during transition to support the procurement and implementation of franchises. The existing Bus Reform Programme Team would continue to support GMCA until all the transition resources are recruited to ensure timescales are maintained. Specialist temporary resources would be recruited to complement existing procurement resources. The recruitment of new temporary and permanent resources to support network planning, contract management and other supporting roles would also commence upon the introduction of franchising. It is envisaged that all roles required to support the first tranche of franchise management will be in post prior to commencement of operations of the first franchises for Sub-Area A and would also support the transition and mobilisation activities as well as future tranche procurements.

In addition to the new resource, TfGM would also implement a capability development plan to ensure existing staff would have the required skills to support franchising. In light of the uncertainty around the Covid-19 recovery scenario the operating model resources would be employed on a mixture of permanent and fixed term contracts. Stagecoach also stated, "*It would be unwise to target operators for the recruitment of those who do have these skills*". As previously set out at sections 8.3.15 to 8.3.26 above GMCA would recruit from a number of sectors, and not just the bus sector, for resources to support franchise management. It is not TfGM's intention to target operator resources, but it would remain open to individuals to apply for roles within TfGM if they wished.

8.9.9 GMCA also noted the challenges, articulated in the case study shared by Stagecoach, faced in New Zealand by the Regional Authority "*when appointing an independent international expert to design a completely new bus network for the City of Wellington*". The outcome was a failure to implement the new network as result of several key issues including failing to consult effectively with operators and also undertaking a highly theoretical exercise which failed to understand passenger travel behaviours. At the start of franchising, TfGM would procure broadly the same network as was in place at the point of any Mayoral decision excepting any change resulting from Covid-19. There is no intention in the short term to build a completely new network as was the case in New Zealand. TfGM do, however, recognise the importance of local knowledge, good stakeholder engagement and people with the level of practical expertise which will be an intrinsic part of its approach to any network planning activity. Any significant planned changes that GMCA proposed to make to the network would be demand data and forecast driven and would include engagement with the public operators and the local authorities. All significant planned changes would require the appropriate supporting information to justify decisions that are being proposed and to ensure decisions can be made in a timely manner.

8.9.10 A number of operators also made reference to the implementation / transition period having a potential impact on passengers.

8.9.11 Go North West commented that "*an extended implementation period of uncertain length*" could adversely affect customers and businesses. They suggest that the impact of the scheme on operators would impact directly on passengers who could be faced with a less secure network and less innovation of the type which requires a longer payback period. They also comment that access to jobs, social care, education, tackling traffic congestion and improving health by getting people out of cars to walk while catching the bus – all depend upon stable bus services.

8.9.12 Although the start date is inevitably later than envisaged in the Assessment due to the need to consider the impact of Covid-19 on the proposals, the implementation period has not been extended and the time available for rolling out each of the tranches remains the same. Go North West separately suggests that Covid-19 makes the implementation programme looks "*even more optimistic*", although no detail is provided to support this assertion. TfGM remains confident that the implementation timescale is appropriate for the reasons explained at section 6.9 of the Commercial Case section – nothing in the period since the Assessment, including the impact of Covid-19 has occurred that has changed TfGM's previous conclusion regarding the achievability of the implementation programme.

8.9.13 OneBus also commented that the impact on passengers during the transition period that is described at section 48 of the Assessment will not be made any better by the impact of Covid-19. They suggest that in the event that "*service economies*" will have to be made on the commercial and supported networks at the same time that a potentially undeveloped Franchised operation commences will inevitably cause confusion. OneBus also notes that concerns have been raised that when an operator is aware that they have not been successful in gaining a contract they could transfer the better assets away from their operation in GM and replace them with an older Euro VI-compliant fleet to the detriment of customers.

8.9.14 Careful consideration would be given to minimise any potential disruption during the transition period by TfGM. It is also worth noting that there are currently no proposals to reduce the size of the network when implementing the Scheme. Furthermore, as set out in the Management Case of the Assessment, during the transition period there would also be additional budgets for marketing and communications with the public during the mobilisation of franchises which will help minimise customer confusion.

8.9.15 Regarding the risk that if an operator has not been successful in gaining a contract, they could transfer their better assets away from their operation in GM and replace them with an older (Euro VI) compliant fleet to the detriment of customers, it is firstly worth noting that withdrawing fleet could harm the operators' own GM businesses so it may not necessarily be in their interests to do so. To address the risk of outdated buses and equipment being retained in Greater Manchester through the RV mechanism, TfGM has a series of mitigations summarised at section 6.8.37 of the Commercial Case section.

8.9.16 Transport Focus also commented that the prospect of network deterioration during the transition period raises questions about how opportunities to support 'recovery partnerships' can be put to best effect.

8.9.17 Section 13 on 'recovery partnerships' notes that the Proposed Franchising Scheme is not an alternative to a 'recovery partnership' and TfGM will work with operators to explore how this could work irrespective of the decision whether or not to proceed with the Proposed Franchising Scheme.

8.9.18 In summary TfGM considers that the approach articulated in the Assessment and in the Covid-19 Impact Report for the transition and the implementation of franchising should not result in increased timescales and further delay in patronage recovery and have potential impacts upon passengers. The approach proposed recognises that the implementation of franchising and recovery could happen concurrently and that a combined approach with the operators, existing Bus Services Team and the Franchising Team would be required.

8.10 Theme 9: Treatment of Risk under Covid-19 Scenarios

8.10.1 Stagecoach expressed surprise that "*in revisiting the Quantified Risk Analysis assumptions produced as part of the Original Assessment, the quantum was re-assessed but no new risks were introduced as various new risks have arisen since the Original Assessment was first conducted, some of which we have highlighted at section B on the impact of the pandemic*." Section B identified the impact of the pandemic in particular around loss of patronage, the ongoing impact of lockdowns and highlighted future funding requirements identified by TfL and New York MTA.

8.10.2 Transdev have commented that "*Transition is a significant risk given the uncertainty of the future finance model for the bus industry. While this is acknowledged in the report, there is no solution suggested*".

8.10.3 The issues raised by Stagecoach and Transdev are issues for the Do Minimum, partnerships and franchising and are not unique to franchising and therefore should not be addressed through the franchising risk register.

8.10.4 The risk register was reviewed as part of the preparation of the Covid-19 Impact Report and addresses risks associated with transition to and management of franchised operation as a consequence of Covid-19. The review concluded that in spite of the issues associated with Covid-19 the existing proposed risk mitigation and risk provisions remained appropriate for transition to and management of franchised operations. Many of the issues associated with Covid-19 from a transitional perspective were considered to be drivers or causes of existing risks rather than new risks per se. This is discussed in further detail at section 5.6.27 of the Economic Case.

8.10.5 The broader risks around funding are discussed at section 7 the Financial Case Response and section 13 on 'recovery partnerships'.

8.11 Theme 10: Transition expenditure is unrealistic and poor VfM

8.11.1 Stagecoach stated during the second consultation that the transition costs are: "*Unrealistic and poor value for money*". They go on to state that "*We consider the £65m of the £134m that TfGM states it requires to manage the transition to franchising to be extremely poor value for money – effectively recruiting more people into TfGM without delivering any more buses or enhancements to the network*".

8.11.2 When implementing a scheme of this nature which will generate long-term benefits over a significant period of time it is appropriate that there is a robust well-resourced implementation plan. It is accepted that the £134m is a significant investment. However, these costs include procuring the strategic depots (financing costs only), an 80% QRA risk provision, transition team costs, incremental operating costs during transition, IS Costs, On-bus Equipment and ETM/AVL. This is the investment that GMCA have assessed to be required to ensure that TfGM on behalf of GMCA are able procure, mobilise and manage the franchises. These costs have been put together with input from industry experts and the IS and ITS costs were recently validated through a market sounding exercise. The QRA costs were developed through best practice approaches to risk management and modelled using a Monte Carlo simulation.

8.11.3 Having stated that the costs are unrealistic, Stagecoach go on to say £65m of such costs are "*extremely poor value for money*". This could be interpreted as contradictory. Of the £65m, £25m comprises the direct and indirect franchise management costs over the initial 5-year period. These costs include staff costs and other ongoing operating costs including systems operating costs. During the transition period there would be additional budgets for marketing and communications with the public during the mobilisation of franchises and survey costs to develop additional market insight. The operating budget during transition also includes customer service-related driver training costs.

8.11.4 Of the remaining £40m, nearly half (£19.6m) is for IS systems. This is the investment required in systems to support franchise management; this includes procuring new software, modifications required to existing systems and extensive integration with existing TfGM and ITS back-office systems and developing the ticketing proposition. The remaining £20.6m comprise the transition resources and business change budgets. These costs include provisions for; project and programme management, operational continuity and mobilisation resources, a Network Planning and Specification Team, a team to implement the future operating model, the Franchise Procurement Team, legal advice and other specialist advisors. This level of expenditure is commensurate with a change of this scale.

8.11.5 Stagecoach questioned "*whether it is appropriate to simply leave the £134.5m figure unchanged between the two Consultations*." Having reviewed the costs it was considered appropriate that they remain unchanged because the transition activities and proposed implementation plan and timescales were considered appropriate notwithstanding Covid-19.

8.11.6 Stagecoach also stated: "*We also question where TfGM will be recruiting these people from and whether it considers any of these resources would transfer under TUPE arrangements from operators. We have no knowledge what these posts are and what they would do, to* *be able to establish if there would be TUPE implications and have not been consulted by GMCA upon this matter*".

8.11.7 The future roles that GMCA require have been clearly articulated in the Management Case of the Assessment. As previously stated at section 8.3.6 GMCA have identified up to 25 roles that could transfer through TUPE. These roles predominantly cover customer contact and revenue protection but with some sales and marketing and management roles. If any decision was taken to introduce the Proposed Franchising Scheme, GMCA would engage with the operators to discuss the potential TUPE implications between operators and TfGM. TfGM would need to consult with the operators to determine if staff were "*principally connected*" to franchised services.

8.12 Conclusions

8.12.1 In response to the first consultation overall there were more favourable than unfavourable comments on the approach to the transition, implementation and management of the Proposed Franchising Scheme. All responses from statutory and other consultees were reviewed carefully and in detail.

8.12.2 In response to the first consultation of the 183 responses to managing franchised operations under the Proposed Franchising Scheme, 73 provided favourable comments while 56 were unfavourable. Of the 14 statutory consultee responses, 6 were favourable and 5 were unfavourable. Those which were unfavourable were mostly bus operators. There were 62 favourable comments from members of the public with 47 unfavourable. Most of the concerns raised focus on the costs and difficulties associated with securing sufficiently qualified staff for the relevant core and support teams. There were also concerns associated with additional management costs. Comments from bus operators were generally unfavourable and operators agreed that the additional required full-time employees would be costly to attract, recruit and train and would ultimately be not sufficient to cover the necessary responsibilities. The members of the public making unfavourable comments were also concerned with costs, affordability and VfM on the proposed approach. Most of the favourable comments from members of the public where on the opportunity to boost employment and that the Proposed Franchising Scheme would give TfGM / GMCA more authority and control of bus services.

8.12.3 On the approach to the transition and implementation of the Proposed Franchising Scheme in the first consultation, of the 258 comments, 130 were favourable and 81 unfavourable. Around a third of those statutory consultees which provided comments made favourable ones while around half made unfavourable comments. The main concerns were criticism relating to timescales and lack of time built in for evaluating and reviewing progress during the transition. Others expressed similar opinions that the associated costs had been underestimated. The feasibility of the timescales was the main point from unfavourable comments from members of the public. Favourable comments from non- statutory consultees agreed TfGM would be capable of managing franchised operations throughout transition and implementation and favourable comments from members of the public agreed with the approach and accepted there was a level of risk that would be inevitable in such a change.

8.12.4 The Assessment acknowledged the complexity that would be involved during implementation, transition and management of the Proposed Franchising Scheme but also identified sufficient resource and existing capability and processes from which to build on and what was required to be added. Complex areas such as the transfer of staff, staffing requirements, current capability and the need to undertake a wider organisational change have all been planned for and allocated resources. Recognising the complexity of implementation, transition and management of the Proposed Franchising Scheme risk provisions and mitigation plans were included in the Assessment.

8.12.5 In conclusion, for the reasons given, there were no challenges arising from the first consultation that required alterations to the Management Case or would impact the ability to deliver the transition, implementation and management of the Proposed Franchising Scheme as outlined

8.12.6 In the second consultation overall, there were more positive than negative comments on the approach to the transition, implementation and management of either the Proposed Franchising Scheme or a partnership when considering the impact of Covid-19. Of the 342 participants who made comments about the Management Case the majority 222 made positive comments and 87 made negative comments. Of the 14 responses from previous statutory consultees, 8 were positive and 6 were negative. Most of the concerns raised were about detail on how the operating model would be implemented, particularly if Scenario 3 emerged as the recovery scenario and that the complexity of transition and transition risk had been underestimated. There were also challenges around VfM on the transition cost. The above responses address these concerns.

8.12.7 In the second consultation, there are several issues and comments from the first consultation that were re-iterated; however, the conclusions remain as per the first consultation. The issues raised and addressed were:

- Perceived low salaries
- No provision for additional operator on-street resources
- Reducing salaries and terms and conditions to submit lower-cost bids

8.12.8 In summary, GMCA recognises the risks and challenges resulting from the impact of Covid-19 when implementing and transitioning to any of the options. However, GMCA concluded that despite this risk and uncertainty it would be able to manage the transition and manage the Proposed Franchising Scheme or a partnership option.

8.12.9 In conclusion, for the reasons given, there are no challenges arising as a consequence of Covid-19 that require alterations to the Management Case, other than need for a flexible approach to recruiting resource, or would impact the ability to deliver the transition, implementation and management of the Proposed Franchising Scheme as outlined.

9. Challenges to the audit and assurance processes

9.1 Introduction

9.1.1 During the first and second consultation periods, some consultees made comments relating to the auditor's ("GTs") reports on both the Assessment and the Covid-19 Impact Report. This section considers those comments and sets out TfGM's response to the same.

9.2 Flaws in the audit of the Assessment

9.2.1 During the first consultation Stagecoach stated (see section 4.1.3 of the HSF legal paper) that there were flaws in the audit process. Section 4.1.3 (A) of the HSF legal paper states that:

"A major gap in the Audit Report is the failure to analyse the assumptions made by GMCA in terms of the transition costs. These are clearly key to affordability. It is unclear how Grant Thornton could have reached its conclusion on affordability without having considered those costs and the funding proposed for them. It is evident that the Act and DfT Guidance require such costs to be audited. This gap in the Audit Report is all the more pertinent given the observations in the Jacobs paper (see page 22) on potential underestimation of transition costs in the Assessment".

9.2.2 Stagecoach's response asserted that GT's report had failed to analyse the assumptions made surrounding transition costs but again failed to explain how that was thought to be so. GT's observations letter considered the funding and affordability aspects of the Assessment. It looked specifically at the transition costs and the funding proposed for them in the Assessment and explained how in their view the proposals met the requirements of the Guidance. Stagecoach identified no basis for their contention.

9.2.3 Section 4.1.3(B) of the HSF legal paper provides as follows:

"The Audit Report's approach to materiality is incomplete. In summary, Grant Thornton appears to have set the level of materiality for each issue and has considered whether those individual issues would affect its conclusion on the affordability and value for money analysis. While that may well be a reasonable approach, it is incomplete as Grant Thornton do not also carry out an analysis of how all these issues (which may conceivably be just under their materiality threshold) cumulatively impact their overall analysis on affordability and value for money. It is an example of statistical cherry-picking".

9.2.4 As required by the audit framework that applied to the engagement of GT as the auditor (the ISAE 3000 (Revised)) and TfGM's instructions, GT were required to consider *"whether uncorrected misstatements are material, individually or in the aggregate*". GT's audit report confirmed that the Assessment was completed in accordance with the instructions of TfGM and that:

"We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised) …".

9.2.5 This means that if GT had considered whether any issues, when considered cumulatively, would have had an impact on its opinion then it would have explained so in its report.

9.2.6 For the avoidance of doubt and to provide GT with an opportunity to respond to this point, GMCA invited GT to respond to the issue raised by Stagecoach. The letter was published in response to the first consultation period, and confirmed that GT did in fact consider the materiality of their findings both individually and in aggregate.

9.2.7 Paragraph 4.1.3 (C) of the HSF legal paper states that:

"The Audit Report omits key issues with the economic and financial cases. Stagecoach's business response and, in particular, the Jacobs paper provide numerous examples of fundamental flaws in the economic and financial cases. The Audit Report does not appear to reflect these, and that undermines the auditor's conclusions on both affordability and Value for Money".

9.2.8 GT's audit report and observations' letter set out GT's views on the Assessment. The fact that Stagecoach or Jacobs may have disagreed with those views does not show either that GT failed to consider anything material or that its opinion was not one that it was not reasonably entitled to reach.

9.2.9 Paragraph 4.1.3(D) of the HSF legal submissions states that:

"The Audit Report could not have legitimately reached the view that the information on which the proposal is based is of sufficient quality. It makes a legitimate observation that the data set used by GMCA is from 2016-17, but it appears to provide no reasons to justify its conclusion that GMCA has been reasonable in doing so (see page 113 of the Consultation Document). The Audit Report acknowledges that more recent information is available. It therefore appears that GMCA has acted unreasonably in relying on data that is nearly four years old. If the fundamental premise of the proposal is that bus patronage is declining, it is essential that GMCA relies on wholly up-to-date data. The DfT Guidance also considers this to be an important factor to be taken into account by the auditor when considering the quality of the data. As it currently stands, the Consultation Document paints an out-of-date picture that should not – and cannot – be the basis for such a major decision with wide-ranging impacts on bus users and operators. It is not relevant whether GMCA has acted 'reasonably' – s123D(2)(a) requires the auditor to confirm whether information is of sufficient quality. It cannot be right that an out-of-date data set is considered sufficient quality in a dynamic market".

9.2.10 GT did consider this issue in its opinion. In its observations letter dated 26th September 2019 it stated that *"Whilst more recent information is now available, we are satisfied that TfGM has acted reasonably in using 2016/17 data given the constraints it faced in collating the information"*. GT had been aware of the process undertaken to obtain information from operators in accordance with section 143A of the Act.

9.2.11 During the second consultation Stagecoach commented that TfGM has failed to adequately respond to its previous representations (as set out above) on the age of data. Stagecoach commented that *"TfGM again characterises Jacobs'…and Stagecoach's concerns as mere differences of view and fails to engage with all of the criticisms substantively"*. Stagecoach went on to comment that *"it is insufficient to simply note that Grant Thornton has considered it reasonable. This undermines confidence in TfGM's engagement with consultation responses"*. When preparing its original response to this point in the June 2020 Consultation Report, it was considered important to note that GT had made an observation that TfGM had acted reasonably in using data from 2016/17. Stagecoach in its response to the first consultation had failed to consider this and no further explanation has been given in its response to the second consultation as to why GT was wrong to observe that the use of data from 2016/17 was appropriate.

9.3 Flaws in the assurance work done on the Covid-19 Impact Report

9.3.1 As part of Rotala's response during the second consultation period, they instructed BDO to *"carry out a review of the GT November 2020 Report and, where appropriate, provide an independent view of the challenges that can be made to GT's findings"*. BDO provided a report to Rotala ('BDO's report'), which was then submitted as an annex to Rotala's consultation response.

9.3.2 Similarly, as part of Stagecoach's response to the second consultation, Herbert Smith Freehills (HSF) raised in its paper which accompanied Stagecoach's response ("HSF's Report") a number of concerns with GT's report on the Covid-19 Impact Report. This included, amongst other things and as set out below, comments that GT's report provided no meaningful assurance and should have been carried out in accordance with the audit requirements of the Act.

9.3.3 Both of these responses raise several challenges to the work GT performed, which are outlined in more detail below along with TfGM's responses to these challenges.

Overall summary of the BDO Report and the HSF Report

9.3.4 In their executive summary, BDO summarise that *"GT's conclusions are necessarily subject to fundamental caveats regarding uncertainties and limitations (specifically regarding the impact on potential outcomes of Covid-19) and the scope of the work they have been able to carry out does not include updated financial models which we consider to be fundamental to any assessment of quality of information and analysis. For these reasons, it is not possible to draw any comfort that GT's final conclusions are sustainable, supported by evidence or meaningful to the reader. We are therefore unable to say whether GT's overall conclusions are correct or not."*

9.3.5 HSF's Report summarises that *"In failing to consider whether the GMCA had due regard to the Franchising Guidance, the GT Report fails to comply both with Grant Thornton's instructions in the Request for Services and the standards set in s123D TA 2000. Had an auditor been asked to review both the Original Assessment and the Covid Impact Report together, it would have reached the …conclusion …that the information and analysis relied upon by the GMCA are of insufficient quality on which to base such a significant decision."*

9.3.6 In reviewing BDO's Report and HSF's Report, TfGM have identified a number of key issues that they raise with the work undertaken by GT in providing assurance on the approach taken within the Covid-19 Impact Report. TfGM sets these key issues out below and then responds to each in turn.

9.3.7 The challenges raised by Rotala and BDO, and Stagecoach and HSF, can be summarised as follows:

- Challenge 1: The scope of work required was not clear or adequate;
- Challenge 2: Whether an assurance framework should have been used to perform the work;
- Challenge 3: Whether the review work undertaken supported the conclusions drawn;
- Challenge 4: Statements about updated financial model;
- Challenge 5: Absence of specific comments on funding, affordability and risk, and recommendations made during the process have not been detailed; and

- Other points.

Challenge 1: The scope of work required was not clear or adequate

9.3.8 At section 3.21 of their Report, BDO state that *"in the absence of reference to legislative or other guidance, it is not clear what work GT was required to carry out and what assurances GT could reasonably have been expected to provide"*.

9.3.9 In response, TfGM considers that the scope of GT's work was clear. The purpose of the Covid-19 Impact Report was (as stated at section 1.1.4) "*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 [TfGM's report on the first consultation] that the Proposed Franchising Scheme would be the best option for reforming the bus market in Greater Manchester.*" The scope of work GT were instructed to perform on the Covid-19 Impact Report was set out in GT's letter of 19 November 2020 ('GT's Letter'), as follows:

9.3.10 *"Provide assurance and comment on the overall appropriateness of the approach taken to the Covid Impact Report, and, in particular;*

- whether the approach taken in the Covid-19 Impact Report in considering the affordability and value for money of the Proposed Franchising Scheme in light of the potential impact of Covid-19 is appropriate;
- whether the information and analysis of that information as contained in the Covid-19 Impact Report on the affordability and value for money of the Proposed Franchising Scheme is of sufficient quality for the purposes of the report; and
- provide any specific recommendations on how the approach, information or analysis of that information might be improved.

We also report on those instances where, in preparing the Covid Impact Report, TfGM has departed from the guidance issued under section 123B of the Act on preparing the Assessment (as detailed by TfGM or identified by ourselves) and comment on whether any such departures are appropriate or not given the circumstances".

9.3.11 As GT stated, its review was not an audit as per the requirements of section 123D of the Transport Act. That is because the Covid-19 Impact Report was not, and did not claim to be, a new assessment prepared under section 123B of the Act.

9.3.12 Unlike the work GT performed on the Assessment, which was an assurance engagement in accordance with ISAE 3000 (Revised), the work GT performed on the Covid-19 Impact Report was not an assurance engagement in accordance with ISAE 3000 (Revised) or in accordance with any other formal assurance guidance. Nor was it claimed to be.

9.3.13 In summary, as part of the work done to assess the impact of Covid-19 on the conclusions of the Assessment, GT were instructed to provide an independent report on the approach taken by TfGM in preparing the Covid-19 Impact Report in particular with respect to affordability and value for money. TfGM therefore consider it was made sufficiently clear to the reader what work GT were required to carry out and what GT were asked to provide.

9.3.14 HSF claim that *"there should have been an audit of the GMCA's assessment as a whole. In looking only at the Covid Impact Report, Grant Thornton failed to consider whether the*

Original Assessment could still be relied upon and whether there were any omissions in the GMCA's approach."

9.3.15 HSF themselves state (in section 4.3.1 of their report) that *"the conclusions of the Original Assessment are used as the starting point for the…analysis [in] the Covid Impact Report"*. Had GT considered that that approach in considering the affordability and value for money of the Proposed Franchising Scheme in the light of the potential impact of Covid-19 was not appropriate, it could not have reached the conclusion it did that the approach taken in the Covid-19 Impact Report was appropriate. Similarly, if GT had considered that there had been any material omissions in the approach in the Covid-19 Impact Report that made it inappropriate, it was able to say so, and was able to make specific recommendations on how the approach could be improved, within its terms of reference.

9.3.16 BDO state that: *"In our view, whilst a formal audit may not have been required, GT could, for example, have been instructed to revisit the conclusions drawn in the GT September 2019 Assurance Report and provide comment on whether those assurances were still valid in light of the Covid Impact Report".*

9.3.17 GT stated that its report *"should be read in conjunction with our opinion of the Assessment dated 26 September 2019"*. GT was not asked to conduct a new audit of the Assessment or to revisit its conclusions on the preparation of that Assessment as it was not being amended. The Covid-19 Impact Report was considering *inter alia* how Covid-19 and the potential future scenarios for travel in Greater Manchester may affect the conclusions in the Assessment that the Proposed Franchising Scheme was good value for money and was affordable.

Challenge 2: Whether an assurance framework should have been used to perform the work

9.3.18 GT's work on the Covid-19 Impact Report was requested by TfGM in order to provide an independent report on the approach taken by TfGM in preparing the Report and quality of the information and analysis in it. GT were asked to express a professional opinion on those matters. GT were deemed qualified to express such an opinion based on their professional expertise and their experience of both the transport industry and the Bus Reform programme itself, given their previous involvement in the audit of the Assessment.

9.3.19 BDO's Report considers whether or not there was any other relevant frameworks that could have assisted GT with its review of the Covid-19 Impact Report. BDO state that *"In the absence of the instruction to carry out an audit on the same terms [as the Assessment], this guidance could not be referenced in relation to GT's work on the Covid Impact Report. No other guidance is referred to. In fact, GT specifically say that the GT November 2020 Report is not based on any formal guidance...".* BDO therefore query whether, in the absence of following any formal guidance or assurance frameworks, *"It is implicit, therefore, that they [GT] cannot provide any assurance over the financial models referred to in the Covid Impact Report."* BDO go on to state that *"where there is no formal guidance to follow for the work to be carried out, had BDO been instructed, we would most likely consider it appropriate to undertake a non-assurance or Agreed-Upon-Procedures engagement".*

9.3.20 HSF make similar comments in their Report, stating that *"It does not appear to have been conducted in accordance with the International Standard on Assurance Engagements (ISAE) 3000"*. They go on to say that in their opinion *"it is unclear why Grant Thornton did not seek* *to conduct its work in compliance with this standard for assurance engagements (or indeed any other)."*

9.3.21 As noted above, GT did not imply that they had complied with any assurance or other frameworks, rather they explicitly stated that they did not comply with any such framework in their Letter:

"For the avoidance of doubt, our Report does not constitute a statutory audit under the Local Audit and Accountability Act 2014 nor is it either:

- an evaluation of the Covid Impact Report conducted in accordance with auditing standards issued by the Financial Reporting Council;

- an audit per the requirements of section 123D of the Act; or

- based on any other formal guidance."

9.3.22 TfGM considers that GT's Letter is clear about the nature of their work and that GT have not sought to mislead the reader of their Letter over the scope and level of assurance they are providing. The conclusions represent its professional view.

9.3.23 As outlined above, GT were not required to follow any statutory guidance when reviewing the Covid-19 Impact Report. Whilst BDO state that in their opinion GT should have undertaken the report based on a *"non-assurance or Agreed-Upon-Procedures engagement"* and whilst HSF said that it was unclear why GT did not use the ISAE 3000 guidance, that does not mean that GT were not entitled to express its own professional view on the matters it did.

Challenge 3: Whether the review work undertaken supported the conclusions drawn

9.3.24 In its response during the second consultation period Rotala stated that *"Grant Thornton have given no indication of the criteria they have used against which they can measure the approach, information and analysis".* BDO also challenge the approach taken by GT to the work that they did perform, notwithstanding the challenges around scope and formal guidance discussed above. BDO go on to outline their expectations of what steps it considers should have been undertaken at the outset by GT (para 3.23):

"(a) Agreement of criteria for measurement of appropriateness, sufficiency and quality with TfGM;

(b) Identification of any legal or accounting guidance to follow, reasons for not following any potential relevant guidance explained;

(c) Clarification of what is meant by "for the purposes of the Covid Impact Report";

(d) Agreement on the information that would be made available to GT and the analysis they would carry out."

9.3.25 BDO also propose several suggestions as to how they would have performed the assurance work differently, as well as highlighting what they believe to be key omissions from GT's Letter. Based upon the work performed by GT, BDO indicated that they were unsure how GT were able to reach the conclusion it did in their letter dated November 2020. BDO say that *"It is not clear on what basis GT have made these assurances. They have given no indication of the criteria they have used against which they can measure the approach, information and analysis…"*. BDO then say that *"In our view, in the absence of such* *information it is not possible to draw comfort that GT's conclusions are sustainable, supported by evidence or are meaningful."*

9.3.26 The GT team was comprised of individuals with extensive expertise and experience in their respective fields, including in economic and financial appraisals of transport business cases. Also, the GT team that performed their work on the Covid-19 Impact Report were the same individuals that performed the audit of the original Assessment, and so they had direct knowledge and experience of the Bus Reform project in its entirety. TfGM consider that the team from GT had sufficient knowledge and experience to carry out their work to an appropriate professional standard. Any suggestions by BDO as to how they would have performed the work differently do not mean that what GT did was inappropriate or that GT thought it was inappropriate to undertake the work at all. It was a matter for GT whether it considered that, in the circumstances and having completed its work, it was appropriate for it to provide any conclusions on their work in their letter from November 2020

9.3.27 HSF state that GT's Letter *"can in no meaningful sense be said to provide "assurance" over the work which the GMCA has conducted and we have real concerns about the robustness of the process which Grant Thornton followed and the conclusions which it expressed."*

9.3.28 HSF go on to make comments on some of the specific conclusions drawn in GT's Letter. These comments include:

- "*The GT Report contains no analysis of whether the information relied upon by the GMCA is of sufficient quality to support the overall conclusion which it expresses on that issue*."
- "*There is no discussion of whether it might have been possible for the GMCA realistically to procure higher quality information on which to base the findings in its report on affordability and value for money*."
- "*Nor, contrary to paragraph 1.85 of the Franchising Guidance, is there any consideration of "whether the information used comes from recognised sources", "whether the information used is comprehensive", or "whether the information used is relevant and up to date*"."
- "*The GT Report does not appear to consider those assumptions. Rather it simply states that "the approach of using scenarios is sensible" and accepts unquestioningly (and without testing) the scenarios which the GMCA has used and the probabilities that the GMCA has ascribed to each*."

9.3.29 HSF conclude by asserting that *"We are not aware of any good reason why these matters were not considered and the failure to consider these issues materially undermines the value of the GT Report in providing "assurance" on the GMCA's approach to affordability and value for money".*

9.3.30 In response to HSF's specific comments about the conclusions drawn in GT's Letter, GT were fully aware of what information was used when the Covid-19 Impact Report was developed and the sources of the information used. It was also required to provide any specific recommendations it had on how the information or analysis of that information might be improved. GT came to the conclusion that *"the information and analysis of that information"* was *"of sufficient quality for the purposes of the Covid Impact Report"*, whilst recognising the significant uncertainty. That was an opinion which it was qualified to form. The Scenarios were part of the analysis used.

Challenge 4: Statements about updated financial model

9.3.31 BDO raised concerns over the fact that GT commented they did not review any updated financial models. BDO say that *"GT have specifically said that it has not undertaken a review of the financial models included in the Covid Impact Report which we consider would be key in order to draw any meaningful conclusions on affordability and value for money".* This point was also made by Rotala in its consultation response. BDO then acknowledge at section 3.7 of their report, however, that *"the financial models prepared for the Assessment in September 2019 were never, in fact, updated by TfGM"*. BDO conclude at section 3.10 that *"This potentially undermines the value of GT's overall conclusions on the matters it has been instructed to address and the assurances it has provided."*

9.3.32 BDO highlight the wording used in GT's Letter that states GT have *"not undertaken any review of the financial models which have been updated to produce the Covid Impact Report".* BDO assert that this *"suggests that they [GT] understood that the financial models had been updated for the Covid Impact Report, but were not reviewed by them."*. This was not the case, as GT were made aware that no updates had been made to the financial models whilst they were carrying out their work, and which is also made clear at section 5.1.7 of the Report, which states that the work done was 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"*.

9.3.33 HSF make the same observation in their Report, noting the wording used in GT's Letter that they have "*not undertaken any review of the financial models which have been updated to produce the Covid Impact Report*", and comment that *"Despite this apparently clear statement that the financial models were updated in order to produce the Covid Impact Report, in the 31 December Annex the GMCA explained that they were not"*. HSF go on to state that *"It is regrettable that the GT Report does not appear to have considered the "mathematical and modelling accuracy" of that work (per paragraph 1.85 of the Franchising Guidance). Without doing so, the GT Report can provide no meaningful assurance of the accuracy and robustness of the work which the GMCA has undertaken."*

9.3.34 TfGM set out at section 3.3.8, 3.3.10 and 5.1.7 of the Covid-19 Impact Report that the financial and economic models from the Assessment were not updated for the Report. In fact, a number of consultees, including Rotala (and their advisors Oxera with reference to the construction of scenarios) reference this in their responses. The reasons are explained at the same sections of the Covid-19 Impact Report noted above. GT accepted that this was an appropriate approach taken in the Covid-19 Impact Report considering the affordability and value for money of the Proposed Franchising Scheme in the light of the potential impact of Covid-19 was appropriate in the context, as it noted both in relation to affordability and value for money, of the information available. In particular GT stated, "*the approach taken to considering the affordability in the Proposed Franchising Scheme appears to be appropriate in the context of the limited amount of information available to TfGM on which to prepare detailed analysis*".

9.3.35 In a note sent by GT to TfGM in December 2020, GT clarified that they were aware that the models had not be updated but wanted the reader to be clear that GT had not undertaken any financial model review beyond what they had undertaken during the original audit. They clarified the comment in their letter that that they had *"not undertaken any review of the financial models which have been updated to produce the Covid Impact Report"* by stating that *"For the avoidance of doubt, we were not suggesting that the financial model developed for the initial assessment had been updated, rather that we had not performed any model audit or assurance on the logic or arithmetic integrity of either the financial model or any other spreadsheet analysis developed to assess the impact of the four scenarios on the financial and economic cases."*

9.3.36 In response to HSF's comment that GT have not considered the mathematical and modelling accuracy of the analysis done for the Covid-19 Impact Report, TfGM note that any mathematical analysis done for the Covid-19 Impact Report was simple spreadsheets with no complex modelling. Therefore, there was no value in GT auditing the mathematical accuracy of these spreadsheets, as noted in their December 2020 clarification quoted above.

Challenge 5: Absence of specific comments on funding, affordability and risk, and recommendations made during the process have not been detailed

9.3.37 BDO raised concern that GT have not outlined in their November 2020 letter the specific recommendations made to TfGM during the process of reviewing the Covid-19 Impact Report. BDO state at section 3.25 their report that *"With regard to the instruction to provide recommendations on the approach (as referred to in paragraph 3.7 (c) above), we note that GT have not provided any detail on recommendations made by them, if any in the GT November 2020 Report. Accordingly, at this stage, we cannot comment on the appropriateness of any recommendations made by GT and, therefore, the extent that GT have fulfilled the requirement of this instruction."*

9.3.38 GT's Letter states that *"Our review has been an iterative process and we have corresponded with TfGM over a number of versions of the Covid Impact Report and any suggestions and recommendations we have made have been reflected in the final version reviewed."* This clearly explains that any specific comments and recommendations GT made during the process were reflected in the final published Covid-19 Impact Report, and it is therefore reasonable to assume that if GT had any remaining concerns with or recommendations on the Report, they would have expressed these in their letter from November 2020.

9.3.39 HSF also queried whether *"the other observations included in the GT Report are safe"* for a number of reasons.

9.3.40 First, they criticise GT for stating that there was no statutory guidance issued under section 123B of the Act which considered how an assessment should address the impact of a global pandemic. That is factually true. It was therefore correct for GT to note in their Letter that *"As there is no guidance that TfGM could follow, we have not been able to report in this regard"*. HSF say that *"the Franchising Guidance is intended to apply to all circumstances where a bus franchising scheme under the TA 2000 is being proposed, and it applies equally to assessments and to any updates to those assessments"*. TfGM does not consider that this is correct. Section 123B(5) of the Act provides that *"the Secretary of State must issue guidance concerning the preparation of an assessment under this section"*. Since the Covid-19 Impact Report was not an assessment of the proposed scheme prepared under section 123B of the Act, it follows that there was no statutory requirement to have regard to the guidance that had been issued when preparing the Covid-19 Impact Report.

9.3.41 HSF also assert that *"In a number of respects, the GT Report appears to accept unquestioningly the propositions put forward by the GMCA. By way of example, the section on risk in the GT Report records that the GMCA has updated "the probability of some of the risks occurring". This appears to accept the GMCA's premise that it is only the probabilities* *of the risks which would need to change, rather than, for instance, considering whether any new risks might need to be incorporated."*

9.3.42 The fact that GT may record something without criticising it or expressing its own view on it does not mean that it has unquestioningly accepted anything. In response to HSF's comments on risk, for example, as part of the iterative process that was followed, GT did review and engage with the team who had undertaken the work to update the risk registers for the Covid-19 Impact Report. GT then reviewed the amendments in the risk registers, which included updates to both the probability and impact of each risk where necessary as opposed to HSF's comment that only the probabilities were updated. If GT had any further recommendations or comments that hadn't been addressed in the Covid-19 Impact Report, they would have outlined these in their November 2020 Letter.

Other points

Timing

9.3.43 Section 3.27 of BDO's Report states *"More generally, we would also have expected GT to have provided recommendations on the appropriateness of the timing of preparing the Covid Impact Report given the remaining uncertainty associated with Covid-19. We are unable to say whether GT did make such a recommendation and that it was ignored by TfGM, or whether they made no comment on timing. GT do not comment on the rationality of the timing of the current process, which we understand to be the subject of separate proceedings."*

9.3.44 GT's Letter clearly states *"We note that TfGM has set out its rationale for why a decision to proceed with the scheme is still appropriate now, in this period of uncertainty. In summary, TfGM explains that the franchising scheme is a central pillar of the Greater Manchester Transport Strategy 2040 and a failure to move forward now would have longer term consequences on the delivery of this overall strategy. Whilst we accept this is a reasonable argument to make, we highlight here, and specifically in the sections below, that the Covid-19 pandemic has created significant uncertainty and therefore has not allowed for as accurate forecasting as was previously the case. TfGM accepts this principle and accepts that in choosing to proceed now the risk has increased that the outturn position may be materially different from the central case previously set out in the Assessment."*

9.3.45 GT therefore did make a comment on the appropriateness of the timing of preparing the Covid-19 Impact Report, stating that they considered it is "*a reasonable argument to make*" by TfGM that the timing is appropriate even with the significant uncertainty created by the Covid-19 pandemic. It should also be noted that this did not affect GT's conclusions that the approach taken in the Covid-19 Impact Report was appropriate and that the information and analysis of that information, whilst "*recognising the uncertainty and difficulty in forecasting in the current environment*", was appropriate.

Mitigations

9.3.46 Section 3.35 of BDO's Report states *"Similarly, no comment or assurance is given as to the accuracy of the mitigation calculations or the extent to which they would be sufficient to address revenue loss and under which specific scenarios."*

9.3.47 GT's Letter clearly states, *"we note that the potential value of the mitigations suggests that they would be sufficient to manage the farebox revenue downside in most scenarios, if implemented successfully."* Whilst it is correct that GT (as noted at section 9.3.36 above) did not perform a check on the mathematical accuracy of the simple spreadsheet used to sum the mitigations, they did review the approach to developing the mitigations, the assumptions made as to the levels and availability of such mitigations, and therefore the reasonableness of the approach taken.

Further information sought

9.3.48 As well as providing its findings, BDO set out at Appendix 2 of its report a list of further questions and information. These matters could have been raised by Rotala during the consultation period, in which case they would have been responded to by GMCA. Rotala did not request this further information or clarifications, despite the fact that BDO's report was dated 22 January 2021 (which was one week before the end of the consultation) and the fact that BDO do state that *"…and the latest information made available to us at the completion of our work on 18 January 2021"* (which was 11 days before the end of the consultation).

9.4 Conclusion

9.4.1 In conclusion TfGM do not agreed that the respondees have shown either that GT failed to consider anything material or that its opinion was not one that they were reasonably entitled to reach when carrying out their audit of the Assessment. Further, with regard to the criticisms of the approach to the assurance review of the Covid-19 Impact Report made in response during the second consultation period, it is not accepted that a further audit report was required under s123D of the Act, but rather that reliance can be placed on the Covid-19 Impact Report and GT's assurance of it.

10. OneBus' Partnership Plus partnership offer

10.1 Introduction

Background

10.1.1 As required by the Act, in preparing its Assessment of a Proposed Franchising Scheme on behalf of GMCA, TfGM were required to compare the Proposed Franchising Scheme with other options. An extensive amount of engagement took place with OneBus and its members in order to consider what could be achieved under a partnership option. At the point the Assessment was completed, TfGM had held approximately 50 meetings with OneBus and its members. TfGM used the outputs of this extensive engagement (the Operator Proposed Partnership) to compare the Proposed Franchising Scheme against that partnership option). In their response to the first consultation, OneBus stated that they were not told at the time the Assessment was concluded and that this was being considered as their best and final offer. This claim has been addressed within section 4.10.4.

10.1.2 In the Assessment, TfGM also considered an "Ambitious Partnership" option which detailed TfGM's view of what more could be done under a partnership, albeit using an Enhanced Partnership Scheme (EPS). The Ambitious Partnership was therefore used to assess what theoretically, at best, could be delivered through a partnership.

10.1.3 Although the Assessment had been completed and been subject to an audit, at the time of the first consultation discussions with OneBus and its members on partnerships continued to take place in early 2020, with more than 40 meetings taking place with the operators after completion of the Assessment until early 2020. During this period, TfGM continued to engage with the operators in an attempt to develop their proposals further. That engagement included developing a number of key commercial principles for the VPA and considering how these would work in practice under a partnership. Engagement also continued with the respective parties' legal advisors, as the VPA drafting continued, to reflect discussions held with the operators.

10.1.4 As part of its consultation response to the first consultation, OneBus submitted an updated version of the partnership offer previously discussed with TfGM. This was described as "*an improved Partnership offer*" and referred to as "Partnership Plus". TfGM reviewed the Partnership Plus offer, and sought clarification on a number of matters, given that, in the main, the level of detail provided for the new commitments was relatively low and a number of the commitments could be described at best, as 'commitments to commit'.

10.1.5 The purpose of this section is to detail TfGM's review of the Partnership Plus proposal, which was put forward by OneBus in its response to the first consultation. In reviewing the Partnership Proposal, the same structure as the Assessment is used below.

Nature of the proposals

10.1.6 OneBus stated that its proposals for a VPA for an initial period of five years are "*designed to deliver the changes that communities, customers and politicians want to see, without the need for extra public funds and delays that franchising brings.*" The proposals highlighted in bold below (a consolidated summary of points taken directly from the Partnership Plus proposal) indicated that these are some of the additional proposals provided to TfGM as part of the first consultation response, which is therefore different to the Operator Proposed Partnership that was considered in the Assessment. The remaining text re-confirms previous commitments.

10.1.7 To provide better journeys, operators would sign up to a performance regime and regular audits, with financial penalties for failure; work with GMCA and TfGM to allocate resources where they will best improve service; to review bus stops to ensure that they are as close to Metrolink and busy rail stations as possible; to identify congestion hotspots and interventions; provide 450 new buses in the first three years, maintain a seven-year average bus age, and add 30 extra buses to the network; recruit additional customer service staff to provide a single point of contact; give drivers further training on customer care; brand buses to identify where they can take a customer; and work with the authorities to make sure passengers receive information that is comprehensive, consistent and easily understood.

10.1.8 To provide better value for passengers operators would fund the staff needed to operate the refreshed bus network; set up a profit share scheme to allocate a share of the benefits to improving services; simplify multi-operator tickets, introduce a clear simplified fare structure and retain single operator tickets for those that require them; work with local authorities to deliver contactless payment technology, with daily and weekly capping, similar to London; and give those coming off Our Pass an opportunity to sign up for half-fare discounts for up to six months.

10.1.9 OneBus stated that their proposal, to be funded through "*operator revenue and public sector funding*" (but without any "*increase in council tax*"), would deliver simpler, "*more cost-effective ticketing systems across Greater Manchester; new, faster and more reliable routes; more convenient bus stops; better-equipped buses; less congestion; greener buses; better air quality; ticketing inspectors to reduce fare evasions and more staff to support passengers wherever they want to go*". To maximise the benefits, OneBus said that they required "*measures to address congestion on the road network".*

10.1.10 As noted above, the Partnership Plus proposal contained a mixture of commitments, some which were new proposals (at the time of the first consultation) and some of which were previous commitments. This section of the report will focus on the new, "Plus," elements of Partnership Plus, or anything incremental to the partnership considered in the Assessment. Commitments that were previously discussed with TfGM and have not changed since the Assessment, are not considered in further detail in this section of the report.

10.1.11 In terms of the mechanism for delivery of Partnership Plus, there are no changes to what was understood at the time of the Assessment, i.e. the operators' preferred delivery mechanism was via a VPA, initially for a term of five years. At the stage of expiration of the partnership it could be renegotiated, a new partnership agreed, or operators could choose to return to the previous, wholly unregulated market. The partnership would cover the whole of Greater Manchester, and as stated on the front of the Partnership Plus brochure, would be "*supported by bus operators including Arriva, Centrebus, D&G Bus, First, Go North West, High Peak Buses, Jim Stones Coaches* (note that they ceased trading on 18 April 2020), *Transdev, R. Bullock & Co, Rotala – Diamond Bus North West and Stagecoach".*

Structure of document

10.1.12 The rest of this section will consider the Partnership Plus proposal and its implications on the five-case model used in the Assessment, i.e. Strategic Case, Economic Case, Commercial Case, Financial Case and Management Case. It will also consider any legal considerations in relation to the proposal.

10.1.13 The sections are as follows:

- Section 10.2 – Strategic Implications;
- Section 10.3 – Economic Implications;
- Section 10.4 – Commercial Implications;
- Section 10.5 – Financial Implications;
- Section 10.6 – Management Implications;
- Section 10.7 – Legal and other considerations;
- Section 10.8 – Further review of proposal; and
- Section 10.9 – Conclusion.

10.2 Strategic Implications

Introduction

10.2.1 This section sets out the extent to which the aspects of the Partnership Plus proposal, which differ from those considered under the Operator Proposed Partnership in the Assessment, are likely to achieve GMCA's objectives. GMCA's objectives are derived from policies in the Local Transport Plan and other adopted policies, and, therefore, achieving these objectives illustrates the extent to which the Partnership Plus proposal would contribute to the implementation of these policies. This section follows a similar method to that shown at section 9 of the Strategic Case of the Assessment. Under each objective the relevant proposals from the OneBus Partnership Plus proposal are listed, the text then goes on to evaluate those that are considered "new" or have altered since the Assessment was finalised, i.e. the proposals that differ from those considered as part of the Operator Proposed Partnership in the Assessment.

10.2.2 It is worth noting that, at the time of the Partnership Plus proposal being put forward by OneBus in its response to the first consultation, the operators' preferred mechanism for delivering the Partnership Plus was via a VPA for an initial period of five years. There was no guarantee that this would include all of the operators in the market, given it is a voluntary agreement and the operators within Greater Manchester would have a choice as to whether they would choose to sign up to the VPA or not. Therefore, across all of the objectives, the extent to which they would be met and continue to be achieved would also have depended upon the percentage of operators within Greater Manchester that would sign up to the VPA and what might happen after its five-year period. This was recognised by The University of Manchester in their response to Question 36 of the first consultation, as they stated that there is no guarantee that operators will stay in a partnership over a long-term period unless legally bound to do so.

Network

1. Reach and stability of the bus network
Objective
• Comprehensive network • Simple network • Frequent services • Direct services • Stable network • Responsive network Accessibility improves by comparison with the scale of the network within three years; continued improvement to 2040. Improvement in simplicity of the network within three years of intervention.

10.2.3 Relevant proposals, taken directly from the OneBus proposal and a supporting word document (which was provided by OneBus and considered as part of their first consultation response), stated that:

- The network would be planned with GMCA and, using a percentage of incremental profits from highway interventions that improve bus services, OneBus would work with TfGM to identify where this value could be used to meet agreed network deficiencies;

- This proactive, positive partnership would quickly deliver new, faster and more reliable routes;
- Operators would fund the staff needed to operate the refreshed bus network directly from existing revenue; and
- The bus operators have agreed to provide 30 extra buses, to be used on a mix of 'kickstart' style services and to reinforce the existing network, on a basis that would be agreed locally in each district. The stated intention is to improve connectivity by trialling new services and links that can be grown into new, self-sustaining services while improving connectivity across Greater Manchester.

10.2.4 New Proposals*:* The principle of a profit-share scheme mechanism to allocate a share of benefits back into improving services further and the provision of 30 extra buses were considered new proposals under Partnership Plus and are discussed further below.

10.2.5 Likely extent of network improvements: Performing a systematic review of the network to ensure sufficient deployment of bus resources (which may include delivery of new, faster and more reliable routes) was considered in the Assessment. Comments noted by consultees during the first consultation in relation to the network included Arriva, who noted that a partnership would improve the bus network in the most effective way possible while delivering VfM and significant benefits. First also stated in their response to the first consultation that assuming more change to the network can occur under franchising than under a partnership is speculative and that there are no restrictions on what could be agreed under a partnership. Go North West also stated in their first consultation response that the ways in which a partnership model could achieve the network objectives has been underestimated.

10.2.6 Since the finalisation of the Assessment, TfGM continued to engage with operators to refine the network review process, completing the proof of concept for services in the Tameside area. The fundamental principles of the network review have not changed since the Assessment. Nothing further in terms of specific new proposals have been provided as part of Partnership Plus in relation to the network reviews. Comments made by consultees in relation to the extent of network changes achievable under a partnership have been considered. Insufficient reason has been found, however, to change the implications and benefits appraisals included within the Assessment. Operators would still be facing competing commercial pressures under a partnership environment, and they may not be aligned in their views, therefore, on what changes are necessary, and there would not be any redistribution of resources between operators under a partnership.

10.2.7 Profit share schemes mechanism: Operators offered that a percentage of incremental profits derived by operators from specific interventions to improve the bus network, e.g. infrastructure, would be put back into the partnership, and there would be management of a partnership fund to further improve services. This may go some way to improving the network and meeting the objective noted above for reach and stability of the network by improving network deficiencies. However, the mechanics have not been worked through, and there are, therefore, a number of uncertainties around how the incremental profit arising from the specific interventions would be identified, measured, realised and used. This is considered further at sections 10.2.73, 10.3.51 and 10.5.17 below. When this would likely be achieved, and its anticipated value is not known.

10.2.8 Provision of 30 extra buses: It was proposed that operators would fund the additional buses based broadly on their proportion of market share. Whilst this would help GMCA achieve their objective of a comprehensive network, potentially allowing for more frequent services, the proposal was unclear as to how the deployment of these 30 extra buses across the network would be monitored throughout the duration of the VPA. The operators have indicated that the agreed process for performing a network review would be used to facilitate the decision of where these buses would initially be deployed.

10.2.9 Whilst the deployment of the 30 buses could lead to passenger benefits, this exercise would be bound by the limitations of a commercial network run by individual operators and rules around competition. This is explained in more detail in the Network Supporting Paper. The operators proposed a mechanism to demonstrate that there would always be an incremental 30 additional buses across the Greater Manchester network. They have provided a very simple formula: the peak vehicle requirement plus 30 buses. No further detail was provided around how the peak vehicle requirement would be identified. Despite the intention that this would be fixed at the outset of the VPA, concerns were raised with the operators that there would inevitably be marginal changes in the overall fleet provided across Greater Manchester and that the new buses may merely replace the buses on services which will be deregistered. There is also concern that the requirement for new or improved services would not necessarily be in the same area as the operator willing to provide the new buses. For these reasons, there is difficulty in identifying the additional resource introduced over time, given the likely changes and competing commercial pressures in the market. It is therefore not possible to assume this commitment would lead to an improvement in the reach and stability of the network within three years.

10.2.10 During the first consultation, OneBus proposed that the VPA would be for an initial term of five years, and there would be some benefits recognised within this timeframe as a result of the additional 30 buses. However, noting the objective above of “continued improvement to 2040”, there is little assurance that this would occur under a VPA given there is further uncertainty beyond the initial five-year period.

Network Conclusions

10.2.11 The conclusions of the Partnership Plus offer in terms of GMCA’s objective to have a comprehensive and stable network are as follows:

- Potential reduced network change compared with franchising, leading to less progress towards achieving a comprehensive, simple, frequent, direct, stable and responsive network;
- Limited potential benefits compared with the Proposed Franchising Scheme in respect of the objectives and continuation through to 2040; and
- Potential value and realisation of profits under the proposed profit share schemes is uncertain.

2. Integration and efficiency
Objective
• Integrated within itself, planned as a single network within one year of intervention. • Efficient deployment of bus resources, with frequencies appropriate to demand levels • Integrated with other transport, particularly public transport Improvement in measures of efficiency within three years of an intervention Benchmarking of Greater Manchester network by 2040

10.2.12 Relevant proposals taken from the Partnership Plus offer included:

- Working with TfGM, bus services would be revised to call at new bus stops sited as close as possible to Metrolink stations and heavy rail stations to improve interchange and connectivity; and
- This proactive, positive partnership would quickly deliver more convenient bus stops.

10.2.13 New Proposals*:* The proposals under Partnership Plus in relation to bus stops were new and therefore were not accounted for under either the Operator Proposed Partnership or the Ambitious Partnership option in the Assessment.

10.2.14 More convenient bus stops*:* It is worth noting that TfGM works with the relevant highway authority to renew and improve the siting of bus stops, including those adjacent to the transport modes. Previous programmes and initiatives have seen work in this regard, and such work is likely to continue, irrespective of any regulatory model or regime. TfGM has a process in place for determining bus stop locations. This was explored with operators through the continued engagement with operators on developing the partnership option during the preparation of the Assessment, and operators confirmed that they felt the process was adequate. Operators' input, whilst always welcome, is very limited as they do not have any powers in this regard.

10.2.15 Value of relocating bus stops to be as close as possible to Metrolink and heavy rail stations: Whilst this would go some way to improving the integration of the bus network with other public transport, the total benefit of such a proposal is unclear without simultaneous commitments to introduce multi-modal ticketing across different public transport services. Simply locating bus stops closer to other public transport stations would not in itself guarantee an increase in the use of these other public transport modes. The details of where the new bus stops would be located is also not provided, and operators indicated that the process and approach for this review would be picked up by the network working group under a partnership. Therefore, at this stage, there is not currently a process in place to perform this review, and any proposed changes would entail a cost-benefit analysis, additional resources and a separate business case.

Network Conclusions

10.2.16 The conclusions of the Partnership Plus offer in terms of GMCA's objective to have an integrated and efficient network are as follows:

- The extent to which bus stops would be relocated and the value of the offer is unknown. The location of bus stops is only part of the solution when it comes to providing an integrated network, for example, planning and timing of services between modes would also be a contributing factor that would not be met under partnership to the same extent they could be under the Proposed Franchising Scheme; and

- The extent to which integration with other transport, particularly public transport, would be increased over what would otherwise occur is not altered from the conclusions drawn in the Assessment. Given that the network would still remain composed of multiple networks under Partnership Plus, the objective of changing the integration of the network and its planning as a single network within a year would not be met.

3. Quality of service provided – reliability of the service
Objective
A high standard of reliability (whether the services run), punctuality (whether scheduled services are on time) and regularity (whether frequent services come at the stated intervals) is maintained across the network. Reliability, punctuality, regularity of services improves within three years of an intervention; improvement continues year on year. The bus service provides journeys that take as short a time as possible given the distance and the nature of the journey. Speed of bus journeys stabilises or improves in each year; no deterioration within three years of intervention.

10.2.17 Relevant proposals taken from the Partnership Plus offer included:

- Introduction of a joint process to identify congestion hotspots with interventions to increase bus speeds;
- Consistent, comprehensive and easily understood information provision, with additional resources to monitor and manage performance;
- GMCA and TfGM would work together to allocate resources where they would best improve the service;
- Consistent service standards across all operators with regular audits;
- Operators agreed to sign up to a performance regime and regular audits. If the operators fail to perform, there would be financial penalties; and
- Introduction of some form of liquidated damages for significant breach by any party.

10.2.18 New Proposals*:* Other than the introduction of some form of liquidated damages, the above proposals are reconfirmations of commitments made in the Operator Proposed Partnership included in the Assessment and do not provide anything materially new. Under the Operator Proposed Partnership considered in the Assessment, the operators had welcomed the idea of having a performance regime in the form of "Measures of Success". However, the details had not been finalised. Therefore, the Partnership Plus offer and the engagement with operators since the Assessment has further developed the idea of this and of there being regular audits to monitor performance.

10.2.19 The VPA would include key performance indicators (KPIs). Whilst operators included a performance regime as part of their Partnership Plus commitments, along with regular audits of performance, the details of how the performance regime would work have not been agreed upon and finalised by operators. It would be up to operators to determine how to meet such targets, what the targets would be and how performance should be measured against the agreed targets. Operators have a commercial incentive to perform well in any event. It is unclear, therefore, whether this regime would provide for significant improvements that would not otherwise occur.

10.2.20 Liquidated Damages: as part of the Partnership Plus proposal, operators are proposing to use a liquidated damages mechanism to sanction any significant breach by any party and to incentivise and penalise operators for failure to perform against their commitments. It is likely to be used in conjunction with a broader KPI regime that would be primarily used to monitor performance as noted above. The details of the liquidated damages mechanism, including what performance issues it would be linked to, are not yet finalised and continue to be developed by operators. It is likely to be linked, however, to five or six key KPIs. Careful drafting would be needed in the VPA to ensure appropriate and effective assigning of responsibility or any failure to meet a KPI. Any penalties would negatively impact the operator's bottom line. Moreover, as discussed in the commercial implications section, there are legal difficulties in enforcing any terms which may be classified as a penalty. Liquidated damages and the associated legal limitations are discussed further in the commercial implications section below.

10.2.21 Overall, the introduction of liquidated damages does not alter the conclusion reached in the Assessment, which was that a great improvement in reliability, punctuality and regularity of services is unlikely to be achieved within three years of the introduction of the partnership and maintained thereafter. The conclusions made in the Assessment at section 9.2.20 in relation to punctuality remain unchanged.

10.2.22 The Ambitious Partnership in the Assessment considered a potentially stronger remedial process than the Operator Proposed Partnership. It was not clear at the time the Assessment was written what this would look like, but it is likely to be similar to that proposed under Partnership Plus and would therefore remain effectively voluntary.

Network Conclusions

10.2.23 The conclusions of the Partnership Plus offer in terms of GMCA's objective to have a reliable service are as follows:

- The nature of the proposals leads to uncertainty that there would be significant improvements beyond the current status quo given the limited impact and meaningfulness of a performance regime and of financial sanctions under a voluntary partnership agreement.

4. Harmful emissions from buses are reduced and CO_2 emissions from buses are reduced.
Objective
Harmful emissions such as NO_2 and particulate matter together with CO_2 from buses are reduced. All buses are Euro VI standard or better sooner than the current predicted date of 2030 (including alternative fuel) across 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 Clean Air Zone to the extent that this is implemented.

10.2.24 Relevant proposals taken from the Partnership Plus offer included:

- Operators would renew their fleets to maintain the seven-year average age with at least 450 new buses over the first three years of the partnership, and these would be the greenest ever seen on our roads. These buses would feature additional standard equipment as may be determined as part of GMCA's clean air plan, which has recently been consulted upon by GMCA; and
- This proactive, positive partnership would quickly deliver greener buses.

10.2.25 New Proposals*:* The above proposals which form part of the Partnership Plus offer have been considered. However, they do not provide anything new compared with what had already been assessed under the Operator Proposed Partnership option in the Assessment. No reason has been found to change the appraisal given to these commitments in the Assessment. The Ambitious Partnership option went further than the Operator Proposed Partnership and considered that minimum standards for fleet or stronger commitments to invest in new vehicles to improve air quality or reduce CO_2 emissions could be included as part of an EPS.

Network Conclusions

10.2.26 The conclusions of the Partnership Plus offer in terms of GMCA's objective to reduce harmful emissions are as follows:

- No further conclusions were drawn compared with what has been considered in the Assessment.

Fares and Ticketing

5. Integrated and simple fares
Objective
The fares system is simple to understand and convenient to use: • Period tickets should be valid on any bus service within one year of an intervention. • There should be equivalent period tickets covering bus and Metrolink within one year of intervention and, in time, local rail services in Greater Manchester. • Single fares should be standardised so that there are similar fares for similar journeys within one year of intervention.

10.2.27 Relevant proposals taken from the Partnership Plus offer included:

- All multi-operator period tickets (e.g. day or week) would be valid on all buses within Greater Manchester;
- Operator own tickets would be simplified to a single suite to offer better VfM;
- Introduce a clear, simplified fare structure;
- Universal ticket and fares structure across Greater Manchester and a significant reduction in the number of tickets available; and
- 1.5% of operator bus-only GMTL turnover be pooled promoting only 'all operator' (bus-only) products.

10.2.28 New Proposals: The first four proposals listed above do not differ from what has been assessed under the Operator Proposed Partnership option in the Assessment. With regards to the commitment to pool a percentage of turnover to be used for marketing multi-operator products, the amount considered in the Assessment was 1%. This commitment increased to 1.5% and is considered in further detail below. The Ambitious Partnership considered in the Assessment went further than the Operator Proposed Partnership and Partnership Plus such that the provisions under an EPS could be used to allow requirements as to the price of multi-operator tickets to be set.

10.2.29 Greater emphasis on an all-operator ticket: Through ongoing discussions with the operators since the finalisation of the Assessment, operators have indicated that, while their own tickets would continue to be available, more emphasis would be placed on the all-operator ticket by using 1.5% of operator bus-only GMTL turnover to promote multi-operator products. The marketing budget for GMTL products as at July 2019 was c. £385k and 0.86% of turnover. It is worth noting that OneBus and its members had previously committed to increasing the 0.86% marketing budget to 1% at the time the Assessment was finalised. Therefore, the increase of the commitment from 1% to 1.5% would result in an additional increase of c. £224k and a total budget of c. £672k. This increased marketing spend could encourage more people to purchase System One tickets. However, operators would retain and continue to promote their own period tickets at the same time.

10.2.30 In addition to the above proposals, TfGM have also considered any commitments developed further through the continued engagement with OneBus and its members since the Assessment. With the intention of providing an improved customer offer, OneBus developed a proposal to address the challenge that under the current contract conditions, operators of TfGM subsidised services are under no obligation to accept the time-based tickets of the commercial daytime operator of that same service, where it is provided by a different operator. Operators believed that this could be an inconvenience to a small number of passengers who either purchase a single ticket for one-off journeys or purchase the multi-operator product where regular journeys are taken.

10.2.31 The proposal put forward by OneBus to address this was that, where a subsidised service is let as a supplement to an existing commercial service, for example, to enable that service to be provided later into the evening, the operator running that subsidised service would be able to sell a £1.00 add-on ticket to any customer using the daytime operator time-based product covering the same route but run by a different operator. Therefore, the subsidised service journey would cost the passenger £1.00 rather than the full fare of the subsidised service. Operators clarified that there would be no additional add-on fare if the subsidised service is run by the same operator as the commercial daytime service in this scenario. Operators would retain this charge for three years, after which there would be a review. OneBus indicated that the partnership would work together to ensure that customers and staff are aware of services or journeys to which this offer would apply. OneBus also proposed that TfGM should consider revising their contract conditions going forward to make acceptance of the daytime operator's products part of the bid.

10.2.32 This approach would reduce the impact under partnership of this interface between different operators running commercial and subsidised services on the same route. It would not, however, fully mitigate the impact, as it would still lead to an additional cost to passengers where they had to travel on buses of two different operators on the same route. This is discussed further in the Economic Implications section below.

10.2.33 Whilst TfGM have considered these benefits of the Partnership Plus proposal, there remain some outstanding concerns as to whether this proposal would be practically deliverable, which would require further exploration prior to implementation.

10.2.34 In letting secured services, TfGM (on behalf of GMCA) are required to have regard to the competitive effect of the proposed approach to tendering, applying the Part 1 Competition Test under Schedule 10 of the Transport 2000. As a transport authority, there is also a requirement to have regard to VfM. This proposed approach would appear to lead to a situation where there would be a continuing material benefit to passengers in letting this service to the incumbent operator, rather than awarding it to a third party, as, from a passenger perspective, an incumbent day ticket will still be £1.00 cheaper than making the same journey but returning on a competitor's bus that has been procured as a separate subsidised service. Therefore, whilst this proposal was intended to make the barriers between a daytime commercial service and an evening or morning secured service lower and allow for increased competition in the marketplace, this would still leave the incumbent with a significant advantage.

10.2.35 TfGM would need to consider whether a tender process that allowed for this distinction between the incumbent and competing operators satisfied their obligations under the Transport Act 1985 in respect of fairly tendering any service, or whether this proposal could lead to distortion of competition in the bus market. TfGM would also need to consider whether the benefits that would flow from this would be justified under the Part 1 Competition Test that applies to subsidised services. This decision would need to be made in respect of each service let, rather than generically, and it is difficult to identify in advance, therefore, the extent to which this proposal will bring material benefits.

10.2.36 Whilst OneBus' proposal has support from a broad range of operators in Greater Manchester, it is not clear that it is supported by all operators who would tender for such add-on services, leaving a residual risk of challenge if they felt that this approach unfairly discriminated against them.

Fares and Ticketing Conclusions

10.2.37 The conclusions of the Partnership Plus offer in terms of GMCA's objective to have integrated and simple fares are as follows:

- Some simplification may be possible, but the existence of multiple operators offering their own tickets means the overall ticket offering would remain relatively complex compared with ticketing under the Proposed Franchising Scheme;
- The approach to add-on fares for subsidised services would need further development and may add complexity to the customer proposition. It would require further detailed work with operators to confirm that it would work in practice and deliver the benefits proposed; and
- A greater emphasis on all-operator ticketing may provide some benefits to those not aware of the current multi-operator tickets available; however, this would not provide the same level of benefit as under the Proposed Franchising Scheme as operators would still retain and promote their own period products.

6. Fares should offer value for money
Objective
• Fares offer value for money to customers while supporting a balanced funding position for the bus market. • A framework approach is taken to consideration of any further discounted tickets within one year of intervention.

10.2.38 Relevant proposals taken from the Partnership Plus offer included:

- Operator own tickets would be simplified to a single suite to offer better VfM;
- Simplify multi-operator tickets, already valid across all Greater Manchester buses;
- No change to fares on discounted corridors;
- With agreement through GMTL, the operators would introduce a transitional arrangement for those young people coming off Our Pass, providing the opportunity to sign up to half-fare discounts for up to six months; and
- A price would be agreed for multi-operator tickets at £x per week from January 2021 with annual increases after a two-year price freeze. Single operator tickets retained to offer the customer choice.

10.2.39 New Proposals: In relation to the above proposals, the only new commitment was the offer to introduce a transitional arrangement for young people in the six months following the ending of their eligibility for Our Pass. The other commitments were considered under both partnership options in the Assessment. The conclusions drawn in relation to the appraisals of the other proposals listed above and their implications and benefits have been considered and remain unchanged since the Assessment. It is worth noting that Our Pass was directly excluded from the Assessment in terms of its impact and consideration, given that it is currently being run on a two-year trial that began in September 2019.

10.2.40 Both the Operator Proposed Partnership and the Ambitious Partnership included a benefit to recognise the commitment to freeze System One ticket prices for two years and hence reduce the differential between the operator's own tickets and the multi-operator tickets. Under the Ambitious Partnership considered in the Assessment, it was considered that the potential reduction could be more certain, and the level of the operator fare could be fixed as part of an EPS, making the differential more stable.

10.2.41 Transitional arrangement for young people coming off Our Pass to sign up for half-fare discounts for up to six months: The commitment offered by OneBus was to work with TfGM to extend their current entitlement by a further six months offering half-fare discounts. The operators confirmed the mechanics of how the proposal would operate, but the associated costs are yet to be determined. It is suggested that, subject to how the back office would be set up, the Our Pass card would be converted to an 'igo' product with igo entitlements being available. (An igo card provides benefits and the opportunity to buy a range of additional bus and tram tickets for people aged 5 to 16 years old and who are either a permanent resident of or go to school in Greater Manchester). Operators confirmed that if Our Pass becomes permanent after the two-year pilot, this proposal would also continue. In order for this proposal to offer long-lasting benefits, it is therefore conditional on Our Pass becoming a permanent scheme. The potential for making it permanent is being reviewed by GMCA over the course of the pilot.

10.2.42 This proposal would provide a discount to young people for a relatively short period after the withdrawal of Our Pass, the intention being to continue to encourage them to use bus services. OneBus confirmed that their view is that this proposal would not require any surcharge payable by the customer, and no reimbursement would be sought as the discounts would be funded by the operators on a commercial basis. The extent to which this would provide a benefit to passengers is discussed further in the economic section below.

10.2.43 With regards to the back-office implications, a new card type would be required. Operators have not yet worked through the technical details of this or who would cover these costs. However, it is assumed that the same information provided for the existing Our Pass cardholder could be used to issue a new card to those Our Pass cardholders whose card would otherwise expire (i.e. 31st August after the cardholder's 18th birthday). The new card would be valid for a further six months.

10.2.44 It is recognised that there would be an administrative cost associated with issuing the new cards; for example, the igo product currently costs £10 (administration fee). It is unclear how OneBus would arrange and also fund this initiative, including the costs of issuing a new card and the marketing and promotion of the product.

10.2.45 It is assumed that the cardholders would have access to the GMTL products that are the same price as the junior products (i.e. half the adult price) and that, therefore, there would not be a need for a new set of products.

10.2.46 Discounts*:* Under Partnership Plus, there would be no change to fares on discounted corridors. Although this provides comfort that these discounted products would not be removed, the Partnership Plus proposal does not contain a framework approach for any consideration of further discounted tickets. Under a partnership, operators would continue to have control of their fares and be subject to the commercial considerations that would lead them to offer discount fares on the current pattern. Therefore, the objective of having a framework approach to discounts would be unlikely to be introduced within one year of intervention.

10.2.47 Given that pricing decisions for single fares and daily, weekly and monthly tickets would still be made by the operators, the objective of achieving VfM would not be met to the same extent as could be met under the Proposed Franchising Scheme, whereby GMCA would have control over pricing decisions. Section 9.3.12 of the Assessment considers this point in further detail. The Assessment concluded that the Proposed Franchising Scheme would achieve the objective of VfM of fares to the greatest extent of the different options. The comments from consultees during both consultations in relation to VfM of fares, along with the proposals under Partnership Plus have been considered; however, insufficient reason has been found to change the conclusion reached in the Assessment that under franchising, the greatest level of VfM of fares would be achieved.

Fares and Ticketing Conclusions

10.2.48 The conclusions of the Partnership Plus offer in terms of GMCA's objective to have fares that offer VfM to customers are as follows:

- Pricing would not necessarily offer any greater VfM for customers than is currently available in the market; however, there would be a benefit recognised for the price freeze on multi-operator tickets;
- Compared with franchising across the whole of Greater Manchester, GMCA would have limited scope to determine and carry through fares policies, only being able to partake in the discussions with partners;
- A framework approach to discounts is unlikely to be introduced within a year of a partnership being introduced; and
- The mechanics of the extension of the Our Pass proposal have not yet been confirmed; however, it is likely this would only benefit a relatively small number of people. Our Pass is also currently only being run on a trial basis.

7. Account-based smart ticketing introduced as soon as possible
Objective
Quick introduction of account-based smart ticketing, enabling a 'fair price promise' for different modes. • Whole bus network capped products for day and week tickets available as soon as possible, offering the lowest possible fare. • A multi-modal capped product introduced as soon as possible.

10.2.49 Relevant proposals taken from the Partnership Plus offer included:

- The partners commit to a TfGM or TfN-led 'fair price promise' scheme across all operators in Greater Manchester; and
- Operators are committed to working with local authorities to deliver contactless payment technology across all buses in the region, with daily and weekly capping, similar to London.

10.2.50 New Proposals: These commitments were considered within the Assessment under both partnership options. However, since the Assessment was developed, TfN announced in early 2020 that they would no longer be progressing an account-based back-office solution for bus services in the North of England. This was partly due to the fact that operators have been developing their own account-based solutions, and the UK bus industry have committed to introducing contactless, multi-operator, price-capped, daily and weekly tickets by 2022 in urban areas. At that time, the general consensus from operators, therefore, was that they believe they could work together to deliver a 'fair price promise' and overcome the technical barriers.

10.2.51 Given the wider commitment from the UK bus industry, these proposals would generally be delivered even if a VPA was not entered into. It is not clear whether those operators that do not currently deliver a 'fair price promise' in the way that others in the industry do would sign up to doing so under the VPA. If it was the case that they would be willing to sign up to the commitment under the VPA, this would represent a benefit under the partnership option compared with a Do Minimum scenario, such that there would be additional operators signing up to deliver a 'fair price promise'.

Fares and Ticketing Conclusions

10.2.52 The conclusions of the Partnership Plus offer in terms of GMCA's objective to have account-based smart ticketing are as follows:

- It is likely that account-based smart ticketing, enabling a 'fair price promise; would be delivered even if a VPA was not entered into, given the wider commitment from the UK bus industry; and
- There may be an additional benefit realised if there are operators who would not deliver a 'fair price promise under the Do Minimum option but would be willing to sign up to this commitment under the VPA.

Customer

8. Ease of understanding of the bus service is improved
Objective
The ease of understanding of the bus service is improved for users, and there is a high quality of information available (at stops and stations; on buses; and on the web). Branding is clear and enhances improved perception of the service. • Comprehensive information is put forward covering the whole of the public transport network, whether provided by GMCA or third party. • Accurate information is provided - information that is up to date, consistent, correct and where relevant, in real time. • Information presented in an easy to understand way on a number of channels. • All buses fitted with audio and visual communication systems to convey information to customers during journeys about stops and routes. • Branding and marketing - a unified brand is there for the bus network to ensure that the public transport network is simple to understand and easily recognisable, giving customers confidence in using the network. • Customer contact - a single point of contact for customers to make enquires. Each of these should be achieved within one year of any intervention.

10.2.53 Relevant proposals taken from the Partnership Plus offer included:

- Recruit additional customer service and revenue protection staff (to reduce fair evasions);
- A single point of contact for customers to resolve issues with the addition of operators retaining the direct link to maximise customer accountability with them;
- Consistent and comprehensive information provision, with an additional resource to monitor and manage performance; and
- Comprehensive unified livery with customer-focused route or corridor branding to identify where the bus is going.

10.2.54 New Proposals: Of the above proposals, the new proposals that were not considered under the partnership options in the Assessment are the additional customer service and revenue protection staff (which are discussed further below), and the customer-focused route or corridor branding. The proposal to have comprehensive unified livery is offering no more than what was previously considered in the Assessment.

10.2.55 Under Partnership Plus, operators proposed to introduce specific route or corridor branding. It is proposed that this would be *"in the form of an agreed high quality design."* Operators clarified that it is likely that only routes with substantial PVR levels would be considered. However, there would be no minimum level imposed. Operators confirmed that it would be the decision of each operator to determine which services they would want the route or corridor branding to apply to in order to promote them in this way. However, they would follow the brand guidelines and would need to ensure that allocation of route or corridor branding to services was managed. At this stage, it is not clear how many routes in Greater Manchester this would apply to, or exactly what this route or corridor branding would look like other than the intention that it should be a consistent design across Greater Manchester.

10.2.56 There would be constraints as to how far this approach can go toward providing a unified brand for the network, given that the buses (and other marketing material) would still need to make it clear to customers who is accountable for a given service. Thus there could be buses that have up to three brands visible, i.e. the partnership branding (included as a commitment under the Operator Proposed Partnership in the Assessment and referred to as "*comprehensive unified livery*" in the proposals above), the operator's own branding (if only to identify its buses on which its tickets may be used), and the specific route or corridor branding. This may cause confusion to the customer, although its extent would depend on exactly what the route or corridor branding looks like and how it was implemented on the buses. It may be that this benefits the routes on which it is implemented (although the number of these is not known). If many operators choose to implement it, there could be numerous different types of route or corridor branding, with a need to differentiate between the different routes or corridors, although as noted above, the operators would be required to follow the brand guidelines.

10.2.57 Operators provided an example of where such arrangements are in place elsewhere, although, in the example provided, there was a mutual acceptance of ticketing, therefore offering a greater level of benefit as passengers are able to use their ticket across more than one operator.

10.2.58 The objective of a unified livery could be partly achieved for individual routes or corridors; however, unification across the network is not possible under a partnership arrangement since some level of operator branding is required in order to allow passengers to identify which buses their ticket is valid on. The extent to which a unified brand would be achieved is, therefore, less than that which could be achieved under franchising. The objective of having a unified brand for the network is to enhance an improved perception of the service as a whole across Greater Manchester, giving confidence in using the network. This proposal would enable customers to better understand, or recognise, where a particular bus may be going but arguably would undermine the comprehensive, unified livery proposed with certain services having up to three brands visible, as noted above. It would not therefore, lead to a unified brand across the whole of Greater Manchester.

Customer Conclusions

10.2.59 The conclusions of the Partnership Plus offer in terms of GMCA's objective to improve the ease of understanding of the bus service are as follows:

- Branding under a partnership is more complex than under the Proposed Franchising Scheme;
- Route or corridor branding would enable a customer to more easily recognise where a bus may be going but does not result in a comprehensive, unified brand across the whole of Greater Manchester;
- There was no consistency in the approach put forward by OneBus and its members to deliver this given that it would be up to each operator to decide which services they would want to apply route or corridor branding to in order to promote the service; and
- The limitations under a partnership mean that it would not be able to show a unified offer to customers or to have the value of a unified brand across Greater Manchester.

9. Safety of travel is improved
Objective
Safety is improved and incidents of crime or anti-social behaviour on buses are reduced. There is a perception of improved safety on the bus network, encouraging bus use within three years of intervention, and continued improvement after that. • There is active management to improve safety in partnership with the police, and to reassure passengers and potential passengers that the bus is a safe form of transport to use. • All buses installed with CCTV within one year of intervention. • Off-bus safety – there are well-lit and maintained, easily navigable interchanges with appropriate staffing.

10.2.60 Relevant proposals taken from the Partnership Plus offer included:

- Additional customer service and revenue protection staff.

10.2.61 New Proposals: The operators agreed to provide 14 additional customer-focused staff at their own expense. The roles of the 14 additional staff would be split between customer service and revenue protection responsibilities. The operators have shared a suggested job description for these staff. This includes representing the company at any major incident or other event that occurs within their sphere of responsibility and liaising with staff of TfGM, other operators and third parties, including the emergency services, as required to resolve problems and ensure normal service operation would be resumed as rapidly as possible.

10.2.62 Their role would also include undertaking all aspects of revenue protection duties in a tactful, courteous, discreet and firm manner with due regard to the company's public image and the sensitivity of certain situations, and to assess and evaluate potential fraud or fare evasion and to undertake appropriate preventative and remedial action. This would contribute to reassuring passengers that the bus is a safe form of transport and increase the level of safety on the network, therefore adding value. However, it is also worth noting that given the scale of the Greater Manchester network and the reality of them working over a system that operates seven days a week, the number of additional staff deployed at any one time is modest. If the operators feel that the 14 additional staff would add value to the network, they could be provided regardless of whether a VPA is entered into.

Customer Conclusions

10.2.63 The conclusions of the Partnership Plus offer in terms of GMCA's objective to improve the safety of travel on buses are as follows:

- The proposal to provide 14 additional customer-focused staff would not make a significant change in itself to the safety of passengers across the entire network.

10. Improvement in on-bus experience
Objective
Consistent high standards are achieved for the cleanliness of buses and for driver behaviour, and the quality of vehicles improves. • Cleanliness - commitment to a high standard of cleanliness across all services. All buses to receive external clean daily; light interior clean pre-service; interior deep clean once a month within one year of intervention. • Bus drivers - continuous improvement in driver behaviour to improve customer experience. Appropriate professional standards and training of drivers. All drivers to have undertaken appropriate customer service training within the last year within three years of intervention. All buses fitted with Eco drive systems within three years of intervention • Quality of assets - improved vehicle quality and connectivity for passengers.

10.2.64 Relevant proposal taken from the Partnership Plus offer included:

- Improvements in driver training around customer care to encourage more people out of their cars and onto public transport and the aims of the partnership;
- In-service cleaning which would involve the removal of rubbish and general sweep of the bus; and
- Accelerated rollout of Wi-Fi and other equipment on board (better equipped buses).

10.2.65 New Proposals: The operators committed to provide in-service cleaning. The proposal to provide driver training is not new but has altered since the Assessment, and there is no change to the commitment in relation to Wi-Fi. Both the Operator Proposed Partnership and the Ambitious Partnership option considered in the Assessment recognised benefits associated with improvements to driver training and accelerated rollout of Wi-Fi. The operators were not specific about what other onboard equipment there would be but have confirmed that, within the first year of the partnership, the internal fittings that would be deemed as standard across all buses would be agreed upon. The commitment to provide driver training results in a reduction compared with the time assumed would be spent on driver training under both partnership options considered in the Assessment. Although the commitment to a cleaning regime was considered, the commitment to provide in-service cleaning was not specifically considered within the partnership options in the Assessment. These new commitments are considered in further detail below.

10.2.66 Under the Operator Proposed Partnership, operators indicated that they would commit to a cleaning regime for buses and standards of cleanliness as part of a partnership. Through continued discussions with the operators, in-service cleaning has also been discussed. This would entail a cleaning resource being available at bus interchanges that would involve the removal of rubbish from buses and a general sweep of the bus. It was agreed that a trial of one month at the start of a partnership would be carried out to confirm the cleaning times, locations and working practices.

10.2.67 Under the Operator Proposed Partnership, operators would commit to accredited driver training. Through continued discussions with the operators since the Assessment, they have confirmed that the driver training would form part of the annual Certificate of Professional Competence (CPC) driver training requirements (currently 35 hours over a five-year period, therefore a minimum of seven hours per annum on average). All drivers recruited in Greater Manchester would receive new driver training and an induction provided by the operators. This would include customer service training and an update on what the Greater Manchester partnership is. It would form part of the operator's current driver training induction. This would contribute towards meeting the objective that all drivers have had appropriate customer service training within three years. However, this is a reduction (both in terms of costs and benefits) in time spent on driver training included within the Assessment for the partnership options, which was that an additional one day, per driver, per annum would be spent on driver training, whereas under Partnership Plus it would form part of the current training provision.

Customer Conclusions

10.2.68 The conclusions of the Partnership Plus offer in terms of GMCA's objective to improve the on-bus experience are as follows:

- Cleaning commitments may contribute overall to an improvement in on-bus experience; however, this would not be determined until the trial has been carried out. Providing an in-service minimal clean is unlikely to have a significant impact on the customer experience, given daily cleaning regimes already exist; and
- Driver training is likely to lead to benefits being provided in terms of improving the customer experience. However, the proposal is a reduction in the driver training assumed in the Assessment. Overall, therefore, this would reduce the costs and benefits associated with the partnership option.

Value for Money

11. Value for money for public investment
Objective
The best value for money for public investment into the bus market, specifically the options being considered as part of the Assessment to reform the bus market. The best value for money for any other specific intervention in the bus market. Both of these will be measured by (i) the social value of any public investment, taking into account all of the costs of the intervention, measured by a Net Present Value calculation (the benefits minus all of the costs), and (ii) the benefits of the investment with regard to the constrained budget of public sector investment (money available to the Mayor and GMCA), measured by a Benefit Cost Ratio of the benefits divided by the costs to that constrained budget.

10.2.69 Relevant proposals taken from the Partnership Plus offer included:

- In order to tackle congestion, operators would like to pool resources with TfGM to agree on interventions on congestion hotspots jointly to increase bus speeds and reduce variability;
- Operators would continue to take the revenue risk and decline the option of accepting a guaranteed publicly funded profit margin under the Proposed Franchising Scheme; and
- Profit share scheme where partnership interventions grow profit would be put back into the services rather than being passed to shareholders.

10.2.70 New Proposals: Under the partnership options considered in the Assessment, it was considered that some savings could be reinvested through an operator-based fund for innovative schemes; however, it was not clear how the amount of savings would be ascertained and verified. Operators continuing to take the revenue risk does not differ from the assumptions in the Assessment for the partnership options and is considered further below.

10.2.71 Tackling congestion: The proposal to work with TfGM to prioritise investment in highway infrastructure by identifying congestion hotspots to reduce the impact of congestion was not a new commitment – as this was included in the Assessment under the partnership options. However, comments made during the first consultation about congestion measures under a partnership have been considered, and the discussions with operators post Assessment completion have been taken into account. There is insufficient reason as a result of this to change the appraisal of the implications and benefits of this proposal. However, it is worth noting, in the context of VfM of public investment, that this proposal would be conditional on funding being obtained for the measures to tackle congestion. It is likely that implementing such measures would result in a passenger benefit if they were to reduce congestion and journey times, but, at this stage, it is not possible to determine the types of changes that might take place should the funding become available. For these reasons, no benefits in relation to highway infrastructure were modelled in the Assessment under either the Operator Proposed Partnership or the Ambitious Partnership.

10.2.72 Value for money across the Greater Manchester network: As noted in the Assessment, under a partnership the fundamental structure of the bus market in Greater Manchester would not change. The GMCA would spend money on supporting and monitoring the partnership. Improvement in VfM associated with the Partnership Plus proposals compared with the existing options contained in the Assessment has been reviewed further in the Economic Implications section below.

10.2.73 Partnership fund/ Profit share scheme: Operators indicated that profit share schemes would be set up to allocate a share of benefits derived from increased profits as a result of specific interventions into the bus network (e.g. infrastructure) back into improving services further. The identified gain would be shared on a 50:50 basis between the bus operator that realised the gain and the partnership fund. Of the 50% allocated to the partnership fund (which would be held and managed by OneBus), 50% of this would be available to fund schemes involving other operators and/or districts, and 50% retained for bus-based projects involving the operator that realised the gain. Therefore, the operator that realised the gain would essentially end up with 75% of the benefits derived from its use under the scheme (or potentially a share of this if it involved more than one operator). The proposal does not contain details around restrictions of its use by operators who realised the gain, for example, whether it would be required not to be distributed as profit to shareholders.

10.2.74 All operators would face pressure to improve margin earnt, and for any operator currently operating at a low margin this pressure would be greater, which in turn may lead to a reluctance to share any gain amongst the partnership. Despite this, the operators agreed that there should be no lower level of operator margin before the benefits are shared under this proposal. It is not clear, however, how the amount of any gain would be ascertained or verified and how the governance of the partnership fund would work. For these reasons, along with the fact that the VPA would initially be for a term of five years, there is significant uncertainty about the likelihood that any significant profits would be reinvested into the partnership and how any that are will be used. Therefore, there remains a need to ensure transparency and clarity over how the gain would be identified, measured and used. It is also of uncertain value, given it would be contingent on highway investments that would be dependent on GMCA's funding contributions. This proposal is considered further in the sections below.

10.2.75 It is worth noting that under franchising, any increase in revenue resulting from public investment in infrastructure would go to GMCA. This would not be the case under Partnership Plus. The extent to which gains identified would be used for bus-related projects under Partnership Plus may differ from how GMCA would otherwise choose to use the additional revenues to maximise the benefits for Greater Manchester as a whole. Similarly, the extent to which revenues may be distributed to shareholders would differ under each option. For example, an operator might choose to distribute gains to shareholders, whereas under the Proposed Franchising Scheme it is proposed that the gains are instead used to further improve services.

Conclusions

10.2.76 The conclusions of the Partnership Plus offer in terms of GMCA's objective to improve the VfM for public investment are as follows:

- Implementing measures to tackle congestion would provide a level of benefit if they were to result in reduced congestion and journey times. No change to conclusions drawn in the Assessment in relation to this proposal is warranted;
- The partnership profit share scheme/fund proposal would present VfM should gains be reliably identified, measured, realised and used; and
- Value for money would be reduced compared with franchising because of the reduced scope for action to make a change to network, fares and other factors. Under franchising, the long-term value of the use of public investment would be greater as an increase in revenues as a result of investment would go to GMCA.

12. Any market intervention is sustainable in the long-term
Objective
Any intervention in the market should be feasible in its commercial and management arrangements. Any intervention in the market is long lasting, given the need to create a sustainable improvement in the Greater Manchester bus market. It should be still in place in 2040 at the least.

10.2.77 Longevity of a partnership: Partnership Plus would be mostly feasible in its commercial and management arrangements but would not necessarily be long-lasting. There is nothing further in the Partnership Plus proposal about longevity. As noted above, the initial term of the VPA would be for a five-year period, after which there would then be the option to either renegotiate the terms, agree on a new partnership or return to the previous wholly unregulated market. There is little assurance, therefore, that any benefits would continue to be enduring and realised in the long term. There is no guarantee that the partnership would still be in place in 2040.

Conclusions

10.2.78 The conclusions of the Partnership Plus offer in terms of GMCA's objective to ensure any market intervention is sustainable in the long-term are as follows:

- As with the partnership options tested in the Assessment, the longevity of the partnership is not certain and may well not be in place in future years.

13. Any market intervention is affordable
Objective
Any intervention in the bus market is affordable for GMCA over the long-term. Affordability in each year following intervention.

10.2.79 Partnership Plus has not added any further information regarding this objective.

Conclusions

10.2.80 The conclusions of the Partnership Plus offer in terms of GMCA's objective to ensure any market intervention is affordable are as follows:

- The costs to GMCA of Partnership Plus would remain affordable to GMCA, given the onus would continue to be on the operators to implement network interventions.

10.3 Economic Implications

Introduction

10.3.1 A number of comments were raised by consultees during the first consultation in relation to the benefits associated with the partnership options considered in the Assessment, the value of branding under each option and the VfM of the partnership options. These have been considered in further detail in the Economic Case Response Themes section of this report.

10.3.2 This section considers the implications of the Partnership Plus proposal on the recommendations contained in the Economic Case of the Assessment. The Partnership Plus proposal was received by OneBus as part of their first consultation response. It is worth noting that the detail contained in the proposal is insufficient to undertake a comprehensive economic and financial appraisal of the type undertaken for the options contained in the Assessment. It is, however, sufficiently detailed to understand the likely performance of the option when compared with the three reform options described in the Assessment. The aim of this section, therefore, is not to create a new Economic Case. It is to assess the incremental performance of the option over those previously assessed and to determine whether the Partnership Plus proposal would deliver a significantly greater level of benefit than the Ambitious Partnership option and change the conclusion of the Economic Case in the Assessment.

10.3.3 GMCA remain of the view that implementing a partnership would lead to additional costs and that the costs set out in the Assessment are reasonable for the partnership options considered in the Assessment. The Financial Implications section below contains a discussion of the cost implications to GMCA of the Partnership Plus proposal.

10.3.4 The commentary below is divided into sections in line with GMCA's objectives (including the Vision for Bus) as set out in the Strategic Case – which includes simplified and integrated fares (including interoperability and VfM), customer experience and network (including fleet investment and congestion and service punctuality).

Simplified and integrated fares

10.3.5 Under the franchise option, it would be possible to unify tickets across Greater Manchester, and it is proposed that there would no longer be a premium for 'all operator' ticketing products. Nonetheless, no benefit was modelled for simplicity. For the partnership options in the Assessment, no benefit was assumed for simplicity. Individual operators would continue to be responsible for setting their individual fare scales, and there is no expectation that a single unified fares system could be introduced across Greater Manchester under any partnership option. The current System One premium for 'all operator' integrated ticketing products would also continue to exist, although the level of premium may be reduced by the commitment to freeze prices for two years.

10.3.6 Under the Partnership Plus proposal, there is no change in terms of the commitment offered in relation to simplification of fares or removal of 'operator own' ticketing products that are sold at a lower price than System One 'all operator' ticketing products. Partnership Plus, therefore, has not added anything that would change the conclusion in the Assessment.

10.3.7 The Partnership Plus proposal does not go any further in terms of transparency of fares and, therefore, the Assessment remains unchanged in relation to this.

Affordability and Value for Money Considerations for Passengers

10.3.8 The Assessment included a benefit under the Operator Proposed Partnership (as well as the Ambitious Partnership) in relation to the operator commitment that System OneBus only fares would be subject to a two-year price freeze, following a review of all ticket products and prices, subject to GMTL agreement. Under the Partnership Plus Proposal, the same commitment is referred to but with the addition that the price would be agreed for multi-operator tickets at a set amount per week from January 2021 (this date was proposed by OneBus when responding to the first consultation to show how the price for multi-operator tickets could be agreed by operators at that point in the future). This reinforces the benefits that were associated with this commitment in the Assessment. However, this equates to approximately half of the benefit realised under franchising (i.e. that System One tickets would be reduced to operator-own levels).

10.3.9 Under the Operator Proposed Partnership in the Assessment, the partners commit to a TfGM or TfN-led 'fair price promise' scheme across all operators in Greater Manchester. The Partnership Plus offer reiterates this by referring to the commitment that operators would work with TfGM to deliver contactless payment technology across all buses in the region, with daily and weekly capping. This has been discussed further in the Strategic Implications section above.

10.3.10 In relation to Our Pass, at the time the Assessment was written, this had not yet been implemented, but the intention was for it to be introduced on a trial basis for a two-year period beginning in September 2019, offering free bus travel at any time of day to 16–18-year-olds during the academic years of their 17th and 18th birthdays. No benefit was modelled for this in the Assessment due to the fact that it is currently being piloted as a two-year trial.

10.3.11 Partnership Plus included a new commitment in relation to Our Pass, such that young people who no longer benefit from Our Pass can sign up to half-fare discounts for up to 6 months, as discussed in the strategic implications section above (Section 10.2.42). This offers a further benefit in comparison to the Reference Case. However, there are already a number of discounted products available to young people such as the operator own student tickets (e.g. the Stagecoach unirider tickets available to students aged 16 and over) and the System One tickets available to 16–21-year-olds; there is also the 'get me there 7-Day Any Bus Young Person' ticket available for £14.00, which offers approximately a 28% discount on the 'get me there 7-day Any Bus Adult' ticket. Therefore, the additional benefit from this commitment and the number of people that would benefit from it, whilst welcome, is likely to be fairly modest. Further consideration has been given in the section below to the extent to which this provides a benefit.

10.3.12 Within the new Partnership Plus offer, there is a commitment to achieve better value for passengers and to help with that, as noted in the strategic implications section above, operators committed to providing 14 additional customer service and revenue protection staff. There was no commitment from operators to provide additional staff within the network at the time the Assessment was written, and hence no benefit was included for this within the Assessment.

Benefit Implications

10.3.13 In the Assessment, no benefit associated with the adoption of smart integrated ticketing in the form of a 'fair price promise' which was included for any reform option. The benefits accruing to this were considered to be similar under any type of market reform and not to impact directly on the relative performance of any of the reform options. Under Partnership Plus, there is no reason to change these conclusions reached in the Assessment. Such a system would arguably be easier to implement, however, under franchising.

10.3.14 As noted above, within the Assessment, no benefit was attributed to commitments in relation to Our Pass under any model, although the proposal could be implemented under any reform option, or indeed under the deregulated market structure. To estimate approximately the impact that the additional six-month transitional discount might generate, consideration was given to the original Our Pass business case. The Our Pass business case estimated that there had been 8.3 million trips per annum made by the Our Pass cohort prior to its introduction and that this would increase to 23.7 million trips per annum with the introduction of the Our Pass scheme, generating £19.6 million per annum in benefits (largely user fare benefits). Assuming an equal spread across the two-year cohort, an additional six months could be assumed to benefit 2.1 million (one-quarter of 8.3 million) existing trips. The generation would be expected to be less since (a) the fare reduction is 50% rather than no cost; (b) many 18-19 year olds who would be eligible for the six-month extension may also be entitled to reduced fares regardless of this scheme, e.g. student fares or young person System One fares as noted above; (c) a number of young people would be likely to move out of Greater Manchester as they go on to university, further studies or seeking job opportunities; and (d) the number of trips made by the Our Pass cohort to date has been considerably less than expected, with the majority of journeys being made in the week when the 16-18 year olds are travelling to and from college. It is therefore reasonable to assume that the benefit would be less than one-eighth of that calculated for Our Pass (one quarter of passengers and less than half of the fare benefit), which would be less than £2.5 million per annum.

10.3.15 The additional revenue protection and customer service staff being offered by the operators is one of the soft factor interventions that is included in franchising but not partnerships in the Assessment, along with branding. Including this commitment within the benefits associated with the Operator Proposed Partnership option would marginally increase the partnership benefits. Under franchising, a willingness to pay (WTP) value was applied to recognise the benefit of 30 inspectors by year-three of franchising, which is then reduced to 13 by year seven and then remains constant thereafter. Applying 14 inspectors would, therefore, yield slightly less benefit than the franchising assumptions. In the franchising case, additional ticket inspectors adds approximately £10 million to £15 million to the PVB in the form of user benefits, plus a small additional benefit from decongestion and additional revenue (from additional trips, not through reduced fraud).

Interoperability

10.3.16 In the Assessment, under the Operator Proposed Partnership, it was concluded by operators that, although interoperability could be undertaken in principle, there were no corridors in Greater Manchester at present that met the appropriate criteria operators set out. Under the Ambitious Partnership, limited interoperability benefits were applied on two defined corridors.

10.3.17 As noted in the Strategic Implications section above, since the Assessment was completed, operators proposed an additional £1.00 add-on fare which would be aimed at passengers boarding a subsidised service run by a different operator to the daytime commercial service on the same route. This fare would only be available to passengers already holding a daily or weekly ticket issued by the commercial operator and is designed to avoid the need for the passenger to pay an additional full single fare to the operator running the subsidised service. The £1.00 fare would be retained by the operator running the subsidised service.

10.3.18 The customer would not pay an additional add-on fare if it was the same operator running the subsidised service as the commercial service in the day. For example, if a customer had a Stagecoach ticket for a commercial day service, they would be able to use that ticket on the subsidised evening service covering the same route and would not need to pay the additional add-on fare. OneBus proposed that the price of the add-on fare would be reviewed in January 2021 and frozen in line with the freezing of GMTL products. The operators have not proposed any reimbursement mechanism, and the £1.00 would simply be retained by the operator running the subsidised service. Through further discussions with the operators on this proposal, they confirmed that it has not yet been thought through how this mechanism would work with concessionary fares such as a child fare. It is also not clear whether the smaller operators would sign up to this proposal given that they would only receive £1.00 from a passenger in this scenario as opposed to a full single fare and would not receive any revenue from GMTL that they would otherwise receive if passengers bought a GMTL product.

Benefit Implications

10.3.19 In relation to interoperability, the Partnership Plus offer does not go any further than the original commitment under the Operator Proposed Partnership.

10.3.20 In relation to the £1.00 add-on fare, it is reasonable to assume the benefits, whilst welcome, would be fairly minimal. Total patronage on all subsidised services between September 2018 and August 2019 was 19.4 million trips, of which 4.9 million were on school services, and a proportion of the remainder (approx. 25%) were ENCTS passengers who do not require a ticket. Hence the total potential pool of passengers who might benefit would be fewer than 11 million, representing less than 6% of the total annual bus trips in Greater Manchester of circa 190 million. Of these 11 million, many would not benefit due to:

- Many passengers using services that are run by the same operator day and night;
- Some passengers would be taking trips only on the subsidised services and, therefore, the add-on fare would not be relevant for them;
- Some passengers would have purchased a multi-operator ticket which would allow them to travel without the need to purchase an additional ticket; and
- Some passengers would only be travelling in the evening or only travelling in the day.

10.3.21 In addition to the above, some further examples highlight different ticketing arrangements that would result in either little or no benefit of providing the add-on fare. Currently, a Stagecoach dayrider adult ticket is £5.00. If passengers travel in the evening on a subsidised service run by a different operator, they could purchase an add-on fare for £1.00, and their daily travel would cost them £6.00. This is the price of a System One get me there 1-day Any Bus Adult ticket. It would, therefore, offer no saving. It may offer a level of pecuniary benefit if they found themselves having to use a subsidised service in the evening when they did not anticipate having to do so as they would only have to buy the add-on.

10.3.22 In terms of daily and weekly tickets, the £1.00 add-on fare may offer a minor reduction in fares for some passengers who currently buy an additional single ticket, either because that is cheaper than System One or because they did not know it was a different operator or they were later than expected travelling. However, if this happened more than a couple of times a week, it would become cheaper to buy a System One weekly ticket.

10.3.23 There may be a small number of passengers who would benefit from a reduction in fares in cases where they are travelling on a discount corridor and purchase a specific day ticket, for example, for a passenger purchasing a £4.00 Middleton day rider ticket, and then buying a £1.00 add-on fare. This would be a total cost of £5.00 and would, therefore, be cheaper than the System One day ticket. However, for this to be the case, there would presumably be no commercial service running in the evening in order for the passenger to purchase the add-on fare, which is unlikely given the discount corridors tend to be the busier corridors where evening services are run commercially.

10.3.24 As pointed out in the section above, this proposal would require further detailed work with operators to confirm that it would work in practice and deliver the benefits proposed, and it may add complexity to the customer proposition. For the reasons given above, it is reasonable to assume that any benefit in relation to the add-on fare for subsidised services would apply to only a very small number of trips. But this does, however, provide some benefit relative to the current partnership case in the Assessment. Moreover, it would provide some level of benefit in terms of the convenience aspect, such that customers are able to change their travel plans without a significant penalty.

Customer Experience

Bus service should be easy to understand

10.3.25 In relation to customer experience and the objective that the bus service is easy to understand, no benefits were modelled in the Assessment for the commitments offered under the Operator Proposed Partnership.

10.3.26 Under Partnership Plus, there was no change in relation to the partnership point of contact. A partnership point of contact would help, but ultimately it is the individual operators who would be responsible for the customer service, so passengers would need to be 'passed on' from the initial point of contact. Therefore, it is likely any benefits would be offset by some disbenefits of making the bus system more complex. The point of contact is only a subset of achieving the unification of Greater Manchester buses and achieving the objective noted above, that the ease of understanding of the bus service is improved.

10.3.27 Under Partnership Plus, the operators have proposed that there would be comprehensive unified livery with customer-focused route or corridor branding, along with operator own branding remaining. As noted above in the Strategic Implications section, the route or corridor branding may provide some level of benefit to the passengers which use the services to which it would be applied, such that they would be better able to recognise where a particular bus may be going. However, these proposals would not allow the simplification or the ease of use objectives to be achieved to the extent that there is a unified brand for the network that enhances improved perception of the service giving confidence in the network, nor help with the trust and accountability component of value.

10.3.28 Further, the creation of a single livery in Greater Manchester without the true unification and simplification of the system may create unintended consequences whereby passengers are confused about who is running the service, and who is responsible and accountable for the inevitable problems that will arise with any service from time to time. The overall value would be at a low intermediate level when compared with the benefits attributed to unification of the system under a single brand under the franchise option, but slightly more than that attributed to the partnership options assumed in the Assessment.

10.3.29 In relation to having a collective marketing budget under a partnership, during discussions with the operators after completion of the Assessment, operators suggested that 1.5% of operator bus-only GMTL turnover be pooled, promoting 'all operator' (bus-only) products. The purpose of this marketing budget is to improve the perception of bus travel and to promote bus as a mode of travel. Operators suggested that there would be a joint customer and GMTL marketing group set up within the partnership as a working group, to ensure that the partnership and GMTL were aligned in respect of marketing campaigns. The marketing budget for GMTL products at present is c. £385k and 0.86% of turnover. As noted in the Strategic Implications section above the increase to 1.5% of operator bus-only GMTL turnover (from the previous commitment to increase the marketing budget to 1%) would therefore result in an additional increase of c. £224k and a total budget of c. £672k.

10.3.30 Some of this marketing budget would be used to promote multi-operator tickets. The additional marketing activity may lead to an increase in fare-paying patronage, which would provide a benefit. If people are unaware of System One, the additional marketing may lead to customers not having to otherwise buy two separate tickets, and therefore creates a benefit.

Benefit Implications

10.3.31 In relation to branding, also noted in the Strategic Implications section of this report, the overall value would be significantly below the franchise option. The unification of the system under a single brand is a significant advantage of franchising. Some separate operator-own branding would need to be retained for competition reasons under a partnership and because operator-own tickets are to be retained. Given that there would still be at least two brands present on the buses, i.e. the operator-own branding and the partnership branding, and in some cases three where the route branding is introduced, this could lead to further confusion amongst customers.

10.3.32 What was being offered under Partnership Plus is adding a level of complexity to the user experience of the bus system and would not create any change in the fragmented approach to decision making that creates complexity in the areas of fares, ticketing and customer service. It is unclear where the route or corridor branding would be applied, as it would be up to each operator to determine which service they would want to promote in this way. The extent to which the route or corridor branding would be provided and the benefits it would yield appear limited, and it is noted that route or corridor branding is something that could be introduced under all bus market options, including the existing deregulated market structure.

10.3.33 The increase in marketing spend noted above would provide additional benefit in relation to the Operator Proposed Partnership option considered in the Assessment. However, whilst it is not known precisely how many customers this would impact, the value might be expected to be at least equal to the spend, as has been assumed elsewhere within the Economic Case for similar interventions in the areas of contract management and customer service.

Improvement in on-bus experience

10.3.34 Under both the Operator Proposed Partnership and the Ambitious Partnership option in the Assessment, benefits were modelled for improvements to driver standards. These benefits were based on costs that assumed one day of additional training per driver, per annum. This investment would be in addition to existing training undertaken within the industry.

10.3.35 Under the Partnership Plus offer and through discussions with operators after completion of the Assessment, OneBus confirmed that the driver training would form part of the annual CPC driver training requirements (currently 35 hours over a five-year period and therefore a minimum of seven hours per annum on average). Therefore, this is a reduction compared with what was previously considered in the Assessment for partnerships, i.e. the latest proposal results in on average one day training per year as opposed to two days per year which was assumed in the Assessment. Although the majority of the driver training would be wrapped up within the annual CPC driver training, there would still remain some costs to GMCA for driver training. These are discussed further in the Financial Implications and Management Implications sections below.

10.3.36 During discussions with the operators after completion of the Assessment, as noted in the Strategic Implications section above, there was a commitment to provide in-service cleaning. It has been agreed that TfGM would pay for and provide the facilities at bus interchanges for the removal of rubbish and would provide the cleaning staff. Operators would pay TfGM for the hours of the cleaning staff. The extent to which this would address a customer priority, and the resource required to change the perception of cleanliness on the network is not known. As noted at section 10.2.66 above, a trial of one month at the start of the partnership is proposed. Until the trial has been completed, the resources required, the potential scale of benefits and the deployment of resource in terms of a schedule of cleaning times, locations and working practices are not known. This intervention would provide benefits in addition to any of the options included in the Assessment but, because of the unknowns listed above, such as the resource levels to be deployed, it is difficult to be certain the impact this initiative may have.

Benefit Implications

10.3.37 Benefits were attributed to driver standards in the Assessment under both partnership options. The benefit in the Assessment is based on the additional training resource allocated to improving the customer service offered by drivers. As the Partnership Plus proposal appeared to eliminate that additional resource, it is clear that the benefits attributable to this intervention would no longer be applicable. Service quality improvements contributed £68 million to the PVB in generalised cost savings in both partnership options in the Assessment. Driver training represents 90%–95% of this, so driver training in total is worth approximately £61 million to £65 million of user benefit, plus a small additional non-user benefit from decongestion and extra revenue. This benefit would be foregone, but the majority of the cost would also be avoided. This is discussed further at section 10.5.16 of the Financial Implications section below.

10.3.38 No additional benefit has been modelled in relation to in-service cleaning, for the reasons noted above. There are no changes to the benefits associated with Wi-Fi in the Assessment and no additional benefits considered for the internal fittings that would become standard across all buses, mentioned in the Strategic Implications section above, given that these are currently undefined.

Safety of travel is improved

10.3.39 There have been no further commitments under Partnership Plus directly in relation to safety. However, the additional customer service and revenue protection staff may contribute to the perception of safety on the bus.

Network

Integration and efficiency

10.3.40 The Assessment recognised the work performed by the network working group, which progressed following completion of the Assessment to refine the process for performing network reviews under a partnership. No benefit was modelled under the Operator Proposed Partnership option for the network. Ultimately, under the Ambitious Partnership and under franchising, there is scope to go further than operators have currently indicated in relation to network changes.

10.3.41 The Partnership Plus offer included a new commitment that has not previously been discussed with TfGM, which is to perform a review of bus stops to ensure these are as close as possible to Metrolink and heavy rail stations to improve interchange and connectivity, as discussed in the Strategic Implications section above.

Benefit Implications

10.3.42 In relation to the review of bus stops, this is a commitment to perform a review (which would be predominantly led by the network working group), and the process for reviewing them has not yet been determined. The impact and changes that this would result in are not known at this stage, but these interventions do not require reform to implement and can be done under any option of reform or under the existing deregulated market structure. Therefore, no additional benefit is assumed.

Fleet Investment

10.3.43 In relation to the commitment to provide 450 new buses over the first three years of the partnership, there is no change in the offer being put forward; therefore, the assumption of applying no benefit to this remains.

10.3.44 As noted in the Strategic Implications section above, within the Partnership Plus proposal, the bus operators agreed to provide 30 extra buses.

Benefit Implications

10.3.45 Assuming the operators provide an additional 30 buses at the beginning of the partnership, this represents a 1.5% increase on the base year fleet size of 2002 buses assumed in the model base year in the Assessment. Also, assuming (a) that the additional 30 buses operate an average number of miles per annum which is in line with current fleet average; (b) that no other buses are removed from operation or their mileage reduced in lieu of these additional buses; and (c) that the elasticity of bus patronage to increasing vehicle kilometres/miles is between 0.6 and 0.7, then this increase in buses implies a welcome uplift in patronage of around 1% (0.9% to 1.05%) using a simple elasticity calculation.

10.3.46 The concern with this intervention is one of benefits realisation and the difficulty of identifying the additional resource introduced over time given the market dynamics forecast. Over the course of the partnership, this would be likely to remain an unverifiable commitment.

10.3.47 As noted in the Strategic Implications section above, the redeployment of buses under the franchise option is not restricted in the same way that they would be under a partnership (given the limitations of a commercial network run by individual operators and rules around competition), which allows the process to be more efficient and customer-focused. This is explained in more detail in the Network Supporting Paper.

Congestion and Service Punctuality

10.3.48 Partnership Plus refers to the need to tackle congestion by pooling resources with TfGM to identify congestion hotspots and jointly agree on interventions to increase bus speeds and reduce variability. The proposal to improve congestion is not a new proposal and was considered in the Assessment under the Operator Proposed Partnership option. During the preparation of the Assessment, operators and TfGM worked together during their discussions on the partnership option to pool resources and develop an approach to review congestion issues and identify potential mitigations and improvements. This could now be used as an approach and performed as part of business as usual without the need for a VPA.

10.3.49 As noted in the Strategic Implications section above, the implementation of interventions identified, such as bus priority measures, is conditional on funds being available from GMCA or elsewhere to make the interventions. Although the proposed liquidated damages (if enforceable) could create some additional funds which could be used to fund congestion measures, the scale and likelihood of this funding becoming available is not known. If funds did arise from liquidated damages, some of the benefits associated with the additional funding would be offset by disbenefits associated with operators' non-compliance with their commitments, hence giving rise to the liquidated damages.

10.3.50 There are plans contained within the TfGM Delivery Plan to tackle congestion, and it is expected that TfGM and GMCA more generally will work closely with the bus industry over the coming years on this important issue, regardless of the outcome of bus reform. Although it is right to recognise that these 'Phase 2' measures may give rise to potential benefits, no benefit was modelled under either partnership or franchise options in the Assessment. Partnership Plus does not change the position of the Assessment in relation to benefits associated with these measures. These measures are not yet defined or funded, and although Partnership Plus recognises the agreed approach operators and TfGM have developed to identifying what measures may be put in place, it does not propose guaranteed delivery of such measures as this is conditional on funding being available. 'Phase 2' measures and the associated 'opportunity cost' are discussed further in the Strategic Case Response Themes at section 4.12.

Profit Share Schemes

10.3.51 Partnership Plus included a commitment in relation to *better value for passengers*, which included setting up profit share schemes. As discussed in the Strategic Implications section above, profit share schemes would be set up to allocate a share of benefits, derived from increased profits as a result of specific interventions into the bus network (e.g. infrastructure), back into improving services further. The Commercial and Financial Implication sections below discuss this in further detail. Whilst this may lead to additional benefits, there are a number of uncertainties around how this profit would be identified, measured, realised and used. The amounts arising from the profit share scheme would be dependent on the level of funding available to make the specific interventions in the first instance. The scale of any resulting funding for improvements from the profit share scheme is unknown and could be non-existent if sufficient gains are not made. Further, how potential funds put into the partnership would be spent was not specifically defined, other than they would be put back into making further improvements to bus. Any estimate of benefits is not possible at this stage.

Conclusion

10.3.52 From the evidence above, the Partnership Plus proposal would increase the benefits in some areas compared with the Operator Proposed Partnership and the Ambitious Partnership. In particular, there are additional benefits from the additional revenue protection and customer service staff, the acceptance of an operator ticket on a subsidised service (for a £1.00 surcharge) and from the 30 additional buses which may be used for new services. There is nonetheless a significant offset in the form of the elimination of the resource required to deliver additional customer service benefits through driver training. The net benefits are expected to be small relative to the difference between the current franchising and the assessed partnership options.

10.3.53 For the three proposals listed above that would result in an increase in benefits, the costs associated with these would be covered by the operators. In terms of costs incurred by GMCA, there would be a reduction in driver training costs, offset by a slight increase in costs for providing rubbish bins for in-service cleaning and the system upgrade costs required for the partnership point of contact.

10.3.54 There are a number of other ideas and policies proposed but they are not specific or measurable to the point where a quantified benefit can be attributed to them. Even when making a reasonable allowance for their likely benefit, it is considered that they would not provide the Partnership Plus proposal with a higher NPV or significantly better BCR than the Ambitious Partnership previously considered.

10.3.55 The following interventions which were included in the Ambitious Partnership are not proposed under Partnership Plus:

- Interoperability on certain corridors with multiple operators running services (£5 million of user benefit in the Ambitious Partnership);
- Enhanced driver training relative to the Reference Case (which attracted £61 million to £65 million of user benefits in the Ambitious Partnership); and
- Network changes to the extent that there would be an intermediate level of resource reallocation, which was not to the same extent as franchising, reflecting the constraints of the market structure (£12 million of user benefit in the Ambitious Partnership).

10.3.56 Overall, the Partnership Plus proposal is not anticipated to deliver any greater benefits than the Ambitious Partnership modelled in the Assessment. These Partnership Plus proposals, therefore, do not change the overall conclusion of the Economic Case of the Assessment that supports the franchise option as the market reform best able to achieve long-term value for the use of public money to improve bus services in Greater Manchester, nor do they impact the relative costs and benefits of a partnership and franchising materially.

10.4 Commercial Implications

Introduction

10.4.1 Part 3 of the Commercial Case within the Assessment sets out the Commercial Case for the partnership options and within this it sets out an introduction to the partnership model, a description of the mechanisms and powers relating to the delivery of bus partnerships and a description of the proposed mechanisms to support the partnership proposals considered in the Assessment.

10.4.2 Given that the commercial mechanism for the delivery of the Partnership Plus option has not changed, the analysis in the Commercial Case of the Assessment for the Operator Proposed Partnership remains applicable for Partnership Plus, i.e. it would be delivered through a VPA initially for a term of five years. The Assessment outlined that an EPS would be more beneficial than a VPA in terms of the potential to deliver greater benefits. The operators preferred option was however, a VPA, and that is thought to still be the case

10.4.3 This section will consider the common assumptions of the partnership options considered in the Assessment and compare them with the Partnership Plus option which was put forward by OneBus during the first consultation. This section will also consider the key features of the Partnership Plus proposal with a focus on the commercial implications.

Common Assumptions

10.4.4 The three common assumptions noted in the Assessment were consistent with the Partnership Plus proposal. The common assumptions are as follows:

- The first assumption is that the partnership mechanism would cover the whole of the Greater Manchester area in order to ensure as much consistency across the bus network as possible under the different partnership models and that any partnership benefits apply across the whole of Greater Manchester;
- The second assumption is that any partnership would be entered into by all commercial operators based within Greater Manchester and who operate local services within the area. Cross-boundary services will be subject to the partnership arrangements within Greater Manchester to the extent appropriate; and
- The third assumption is that GMCA would procure tendered services to broadly equivalent service standards as those proposed under any partnership model. Additionally, one of GMCA's roles in the partnership would be to endeavour to ensure the appropriate integration of commercial and tendered services across Greater Manchester.

Key features of the Partnership Plus offer

10.4.5 The current drafting of the VPA addresses all aspects of the Operator Proposed Partnership (excluding Partnership Plus). The following sections below summarise the main commercial aspects of the "Plus" commitments:

- Profit share schemes would be set up to allocate a share of benefits derived from increased profits as a result of specific interventions into the bus network (e.g. infrastructure), back into improving services further;

- Young people who no longer benefit from Our Pass can sign up to half-fare discounts for up to 6 months as a transitional period;
- 30 extra buses to be provided by operators to allow for new routes;
- If an operator fails to deliver a commitment or potentially fail to meet an agreed set of KPIs, then there would be some financial consequences via a liquidated damages mechanism; and
- A review of the bus stops would be completed to ensure they are close to Metrolink and rail stations.

10.4.6 In relation to the profit share schemes, initial discussions began with operators in 2018 and continued through the partnership steering group meetings. Specific questions were raised by TfGM in relation to a profit-sharing scheme in November 2019, with further clarification questions being raised in response to the Partnership Plus proposal at the partnership steering group meetings in January and February 2020. OneBus responded to these in a summary note; however, mainly setting out the high-level principles of the proposal rather than the intricate details.

10.4.7 It is worth noting that the specific interventions are not yet known and would be subject to funding being available in order to implement them. Therefore, an understanding of the level of profits that might arise and may become available to share amongst the partnership is not known. The governance structure has also not been agreed or worked through. OneBus, on behalf of the operators, have suggested that this would be managed by an open book, paper exercise and audited by the Partnership Delivery Board. The ability of operators to provide open book information may be limited by competitive constraints. It is also not clear how the partnership fund would be governed and how disputes would be resolved.

10.4.8 There are a number of uncertainties in relation to this proposal. For example, how profits can be identified as attributable to, and as a direct result of, the specific intervention (in particular identifying the profits associated with the intervention where a specific operator is particularly successful benefitting from an intervention). It is not clear what mechanisms would be in place to generally prevent “free-riders” nor how the network as a whole may benefit if some operators never experience increased profits as a result of a specific intervention. Similarly, it is unclear how much it would change outcomes in the network as a whole if the beneficiaries are largely those that realise the profits/gains. As noted above, clarification questions on these matters were raised with the operators via the partnership steering group discussions.

10.4.9 In relation to the 30 additional buses that operators committed to provide, there would be limitations on how these 30 buses could be used under a partnership. The introduction of the 30 buses would be based broadly on each operators’ market share and therefore OneBus confirmed that the decision to introduce the 30 buses would either lie with the operator who may see the need to increase a frequency or commence a new link, or with the partnership network working group who may identify the requirement for the link and ask operators to consider covering it. For these reasons, the partnership would likely to be constrained by the operating areas of the individual operators who introduced those vehicles and restrained in how these could be used. Under franchising, there would be central control over the whole network and any deployment of resource could be assessed with the view of maximising benefit to the whole of Greater Manchester.

10.4.10 It is also difficult under a partnership to ensure transparency and longevity of the benefits associated with the 30 additional buses proposed. As noted in the sections above, it will be difficult to ensure there is always a net surplus of 30 buses within the network and given that the initial term of the VPA is proposed to be for a five-year period, there remains uncertainty about what happens beyond this.

10.4.11 As mentioned above, OneBus proposed that KPIs would be used primarily to measure performance. It is proposed that for the majority of the KPIs, non-compliance would lead to a remedial action plan, noting that the intention is to get operators to comply with the VPA rather than incurring a financial penalty for failure to comply with the commitments. There would be five or six key KPIs (to be agreed by the operators) for which it is proposed that liquidated damages would be payable in the event of non-compliance.

10.4.12 Under UK law, penalty clauses may be unenforceable. Simply calling a payment liquidated damages (which are intended to reflect a party's loss from a breach) does not guarantee that the courts would consider it to be so and for payment to be enforceable if, in reality, it is only a penalty. Where a liquidated damages clause is determined to be a penalty clause, the clause may not be enforceable beyond the non-defaulting party's actual loss. Careful drafting in the VPA and assessment of the sums included is therefore required if the parties want to include a liquidated damages clause for it to be enforceable.

10.4.13 TfGM engaged with operators on this matter on multiple occasions. TfGM issued a list of questions for operators to consider in order to inform the VPA drafting, these were shared with the operators at the Steering Group meetings held in December 2019. This was further discussed with operators throughout January and February 2020. However, it still remains unclear whether and how this mechanism would work and whether there is any risk of such a mechanism having a material adverse effect on competition in the way that it shapes operator behaviours, for example, it could potentially lead to operators seeking enforcement against another competitor via the performance regime mechanism which could negatively impact them financially.

10.4.14 In relation to the value of relocating bus stops to be as close as possible to Metrolink and heavy rail stations, this has been discussed in further detail at sections 10.2.14 and 10.2.15 above.

Conclusion

10.4.15 The above section has concluded that the commercial position in relation to Partnership Plus would:

- Involve a VPA mechanism, initially for a period of five years;
- The implementation of the VPA would involve relatively short timescales given the work undertaken with operators over the past two years. The timescales in relation to the delivery of commitments, however, is unclear, and given the lack of clarity and detail around some of the commitments, the extent to which benefits may be realised is also unclear;
- Operators are only willing to sign up to a limited level of remedies and liability; and
- A number of the 'Plus' elements of Partnership Plus are more like 'commitments to commit' with the underlying detail having not been worked through or would be unknown until the point of signing the VPA.

10.5 Financial Implications

Introduction

10.5.1 This section considers the financial implications to GMCA of the Partnership Plus proposal submitted by OneBus during the first consultation. Overall, the commitments within Partnership Plus are not dissimilar to the Operator Proposed Partnership, and as discussed above, result in benefits greater than the Operator Proposed Partnership, but do not go beyond the Ambitious Partnership option considered in the Assessment.

10.5.2 The Assessment noted that partnerships would require additional resources from TfGM/GMCA to manage and to the extent partnership interventions increased demand (particularly concessionary demand) relative to status quo, then this would result in a requirement for increased concessionary reimbursement. The additional funding requirement for partnerships in the Assessment is up to £112 million. However, it should be noted this is not comparable to the £122 million funding requirement for the Proposed Franchising Scheme. The franchising funding requirement is over a five-year transition period, whilst the partnership requirement is 'whole life,' 30 years, and therefore amounts to a smaller annual requirement in the order of £2 million to £3 million per annum in current prices. In principle, the sources of funds identified for the Proposed Franchising Scheme could be applied to partnerships, particularly ongoing revenue funding such as earn back or Mayoral precept.

10.5.3 A number of consultees during the first consultation raised concerns over the costs included under the partnership options considered in the Assessment. For example, OneBus stated that they did not understand where the costs have come from and confirm "*the operators have always assumed that there would be no additional costs associated with managing the partnership however these have been assumed in the assessment".*

10.5.4 The comments received by consultees during the first consultation in relation to the partnership costs assumed in the Assessment have been considered in further detail at section 4.10.12 of the Strategic Case Response Themes and the Financial Case Response Themes section of this report.

10.5.5 OneBus state that under their Partnership Plus proposal, the benefits would be financed by a combination of operator revenue and public sector funding and would not result in an increase in council tax for Greater Manchester residents. However, TfGM remain of the view that implementing a partnership would lead to additional costs and that the costs set out in the Assessment for managing and operating a partnership are reasonable.

10.5.6 This section includes a discussion on the key characteristics of a partnership in relation to the financial responsibilities. It also considers the advantages and disadvantages of the Partnership Plus proposal and considers any financial implications of the Partnership Plus commitments, noting that for many there is no direct impact on the cost implications to GMCA.

Characteristics of a Partnership

10.5.7 As set out in the Assessment, GMCA would have contrasting financial responsibilities under a franchising scheme and a partnership.

10.5.8 Under a partnership, GMCA would have similar financial responsibilities as under the status quo. The bulk of services would continue to be commercially operated, with GMCA allocating funding to tender non-commercial services and reimbursing operators on a 'no better, no worse' basis for concessionary schemes.

10.5.9 GMCA would not control key decisions under a partnership and similarly would not assume direct financial risks in relation to farebox revenues. OneBus stated in their supplementary information to the Partnership Plus offer that, under a partnership, operators continue to take the revenue risk and decline the option of accepting a guaranteed publicly funded profit through franchise contracts. They believed that no excessive public funding would be required to provide the best possible service. However, it is worth noting that under franchising, there would be no guaranteed publicly funded profit for an operator.

Partnership Plus proposals

10.5.10 The below sets out the advantages and disadvantages of the Partnership Plus proposal and are informed by the financial characteristics of partnerships (versus franchising) set out above.

Advantages

10.5.11 The advantages and disadvantages in relation to Partnership Plus have not altered since the Assessment as the mechanism for delivery is no different from the Operator Proposed Partnership considered in the Assessment. As noted, under a franchising scheme, GMCA assumes control and also assumes direct financial risks. Under Partnership Plus, operators would retain revenue risks and as such, this option has the advantage of lower direct financial risks to GMCA.

10.5.12 The transition costs and associated funding requirement for partnership options as modelled in the Assessment is lower than the Proposed Franchising Scheme. This would still likely be the case under Partnership Plus. This is because a number of costs attributable to GMCA under franchising (such as depot provision) would still be avoided under Partnership Plus.

10.5.13 The Partnership Plus proposal did include some characteristics such as a profit share scheme and the provision of 14 additional staff, which were not specified in the Assessment partnership proposals and could potentially be advantageous in terms of creating additional funds that could be used to further improve bus services and improving the overall customer experience of bus use. These are looked at in more detail below and in the Economic Implications section above. Ultimately, these could have the effect of increasing patronage, and to the extent they do this, as noted above, this would result in a requirement for increasing concessionary reimbursement.

10.5.14 Under the Proposed Franchising Scheme, budgets would be set by reference to all sources of income (including farebox revenues and public funding) and network operating costs. GMCA could not pool its funding sources to the same extent under a Partnership Plus option. In particular if the partnership was successful in boosting demand (and concessionary trips), GMCA would need to reimburse and fund operators for these trips on a 'no better, no worse' basis.

Financial implications of Partnership Plus

Driver training

10.5.15 The interventions considered under the Operator Proposed Partnership in the Assessment are still valid for Partnership Plus in terms of the soft factors, and specifically the improved driver training. However, through discussions with the operators, this would now result in a reduction in costs to GMCA and associated benefits, compared with what was assumed in the Assessment. This is considered in further detail in the Strategic and Economic Implications sections above.

10.5.16 This would ultimately reduce the costs to GMCA compared with what was assumed in the Assessment, which was an additional day of driver training per driver per year, which instead would now be absorbed into the annual CPC and operator driver training programmes. Some costs would remain, however, as TfGM would be involved in developing the content for the training, the procurement activity to identify an appropriate training provider, and funding the external trainer (who would then train the operator trainer to deliver the course).

Profit Share Scheme

10.5.17 In relation to the commitment to set up a profit share scheme, as noted in the sections above, the governance structure and mechanism for these schemes has not been fully developed, and there are uncertainties around how much benefit there would be from such a scheme. For example, in order to make the specific highway interventions, this would initially depend on the level of funding available. GMCA would not directly benefit financially from this proposal. As noted above, it is suggested that 50% of the gains realised from specific interventions would be retained by the operator that realised them, and 50% would go into a partnership fund. It would take time for the performance and impacts of the highway interventions to be measured and any resulting profit share available is uncertain at this stage. The uncertainty is increased given that the initial term of the partnership is for five years and the Assessment applied a 30-year appraisal period for the partnership options. It is acknowledged that there could be advantages to GMCA as a result of a profit share scheme; however, for the reasons outlined, the magnitude of this, and the extent to which GMCA would have to sponsor interventions, is unclear.

Our Pass

10.5.18 As noted above in the Strategic Implications section, operators confirmed that the extension of Our Pass to offer half-price fares for a further six months, would not require any surcharge payable for the passenger. It has not yet been agreed whether TfGM or the operators would cover the card issuing costs.

Conclusion

10.5.19 As the operators would retain revenue risks under Partnership Plus, there would be lower direct financial risks to GMCA compared with franchising, and it will cost GMCA less. The Partnership Plus proposal has a handful of ‘Plus’ commitments that differ from the Operator Proposed Partnership in the Assessment. However, the majority of benefits noted within the Economic Implications section above are benefits or costs to the operator, and there are limited changes to GMCA’s position. Most notably, the improvements to congestion measures and the profit share schemes would be dependent upon the level of funding available from GMCA and elsewhere in order to implement the relevant measures and interventions. In relation to the risks and transition costs associated with the Partnership Plus proposal, there are minimal differences to those considered in the Assessment under the partnership options, Section 10.6.8 below considers the transitional costs under Partnership Plus.

10.5.20 Partnership Plus may result in some tangible improvement to GMCA's financial position. For example, the commitment around driver training would reduce costs to GMCA; however, in turn, the benefits associated with this within the soft factors in the Assessment, would also be reduced. The profit share scheme could be advantageous to the improvement of bus services, although the level to which it is, is unknown, and there would be no direct financial benefits received by GMCA (for reasons set out in the sections above).

10.5.21 Some of these commitments would impact on the resource implications to both TfGM and the operators, which in turn would impact the costs, and there would be costs involved in managing the partnership itself. This is considered further in the Management Implications section below.

10.5.22 Overall, there are no significant changes to the Financial Case conclusion in the Assessment. Partnership Plus, as an extension to the Operator Proposed Partnership option in the Assessment, is likely to remain affordable.

10.6 Management Implications

Introduction

10.6.1 The consideration of a partnership in the Management Case of the Assessment can be broken down into 3 elements:

- The future operating model people and other costs;
- Transition Costs – Implementation Costs; and
- Transition Costs – Systems Costs.

10.6.2 Given the above analysis and the conclusions drawn, this section focuses on the impacts that Partnership Plus has on the future operating model people and other cost assumptions made for the partnership option within the Assessment.

10.6.3 In response to the first consultation, there were a number of challenges raised by the operators around the costs included in the Assessment for the management of the partnership under both partnership options. This has been considered at sections 4.10.16 to 4.10.18 of the Strategic Case Response Themes section of this report. Under Partnership Plus, the operators agreed to provide 14 additional customer service and revenue protection staff, the costs of which will be covered by the operators.

10.6.4 To support the Operator Proposed Partnership, six resources were identified, as follows:

- One Head of Partnership;
- Two officers/analysts;
- Three network planners.

10.6.5 These resources were identified to support the partnership to ensure that it is enduring and that the benefits are sustained over the 30 years of the partnership. Further information can be found at section 52 of the Assessment on the level of resource and cost assumptions made for partnerships.

Future Operating model people and other costs

People Costs

Area	Partnership – OneBus Partnership Plus Offer
Partnership Leadership	There would be no change in Partnership Leadership Costs
Officers/ Analysts	There would be no change in the officer/analyst costs
Network Planning	There would be no change in the Network Planning Costs
Customer – Single Point of Contact	Current estimates assume 8 to 10 FTE. It is assumed, subject to further discussion, that the resource would transfer to TfGM. The overall funding of the additional FTE has not been agreed in terms of how much both operators and TfGM would contribute. Taking on the role of a partnership point of contact does increase TfGM's exposure to potential reputational risk as it takes on responsibility for addressing customer issues while not having the direct control to resolve them.
Customer – Sales and Marketing	The operators have proposed to increase the GMTL bus marketing budget from their previous offer of 1% to 1.5%, an increase of c. £224k resulting in a total budget of c. £672k per annum. This would allow a marketing specialist to be employed with a sales and marketing budget to promote the bus network. This should drive some additional benefits.

Other Operating Costs

Area	Partnership – OneBus Partnership Plus Offer
Customer – Driver training	The partnership proposal developed for the Assessment proposed an additional (above existing one day per annum CPC training) one day per annum, per driver, costing £500k per annum. The majority of the costs were driver salary costs to attend the additional days' training. The latest partnership offer proposes to absorb this into the existing CPC training and the induction programme. Whilst this saves the bulk of the costs to GMCA, it eliminates most of the benefits identified in the Economic Case associated with driver training.
Customer Point of Contact	There would be some additional CXP licence costs. There may be accommodation requirements within TfGM with the introduction of the additional 8 to 10 FTE. This could increase GMCA costs.
Customer in-service cleaning	There would be a small additional charge to TfGM to provide the bins and any additional refuse collection. It is estimated that the increase in costs to TfGM would be circa £21k per annum, with the operators incurring the cost of the cleaning resource. The proposed in-service

	cleaning would require approximately 9.5 FTE (based upon 19 bus stations and one cleaner per pair of bus stations). This would cost the operator c. £171k per annum.

10.6.6 The commitment to set up the profit share schemes would require additional resource to manage and measure (both the baseline position and associated 'gain'). However, the timescales of this commitment are not known as it is dependent on interventions in the first instance, for which the timescales are also unknown at this stage. It is also not clear how this mechanism would work in practice in order to identify, measure and monitor the 'gains'. This commitment and the related uncertainties are discussed further in each of the sections above. It is, therefore, difficult to estimate the level of resource required at this stage.

Transition Cost Implementation Costs

10.6.7 It is not envisaged that there would be any changes in the transition implementation costs other than the transition systems costs mentioned below.

Transition Systems Costs

10.6.8 The customer proposition would require some systems investment for the partnership point of contact. It is assumed that this investment would be in the CXP system and that these costs would be incurred by TfGM. It is expected that the scale of these costs would be fairly modest; however, until further scoping and feasibility testing has been carried out it is difficult to precisely assess the scale of these costs.

Conclusion

10.6.9 The net impact of the proposal is that the Partnership Plus would likely reduce the costs to GMCA as considered under the Operator Proposed Partnership in the Assessment. The saving would come through savings in the customer service-related driver training, which would be slightly offset by the additional costs for investment in the CXP system for the partnership point of contact. The overall reduction in costs would also reduce the benefits in the Economic Case and could therefore impact on the BCR and NPV. However, as noted in the Economic Implications section above, this would not result in a higher NPV or significantly better BCR than the Ambitious Partnership previously considered in the Assessment.

10.7 Legal and Other Considerations

10.7.1 This section discusses the potential impacts of the Partnership Plus from a legal perspective. This includes consideration of what legal requirements would need to be satisfied and also includes further consideration of this option against the process already undertaken by GMCA as set out in the Act.

Requirements that Partnership Plus would need to satisfy

10.7.2 OneBus' Partnership Plus would involve entering into a VPA. This VPA would apply to the entirety of Greater Manchester. If a decision was taken to consider this option further, then due regard to the legal requirements of the proposal would need to be given.

10.7.3 As a VPA is a voluntary agreement, the Partnership Plus could be introduced without needing to comply with the same level of procedural requirements as the Proposed Franchising Scheme. However, the Part 2 competition test under Schedule 10 of the Act would apply. This would mean that consideration would need to be given to whether the agreement contributes to the attainment of specified bus objectives without imposing restrictions on, or eliminating, competition. By their nature a number of the proposals within the Partnership Plus proposal would impose further restrictions on competition between operators and, if the Partnership Plus option was to be developed further, GMCA would need to ensure that the final proposed agreement met the competition test. This could lead to certain elements of the partnership having their benefits reduced as commitments were reduced to meet the competition test. For the purpose of this section, we have assumed that whilst certain elements of Partnership Plus could lead to competition issues, they should all be capable of being resolved in a manner which is consistent with the Part 2 competition test under Schedule 10 of the Act, and we assume that the operators have put forward the proposals on that basis.

10.7.4 The proposal for a provision for liquidated damages would also need not to create an unenforceable penalty, as discussed above.

Scheme implications

10.7.5 In summary, the key implication of the Partnership Plus on the Proposed Franchising Scheme is that only one of them could be introduced at the same time. This is because the current proposals are that both of these options are proposed to apply to the entirety of Greater Manchester. The introduction of the Proposed Franchising Scheme would necessarily exclude the VPA proposed, and its introduction would be on the assumption that the Proposed Franchising Scheme was not immediately being introduced. This is why, when preparing its Assessment of a Proposed Franchising Scheme on behalf of GMCA, TfGM spent a significant amount of time with operators to consider alternative options to the Proposed Franchising Scheme, including partnership.

10.7.6 It remains open to GMCA and the Mayor to decide, following the consideration of the outcome of the consultations, whether or not to introduce the Proposed Franchising Scheme. Alternatively, a decision could be taken to enable a VPA to be explored further.

10.8 Further review of proposal

10.8.1 On 27 August 2020, TfGM wrote to OneBus and asked OneBus to confirm whether in light of the impact of Covid-19 on the bus market, its Partnership Plus proposal remained valid or whether it anticipated any changes being required to the commitments in that proposal.

10.8.2 As summarised from section 2.4.14 of the Covid-19 Impact Report, OneBus said that they remain committed to delivering bus reform through partnership. OneBus said that *"the key is to get people travelling on buses again by working together and promoting the positives of bus travel irrespective of how it is controlled. Only then will it be possible to determine the detail of the Partnership offer in a similar way to which you will be developing your own plans which we look forward to being involved in. In conclusion, our offer of Partnership still stands and when we all have a better idea of the market, we can both develop and share our plans"*. At that stage it was therefore considered that OneBus maintained its offer to enter into a partnership but that it could not then repeat the commitments contained in Partnership Plus.

10.8.3 In response to the second consultation, OneBus said that *"With the significant shortfall in operating revenues, the elements of the partnership offer that were funded by investments from profit and revenue growth could not be delivered and the partnership offer was no longer valid…"*. OneBus did not put forward a revised version of its Partnership Plus proposal as part of its response to the second consultation. This was confirmed by way of a separate letter from OneBus dated 15 February 2021 which said that *"due to the uncertainty created by the Covid-19 pandemic, OneBus no longer has a formal detailed proposal"*. OneBus said that this was due to the amount of uncertainty in the market.

10.8.4 Instead, OneBus responded to the second consultation by saying that the Partnership Plus option had not been reviewed *"in a fair and equitable manner"* and that no consideration had been to any 'recovery partnerships' option. TfGM does not consider that GMCA has failed to consider OneBus' Partnership Plus proposal in a fair and equitable manner. Further information about 'recovery partnerships' and TfGM's consideration of what consultees said during the second consultation on those partnerships is considered at section 13 of this report.

10.9 Conclusion

10.9.1 In preparing its Assessment of a Proposed Franchising Scheme, consideration was given by GMCA on how the Proposed Franchising Scheme would compare with other courses of action. That led to the development of two partnership options. TfGM determined that those discussions had reached a stage in which they could be appropriately compared with the Proposed Franchising Scheme.

10.9.2 The Act and statutory guidance do not provide any specific guidance to how GMCA may consider alternative options which are received during the course of a consultation. However, conscientious consideration must be given to any such response. This section of this report details the work undertaken by TfGM in reviewing the Partnership Plus proposal, which includes consideration of that option against each of the five cases to the Assessment.

10.9.3 TfGM is confident that sufficient consideration has been given to Partnership Plus to come to the view that, overall, it is expected that the proposal would deliver no greater benefits than the Ambitious Partnership modelled in the Assessment. This proposal, therefore, does not impact our overall conclusion in the Assessment of the relative benefits and costs of a partnership and franchising. This conclusion has not changed as a result of Covid-19, and OneBus has now confirmed to TfGM that, due to the current levels of uncertainty, its partnership offer is no longer valid and that it no longer has a detailed partnership proposal to put forward.

10.9.4 Section 17.2 of this report considers whether, in the absence of any detailed partnership proposals from operators at this stage, it would be appropriate to make a decision whether or not to introduce the Proposed Franchising Scheme. At this stage and in response to the second consultation, OneBus commented that a 'recovery partnership' should be considered as a short-term option. This is considered separately at section 13 of this report.

11. Stagecoach South Manchester Partnership Proposition

11.1 Introduction

11.1.1 In response to the first consultation, GMCA received a proposal from Stagecoach (submitted alongside its response to the consultation) in which it proposed a partnership in the South of Greater Manchester that "*would complement any decision to franchise the North*" (page 8 of the proposal).

11.1.2 Stagecoach developed the proposal following engagement with TfGM that focused on GMCA's objectives as set out in the Vision for Bus and how it might be possible for Stagecoach to help further these. TfGM engaged with Stagecoach to understand what could potentially be achieved, to answer queries that Stagecoach had during the development of their proposals and to provide feedback as required to help Stagecoach clearly articulate its proposals and develop them to better fit in with GMCA's objectives and potential alternative franchising proposals.

Stagecoach's proposal

11.1.3 During the first consultation, Stagecoach put forward 35 initiatives over the key areas of network, fares, fleet investment and customer and a governance structure to coordinate the market. Stagecoach anticipated that the partnership could be set up by June 2020 using a Voluntary Partnership Agreement (VPA) similar to OneBus' Operator Proposed Partnership and Partnership Plus proposals and making use of Advanced Quality Partnership Schemes (AQPS) on key routes/corridors to enforce and maintain certain standards. Stagecoach proposed that the partnership should last for 10 years, with a number of their proposals being delivered over the first three years to ensure that there are some key initial outputs from the partnership.

Geography

11.1.4 Stagecoach's proposal was that it, "*if the GMCA were to decide to pursue franchising in the North of the region, would deliver a complementary offering in the South".* It was Stagecoach's intention that other commercial operators in the South of Greater Manchester (defined as Sub-Area C in the Proposed Franchising Scheme) might also enter into the South Manchester partnership. Stagecoach confirmed that they had received initial support from Arriva, who also have operations in the South of Greater Manchester.

11.1.5 Stagecoach summarised the benefits of its proposal in these terms:

Benefits for Greater Manchester and its authorities:

11.1.6 It would provide politicians with improved transparency and greater control over the bus network, through a new performance regime and involvement in network development;

11.1.7 It would provide a targeted approach to addressing any specific challenges in the bus network which are not uniform across the region;

- The mixed-model approach would unlock significant investment to deliver cleaner air and reduced road congestion in the region, through a greener bus fleet and more attractive services which would help generate modal shift from the car;
- It would assist politicians in making good on their promise to the electorate to deliver a step-change in transport connectivity to underpin the region's economy and make it the best place to grow up, get on and grow old;

- Improvements to the bus network and the wider public transport offer would be delivered more quickly and at lower cost than a franchise model;
- The proposals would deliver a key political objective of delivering better value for the taxpayer, by the participating partnership operators providing the majority of investment to deliver the benefits; and
- It would reduce the significant risk to the taxpayer from a full franchising of the region's entire bus network, which is known to be a concern of local taxpayers.

Benefits for customers, communities and employees:

- Investment: £142 million Stagecoach investment over the period of the partnership;
- Cleaner air: Investment in new greener buses and associated infrastructure will build on the £16.5 million investment already made on the purchase of 32 electric buses (and infrastructure) being introduced by Stagecoach on two key, high-frequency services connecting Manchester city centre, Manchester Airport, five hospitals and two universities from March 2020;
- Simpler, better value fares: London-style price-capped tickets;
- Seamless, easy-to-use services: One unified brand and customer contact point for all bus services in Greater Manchester;
- More influence over the network: Enhanced consultation and a new performance regime to drive consistent high standards;
- Efficient integrated journeys: A better-integrated bus, tram and rail network and congestion-busting measures to deliver more reliable journeys;
- Improved accessibility: 'Talking bus' audio-visual systems fitted to all vehicles to improve accessibility;
- Improved information and transparency: Clear journey planning and bus tracking information for customers, plus open data on operational and financial performance and customer complaints;
- Better-skilled and rewarded employees: Investment in employee training and new apprenticeships, with a commitment to pay staff the Real Living Wage; and
- More inclusive and sustainable communities: Recycling and other environmental commitments, as well as community benefit initiatives, such as breakfast clubs for children.

11.1.8 In considering Stagecoach's proposal it is important to note that, as GMCA's objectives apply to the whole of Greater Manchester, it is necessary to consider the implications of Stagecoach's proposal for the Greater Manchester as a whole, that is, the combined potential benefit of having a franchised scheme in the North of Greater Manchester alongside partnership in the South.

11.1.9 Combining a partnership in the South of Greater Manchester with a different partnership in the North of Greater Manchester with different parties involved and a different structure in each would be more complicated than a Greater Manchester-wide partnership from the customer perspective and for TfGM to manage.

11.1.10 OneBus' Partnership Plus proposal (as considered in detail at section 10 of this report) reflected the output of discussions involving operators in the North as well as the South and therefore *is* the combination of a partnership in the South and the North. Given that this scenario has been analysed above and it was concluded that this would offer less benefit than the Ambitious Partnership option that was modelled in the Assessment, the remainder of this section focusses on the additional scenario proposed by Stagecoach, that is, a potential partnership in the South alongside a franchising scheme in the North.

Structure

11.1.11 The following sections describe and consider the implications of the proposals from the perspective of each of the five cases to understand how likely the proposals are to deliver on GMCA's objectives (Section 11.2 Strategic Implications), whether there is likely to be any economic benefit (Section 11.3 Economic Implications), and whether there are any other Commercial Implications (Section 11.4), Financial Implications (Section 11.5), Management Implications (Section 11.6) or Legal and Other Considerations (Section 11.7) to consider. Section 11.8 concludes on whether the conclusions reached in the Assessment remain valid when taking into account Stagecoach's recent proposal.

11.1.12 The remaining sections are as follows:

- Section 11.2 Strategic Implications;
- Section 11.3Economic Implications;
- Section 11.4 Commercial Implications;
- Section 11.5 Financial Implications;
- Section 11.6 Management Implications;
- Section 11.7 Legal and Other Considerations;
- Section 11.8 Further review of proposals; and
- Section 11.9 Conclusion.

11.2 Strategic Implications

Introduction

11.2.1 This section analyses the extent to which the proposed scenario is likely to achieve GMCA's objectives. It follows a similar method to that shown at section 9 of the Strategic Case of the Assessment. As explained above, as GMCA's objectives apply to the whole of Greater Manchester, each of the sections consider the implications of taking Greater Manchester as a whole (that is, the combined potential benefit of having a franchised scheme in the North alongside a partnership in the South).

Network

1. Reach and stability of the bus network
Objective
• Comprehensive network • Simple network • Frequent services • Direct services • Stable network • Responsive network Accessibility improves by comparison to the scale of the network within three years; continued improvement to 2040. Improvement in simplicity of the network within three years of intervention.

11.2.2 Relevant proposals taken from Stagecoach's proposal offer included:

- D.1 – Consultation & Stability of Route Changes: Stagecoach proposed increasing the minimum notice period for route changes by an additional 28 days for the purpose of consultation; sharing the schedule for route changes with TfGM, and develop a good-practice guide on how consultations should be conducted;
- D.3 – Provide Route Performance Data on Unprofitable Routes quarterly; and
- D.4 – Commercialise the Equivalent of Today's Current Tendered Services: Stagecoach will operate without subsidy a proportion of any current tendered route, which would in effect extend a Stagecoach service.

Key Issues

11.2.3 Likely extent of network improvements: Under a franchise scheme in the North of Greater Manchester, TfGM would have the ability to control the network planning process for routes in the North of Greater Manchester, whereas, in the South of Greater Manchester, operators would retain the responsibility for network design and planning, working with TfGM in partnership. This may enable TfGM to have more influence over the bus network than it currently has, particularly as Stagecoach is proposing to establish a 'Network Planning Board'.

11.2.4 It is worth noting that the network in the South is mostly already planned by a single operator, so there may be fewer possible changes that would need to be made anyway. In the South of Greater Manchester, it is possible that the network would remain more similar to the current network, as TfGM could not direct changes to be made.

11.2.5 For the North of Greater Manchester, the network design work presented in the Economic Case of the Assessment showed what could be done under franchising to make the network more comprehensive, simple, frequent, direct, stable and responsive. This could still be carried out for the North of Greater Manchester, but the amount of change that could be achieved in the North of Greater Manchester may be lower than for that area than under the Proposed Franchising Scheme because TfGM would not be able to redistribute resources across the whole of Greater Manchester.

11.2.6 Thus, the ambitions to make the network more comprehensive, simple, frequent, direct, stable and responsive will not be fully met.

11.2.7 This proposal would also create a boundary between the North and South of Greater Manchester, which would need to be managed (see Section 11.4 below) and may make it more challenging to achieve GMCA's objectives in relation to simplicity and directness of routes. It is also unlikely to be easy to agree further changes to services (especially North / South services where there would be revenue implications).

11.2.8 Due to the requirements of the Act and the need to consider whether such services would have an *'adverse effect'* on a franchised service, it is unclear whether or not such services would be able to obtain a service permit in the North of Manchester. For franchised services in the North running into the South of Manchester, they would need to comply with the usual registration requirements and would need to be secured by GMCA under non-franchising powers. This may, therefore, create issues for Stagecoach's proposal, as it may limit the ability for services to operate across the entirety of Greater Manchester, which would not help towards GMCA's objective of a comprehensive, simple network across Greater Manchester with direct services.

11.2.9 Consultation on route changes and performance data: Stagecoach proposed to extend the period of notice given for route changes by 28 days and to provide performance data for routes that are "*not covering marginal costs and are at risk of revision*" (p51 of Stagecoach's proposal). This information could then be discussed in the Network Planning Board working group proposed by Stagecoach, providing TfGM with a much more detailed understanding as to the challenges being faced and an opportunity to act where possible to minimise or reduce the impact. It is worth noting, however, that this approach may not change the commercial decision-making process itself about whether to change a route, particularly where reductions are being contemplated.

11.2.10 Commercialisation of existing services**:** In the South of Greater Manchester, Stagecoach proposed to commercialise a portion of the currently subsidised services and have calculated that this would represent a saving of approximately £1.8 million in terms of today's current tendered services. This could release some funding from the tendered services budget and potentially represent a saving or could be used to offset any funding required to support other aspects of Stagecoach's proposals. Alternatively, potential savings could then be invested into the network to help towards improving the reach and stability of the network, which would help to achieve GMCA objectives outlined above.

11.2.11 It is worth noting that there are some reasons why not all of this saving may be delivered for each of the 10 years during the partnership. There is no mechanism proposed to measure the level of savings achieved by GMCA. For there to be a saving achieved, it would need to be shown that services remained unprofitable and that TfGM would still be willing to subsidise it in the absence of the proposals. There also remains a risk that Stagecoach may make a commercial decision to scale back some of the services if they remain unprofitable, and, in that case, TfGM may need to take a decision whether to subsidise these routes again.

11.2.12 Furthermore, Stagecoach requested that GMCA contribute an amount equal to the savings generated into a '*South Manchester Partnership Investment Fund'* with the majority being reinvested into the South of Greater Manchester. This would effectively lead to a potential constraint on GMCA's ability to determine where the funding could be used across Greater Manchester, given that 66.6% of the fund is proposed to be used in the South of Greater Manchester only. This is considered further at section 11.2.82 below.

Conclusions

11.2.13 Conclusions are as follows:

- There would be a reduction in the level of network change that could be achieved compared with when franchising the whole of Greater Manchester and, therefore, less progress towards the integration objectives;
- Network planning would be more difficult for the South of Greater Manchester compared with the proposition to franchise the whole of Greater Manchester, and there may be boundary planning issues and a restriction on which services could operate into the North of Greater Manchester; and
- The commercialisation of a portion of tendered services is of value, but any ongoing value to Greater Manchester has a degree of uncertainty.

2. Integration and efficiency
Objective
• Integrated within itself, planned as a single network within one year of intervention. • Efficient deployment of bus resources, with frequencies appropriate to demand levels. • Integrated with other transport, particularly public transport. Improvement in measures of efficiency within three years of an intervention benchmarking of Greater Manchester network by 2040.

Relevant proposals taken from Stagecoach's proposal offer include:

- D.1 – Consultation & Stability of Route Changes described above;
- D.2 – Performance Accountability: quarterly meetings of those involved in the partnership and bus users to review published performance metrics and to discuss the findings of the trend analysis, identifying remedial actions for any identified area of poor performance; underperformance against metrics would incur a penalty;

- D.3 – Provide Route Performance Data on Unprofitable Routes quarterly; and
- C.7 – TfGM to sell Stagecoach single operator bus tickets through its digital channels and Stagecoach to promote multi-operator tickets including the tram and, once in place, trains.

Key issues

11.2.14 Network integrated within itself and planned as a single network: In the North of Greater Manchester, the network planning process would look to balance objectives including meeting social and economic need as well as developing a more efficient network. Resources could be redistributed to better match supply and demand and therefore benefit passengers. It is likely that the benefits for this area would be lower than the benefits for the same geographical area when franchising the whole of Greater Manchester, given that it would be more difficult to make a broader set of changes.

11.2.15 In the South of Greater Manchester, a network review process with TfGM along with the provision of additional financial/performance information has the potential to enable operators in the South of Greater Manchester and TfGM to work together to improve the integration and efficiency of the network (with itself and other modes).

11.2.16 As explained in the section above, there would be issues to work through at the boundary between the North and South of Greater Manchester. The reality of having two regulatory frameworks for running the bus network in Greater Manchester would inevitably mean that there would not necessarily be the "*seamless integration*" that Stagecoach intend, and GMCA would therefore not be able to fully achieve its objectives on integration, in particular, that the network is "*integrated within itself, planned as a single network within one year of intervention*".

11.2.17 However, taking Greater Manchester as a whole, the network would not be planned as a single network, so the objective of changing the integration of the network and its planning as a single network within a year would not be met. Any improvements that could be agreed would take time to work through and discuss among all of the different operators and TfGM.

11.2.18 Efficient deployment of bus resources: As set out above, the extent of network changes to achieve efficiencies and improve the network would be limited. Whilst Stagecoach would take part in a set of consultative processes and publish information, TfGM would still not be able to determine changes to the network in the South and may be restricted in introducing changes close to the boundary if such network changes would require changes to any Stagecoach services south of the boundary, given that Stagecoach would have no legal obligation to accept these changes under the proposed partnership in the South of Manchester. Stagecoach may also be restricted in what network changes it would be able to make to services that operated into the North of Greater Manchester as they would need to satisfy the requirement of not having an adverse effect on a franchised service to successfully obtain a service permit.

11.2.19 The proposed system for performance accountability might lead to improvements in the deployment of bus services in South Manchester and might enable operators who may be members of the partnership to be more responsive to emerging needs. But it would not fundamentally change the decision-making process.

11.2.20 Network integrated with other transport, particularly public transport: Stagecoach alluded to the fact that they consider the implementation of the partnership in the South of

Greater Manchester will enable better integration of the Greater Manchester public transport network in the future, including integration of the bus network with other modes of transport such as rail and Metrolink. However, within their detailed proposals, this is only specifically addressed in the C.7 proposal for extending ticket retail channels, where they state that they would eventually introduce multi-modal ticket types. Given the lack of detail on how this would be delivered under a partnership in the South of Greater Manchester, it is not possible to determine whether this would offer any improvement in introducing an integrated public transport network above the Do Minimum option.

Conclusions

11.2.21 Conclusions are as follows:

- Network integrated within itself and planned as a single network: Reduced network change compared with franchising the whole of Greater Manchester, and therefore less progress towards integration and other objectives, particularly efficiency. This would reduce the effectiveness of the franchising intervention in the North;
- Efficient deployment of bus resources: Planning would not necessarily lead to a change in how new services were evaluated by Stagecoach and potentially other operators;
- Publication and sharing of data in respect of the South of Greater Manchester would not make the decision-making process a 'mutual' one, as the key decisions would still be made by Stagecoach and potentially other operators that are part of the partnership in the South; and
- Network integrated with other transport: the lack of specific proposals relating to integrating the bus network in South Manchester with other transport, including other public transport, means it is not possible to determine there would be any benefit from the proposals in achieving this objective.

3. Quality of service provided – reliability of the service
Objective
• A high standard of reliability (whether the services run), punctuality (whether scheduled services are on time) and regularity (whether frequent services come at the stated intervals) is maintained across the network. • Reliability, punctuality, regularity of services improves within three years of an intervention; improvement continues year on year. • The bus service provides journeys that take as short a time as possible given the distance and the nature of the journey. • Speed of bus journeys stabilises or improves in each year; no deterioration within three years of intervention.

11.2.22 Relevant proposals taken from Stagecoach's proposal offer included:

- D.2 – Performance Accountability: described above; and

- A.4 – Initiatives to Tackle Congestion: set up a Congestion and Traffic Management Working Group and fund an additional signal engineer and an additional inspector within TfGM UTC.

Key Issues

11.2.23 Extent of likely improvement in the quality of service provided: In the North of Greater Manchester, consistently high standards of reliability and punctuality would be incentivised through each franchise's performance regime, which would financially incentivise the achievement of targets for reliability and punctuality. The contractual enforcement mechanism would be more effective than a partnership in raising reliability standards. However, without further resource dedicated to reliability, it is unlikely that the Proposed Franchising Scheme alone would make a dramatic difference to reliability. It is also worth noting that, as explained in the Legal and other considerations section below, any delay to the introduction of a franchise scheme in the North (due to the need to assess a new scheme) would mean a delay to when any such improvements could occur in the North of Greater Manchester.

11.2.24 In the South of Greater Manchester, it is likely that the VPA agreement would include KPI targets as Stagecoach has proposed under initiative D.2. at section 1.4.3 of their proposal, Stagecoach noted that they would "*welcome a Partnership Performance Regime, that would ensure a consistent level of quality across the South Manchester Partnership*" and note on page 51 that "*underperformance against these measures would incur a penalty*". It would be up to Stagecoach and other operators in the South to determine how to meet such targets, their level of commitment to them, and whether to commit to any financial sanctions. If they did, that would raise questions about whether they would be enforceable and effective.

11.2.25 It is also worth noting that there could be issues at the boundary between the North and South of Greater Manchester (explained above), and these may impact on service reliability, for example, failure to obtain a service permit in a timely manner could have an effect on reliability of services.

11.2.26 Congestion: Stagecoach has proposed to set up a congestion and traffic management working group. It is possible that this could help to prioritise schemes in at least a similar way to that proposed under the multi-operator partnership (albeit mainly focusing on the South). Given that making any interventions that were proposed would rely on funds being available, and Stagecoach identified that these would originate in part via the partnership fund proposed, the potential benefit of this proposal is considered at section 11.2.82 below.

11.2.27 Stagecoach has separately proposed to fund two more individuals to be included in the Urban Traffic Control Room (an additional signal engineer and inspector). As this is a specific proposal, it is considered in the Economic Implications section below.

Conclusions

11.2.28 Conclusions are as follows:

- The performance accountability proposal, which includes operators working towards a set of KPIs in the partnership agreement, could lead to increased reliability of services. It is unclear, however, how these KPIs would be enforced and how far this commitment, therefore, would go in practice towards meeting the objective of improved reliability;

- The congestion working group proposed by Stagecoach could go some way to improving reliability of services; however, any implementation of improvements would be down to Stagecoach and the other operators in the South of Greater Manchester to complete and would depend on funds being available. There is potential for improvement relative to the Do Minimum option given the potential for additional funding released due to the commercialisation of a portion of the tendered services in the South of Greater Manchester by Stagecoach; and
- Monitoring and publication of data may allow better decision making on infrastructure in a similar way to under the Operator Proposed Partnership option and the Partnership Plus proposal.

4. Harmful emissions from buses are reduced and CO_2 emissions from buses are reduced.
Objective
• Harmful emissions such as NO2 and particulate matter together with CO2 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 NO2). • All buses should conform to any required standards of a Clean Air Zone to the extent that this is implemented.

11.2.29 Relevant proposals taken from Stagecoach's proposal offer included:

- A.1 – Reduce Fleet Age from 8.03 to 7 years, replacing older buses with new, more environmentally friendly vehicles, acquiring 174 buses in the first 3 years in addition to 32 electric vehicles planned, maintaining a maximum fleet age of 15 years; and
- A.3 – Euro VI Compliant, Ultra-Low & Zero-Emission Vehicles: Euro VI compliance by September 2021 will be met by new vehicles and retrofitting 328 buses subject to Defra funding and agreed terms for retro-fit.

Key issues

11.2.30 Value of vehicle age improvements: In the North of Greater Manchester, there would be a maximum age for buses to operate and a maximum average age for the fleet used by operators. This would mean that the rate of replacement would need to be kept up, ensuring newer technologies (especially Euro VI) were introduced and that the average age of the fleet would not increase over time.

11.2.31 In the South of Greater Manchester, Stagecoach proposed that they could reduce their average vehicle age from 8.03 years to 7.0 years. The level of benefit of a marginal change in the fleet age for Stagecoach only is likely to be limited (but still meaningful) and is considered in the Economic Implication Section below.

11.2.32 Clean air proposals: In the North of Greater Manchester, TfGM would apply as the operator for this funding on behalf of GMCA for the whole of the North of Greater Manchester.

TfGM would establish a roadmap for the move to alternative fuel vehicles that would have zero or ultra-low emissions.

11.2.33 In terms of Stagecoach's proposal in respect of Euro VI compliance by September 2021, as the commitment is caveated as being subject to Defra funding for retrofitting the existing fleet to be Euro VI compliant (page 34 of the proposals document in the dependencies section), it would not necessarily deliver more than that which could be achieved under the Do Minimum option.

11.2.34 Stagecoach proposed to ensure that 45% of its fleet would be "*better*" than Euro VI-compliant in September 2021. When considering how much benefit this brings relative to the Do Minimum option, it is important to note that at the first consultation, Stagecoach's current fleet profile contained over 100 hybrid vehicles, which once retrofitted, would fall into the category of "*better than Euro VI"*. Stagecoach's proposal to achieve 45% of their fleet being better than Euro VI is, therefore, achievable only by virtue of the Euro VI compliance proposal. It is possible that any new fleet purchased between then and September 2021 would fall into the *"better than Euro VI"* category, but as Stagecoach has only committed to purchasing "*a balance of new vehicles (which are Euro 6, ultra-low or zero-emission*" (p38), taken together, these proposals only amount to a firm commitment on Euro VI (which is subject to agreed funding from Defra as explained above).

11.2.35 Over the longer-term, TfGM would not have the same degree of control over the specification of buses in the South of Greater Manchester (compared with franchising the whole of Greater Manchester), which may hinder its ability to deliver further change beyond that agreed with Stagecoach in the initial years of partnership.

Conclusions

11.2.36 Conclusions are as follows:

- The value of a reduction in the average age of the fleet is likely to be marginal, and some of this would need to be developed by Stagecoach anyway to stop its fleet age rising further;
- Euro VI commitment is dependent on funding coming forward and agreed terms for retrofitting so is subject to the same terms as likely under the Do Minimum option; and
- There is uncertainty as to how much CO_2 emissions would be reduced versus the Do Minimum option, given the proposals outlined do not bear a significant difference to what could be achieved in terms of low emission fleet as outlined above.

Fares and Ticketing

5. Integrated and simple fares
Objective
The fares system is simple to understand and convenient to use: • Period tickets should be valid on any bus service within one year of an intervention. • There should be equivalent period tickets covering bus and Metrolink within one year of intervention and, in time, local rail services in Greater Manchester. • Single fares should be standardised so that there are similar fares for similar journeys within one year of intervention.

11.2.37 Relevant proposals taken from Stagecoach's proposal offer included:

- C.1 – Simplified Fares & Ticketing: a reduction in fare bands from five to four and a reduction in the number of period tickets to three (daily, weekly, monthly);
- C.2 – Carnet Ticketing: Five unlimited day tickets valid for three months;
- C.4 Fare Capping: ability to take unlimited journeys to an agreed daily or weekly limit on Stagecoach buses and commitment to participate in any future Greater Manchester multi-operator fare capping system;
- C.5 – Reduced Maximum Fare for use on buses between 7pm and midnight and midnight and 4am;
- C.3 – Change Ticket Acceptance Policy: TfGM to allow buyer of a commercial operator ticket to use it on a largely similar tendered service provided at different times by a different operator; and
- C.7 – Extend Retail Ticket Channels: TfGM to sell Stagecoach single operator bus tickets through its digital channels and Stagecoach to promote multi-operator tickets including the tram and, once in place, trains.

Key Issues

11.2.38 Value of simplification: in the North of Greater Manchester, GMCA would take full and sole responsibility for setting and delivering policy on fares and ticketing. GMCA would simplify the current fares and ticketing offer: period products (such as day and weekly tickets) would be valid throughout the whole of the Proposed Franchising Scheme area (which under Stagecoach's proposal would be the North of Greater Manchester). Single fares would be simplified, and there would be a reduced and simplified number of fare bands. TfGM would also be able to determine the scope and pricing of multi-modal tickets covering bus and Metrolink. GMCA would also have the ability to ensure that discounts and concessions were integrated into the overall fares offer to passengers.

11.2.39 In the South of Greater Manchester, Stagecoach proposed to reduce the number of fare bands to four, to create a single suite of period tickets for its services by January 2021 (which would have the effect of removing some geographical variants to ticket prices), to extend the introduction of carnet ticketing and to introduce a flat fare in the evenings.

These measures would increase the simplification of fares in the South of Greater Manchester (on Stagecoach services) to an extent.

11.2.40 It is necessary, however, to consider the fares and ticking proposition at a Greater Manchester-wide level in order to understand whether the overall picture would be significantly simplified relative to the Do Minimum option. At the Greater Manchester-wide level, there would be the following main categories of tickets:

- A range of individual operator tickets in the South of Greater Manchester (the number of different ranges would depend on the number of operators in the South in the future);
- A range of franchise tickets covering the North of Greater Manchester; and
- A range of tickets covering the whole of Greater Manchester, which Stagecoach propose is governed by a 'Multi-Operator Board', which would broadly replicate the current GMTL Board.

11.2.41 At the Greater Manchester-wide level, therefore, there would be three main types of tickets, i.e. one more main category than under the Do Minimum option. Whilst Stagecoach proposes to promote the multi-operator ticket better, there is no mechanism proposed to reduce the existing price premium between the individual operator tickets and the Greater Manchester-wide ticket, nor any mechanism proposed by which individual operator tickets could be linked to franchise tickets. Taking Greater Manchester as a whole, franchising in the North of Greater Manchester would make the fares and ticketing proposition less complex in that area, whereas the partnership in the South would not necessarily improve overall complexity in that area given there will still be multiple operators running services. Having two separate ticketing arrangements, one in the North and one in the South of Manchester, would create further complexity for customers, particularly those who travel between the North and South of Manchester. This could mean that, should franchising in the North and Stagecoach's proposal of a partnership in the South be implemented, there could potentially be more overall complexity across the Greater Manchester network as a whole than in the Do Minimum option, meaning that GMCA would be unable to meet objectives on simplicity and integration.

11.2.42 It is also worth noting that there would potentially be additional complexity for customers at the boundary between the North and South of Greater Manchester. Agreements would need to be reached on permitting (including service permit conditions) and ticket acceptability – considered further in the Commercial Implications Section 11.4 below.

11.2.43 Fare capping: as part of their proposal to implement fare capping across their South Manchester bus services, Stagecoach stated this would allow customers to take unlimited journeys across these services to an agreed daily and weekly limit, stating customers will be able to use contactless payment methods and that they would be appropriately charged up to the maximum price. Whilst this would reduce the complexity of physically paying for tickets (by using contactless payments), and while Stagecoach will automatically cap fares up to a maximum daily or weekly amount, the proposal does not in itself reduce the complexity of the ticket offering for customers using contactless payment methods. Instead, it simply removes the need for customers to choose which type of ticket to purchase when travelling; however, it is recognised this could lead to contactless-paying customers paying less than if they had made an initial ticket choice that would have proved more expensive. Without more detail, it is difficult to see how fare capping would work without contactless payment methods being used.

11.2.44 Ticketing acceptance policy: this would require TfGM to change its current arrangements for tendering services and, as noted on page 48 of Stagecoach's proposal, this would result in higher contract prices (i.e. additional costs) in some instances for TfGM. The level of benefit that this may bring is considered at section 11.3 Economic Implications below.

11.2.45 Extend Retail Ticket Channels: Stagecoach has proposed that TfGM sells Stagecoach individual operator tickets on TfGM digital channels. (It is assumed that TfGM would likely therefore need to offer this to other operators that may enter into a partnership in the South). It also proposes to promote multi-modal arrangements better. TfGM would expect that Stagecoach would welcome their tickets being marketed by TfGM under the Do Minimum option (given that this may be in Stagecoach's commercial interests) and, in the absence of any price change to reduce the premium between multi-operator and individual operator tickets, there would be limited fares benefits to customers.

Conclusions

11.2.46 Conclusions are as follows:

- Some simplification is possible, but the overall position would not be substantially simplified – it could be more complex; and
- The extent to which greater emphasis on all-operator ticketing would benefit customers it not clear given that there is no price reduction proposed.

6. Fares should offer value for money
Objective
• Fares offer value for money to customers while supporting a balanced funding position for the bus market. • A framework approach is taken to consideration of any further discounted tickets within one year of intervention.

11.2.47 Relevant proposals taken from Stagecoach's proposal offer included:

- C.1 – Simplified Fares & Ticketing: a reduction in fare bands from five to four and a reduction in the number of period tickets to three (daily, weekly, monthly);
- C.2 – Carnet Ticketing: five unlimited day tickets valid for three months;
- C.4 – Fare Capping: ability to take unlimited journeys to an agreed daily or weekly limit on Stagecoach buses and commitment to participate in any future Greater Manchester multi-operator fare capping system;
- C.5 – Reduced Maximum Fare for use on buses between 7pm and midnight and midnight and 4am; and
- C.6 – Concessionary & Socio-Economic Needs: Stagecoach will continue to participate in existing schemes and cooperate on any broader Greater Manchester scheme initiatives.

11.2.48 Fare pricing: In the North of Greater Manchester, the pricing decisions for single fares and daily, weekly and monthly tickets would be made by GMCA. As reflected in the Assessment, the expectation is that network period products would initially be priced at the lowest price for an operator-own period product from a major incumbent. However, it is worth noting that there is a risk that the revised franchised area is commercially weaker on its own and requires additional ongoing funding (see Section 11.5 Financial Implications) which could affect the ability of GMCA to ensure tickets are VfM in this area.

11.2.49 In the South of Greater Manchester, Stagecoach and potentially other operators would set the prices of their individual operator tickets (as they currently do under the Do Minimum option).

11.2.50 There would be a third ticket type covering the whole of Greater Manchester, which is currently (and would likely still need to be) priced at a premium above individual operator tickets. This leads to there being three main types of tickets in Greater Manchester offering different VfM.

11.2.51 Discounts for socio-economic needs / future concession schemes: In the North of Greater Manchester, GMCA would introduce a framework approach to looking at fare discounts to take account of different factors including increasing patronage overall (rather than on one operator's buses) and helping the socially disadvantaged. Stagecoach agreed to work with any discounts that they currently offer and "*evaluate each scheme to determine whether it could support it commercially or on a Local Concessionary Scheme basis*" (p49) – i.e. 'no better and no worse off'. Depending on the nature of a concession, they would not necessarily be obliged to work on this basis. This would effectively ensure that GMCA would be no better or worse off, so existing issues with agreeing concessionary reimbursement would still apply, potentially increasing cost of Greater Manchester-wide introduction of such schemes relative to under a Greater Manchester-wide franchising scheme.

Conclusions

11.2.52 Conclusions are as follows:

- Pricing in South Manchester would not necessarily offer any greater VfM for customers than is currently available in the market; and
- Compared with the Proposed Franchising Scheme, GMCA would have less scope to determine and carry through fares policy.

7. Account-based smart ticketing introduced as soon as possible
Objective
Quick introduction of account-based smart ticketing, enabling a 'fair price promise' for different modes. • Whole bus network capped products for day and week tickets available as soon as possible, offering the lowest possible fare. • A multi-modal capped product introduced as soon as possible.

11.2.53 Relevant proposals taken from Stagecoach's proposal offer include:

- C.4 – Fare Capping: ability to take unlimited journeys to an agreed daily or weekly limit on Stagecoach buses and commitment to participate in any future Greater Manchester multi-operator fare capping system.

Key issues

11.2.54 In the North of Greater Manchester, TfGM would embrace electronic means of payment (cards, mobile phones etc.) for the bus network as has been done on Metrolink, but as there would be a delay to the introduction of a franchising scheme in the North of Greater Manchester due to the legal process that would need to be followed (see Section 11.7 Legal and Other Considerations below) it may take longer for this to be rolled out compared with when franchising the whole of Greater Manchester under the Proposed Franchising Scheme.

11.2.55 In the South of Greater Manchester, Stagecoach proposed to introduce fare capping by the summer of 2021 with the intent to support TfGM in rolling this out across Greater Manchester (see Section 11.2.43 above – operators have made national commitments on this as well). Stagecoach also intended to support a capped product between Stagecoach and Metrolink.

11.2.56 There are a number of potential issues in terms of achieving GMCA's objectives:

- Stagecoach's proposal applied to their own services so it is not certain that other operators in South Manchester (particularly any future entrants to the market) would participate;
- It may take longer to roll out smart capping across the whole of Greater Manchester under two different operating models compared with franchising the whole of Greater Manchester given there would be two competing markets of franchising in the North and partnership in the South, and also given the necessary interfaces required between systems and back-offices in the North and South of Greater Manchester; and
- Any Greater Manchester-wide capping product may not be at the price of period tickets in the franchised area due to competition issues, which could retain some complexity for customers, as the pricing would likely have to exceed operator own tickets (or at least not act as a price constraint on their tickets). This would result in some customers paying a premium for being able to travel Greater Manchester-wide.

Conclusions

11.2.57 Conclusions are as follows:

- Under the Stagecoach proposals, introducing account-based smart ticketing would be more complex than under the Proposed Franchising Scheme both to administer and from a user perspective;
- Taking the South of Greater Manchester alone, there could potentially be speedier fare capping than would be envisaged under the current partnership proposals (at least on Stagecoach services), but there may be a delay to the implementation of this in the North of Greater Manchester for the reason explained above; and
- Any Greater Manchester-wide capping product may not be at the price of period tickets in the franchised area due to competition issues, which could retain some complexity for customers and may result in some customers paying a premium for being able to travel Greater Manchester-wide.

Customer

8. Ease of understanding of the bus service is improved
Objective
The ease of understanding of the bus service is improved for users and there is a high quality of information available (at stops and stations; on buses; and on the web). Branding is clear and enhances improved perception of the service. • Comprehensive information is put forward covering the whole of the public transport network, whether provided by 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.

11.2.58 Relevant proposals taken from Stagecoach's proposal offer included:

- B.1 – Brand Strategy: all Stagecoach buses would be repainted using TfGM branding guidelines but would retain a small Stagecoach identifier to enable customers to identify buses on which a Stagecoach ticket may be used; prominence for multi-operator tickets in marketing messages on buses; some joint-branded items on Stagecoach's independent staff uniform design; aim to create unified app and website with TfGM with interim co-branding to Stagecoach's digital channels; support for open data digital service providing real time information;
- B.2 – Seamless Digital Experience: Stagecoach would make elements of its existing digital technology available to provide a shared Greater Manchester Bus app and website;
- B.3 – Customer Information Sharing: Stagecoach would provide open data to improve information provided to bus users;
- B.4 – A Single First Point of Customer Contact: TfGM digital app and website should provide a single point of contact for first contact;
- B.5 – Customer Commitments Pledge: Stagecoach would set out annual commitments to inform decisions on customer-related initiatives and targets which its performance can be measured against; and

- A.2 – Fit/Retro-Fit Audio-Visual information systems to all vehicles: these systems share real time next stop information and the bus's destination.

Key Issues

11.2.59 Branding: Stagecoach has proposed to adopt appropriate TfGM led branding and, so long as this is implemented by other operators in the partnership area, this would go towards meeting GMCA's objective of a single unified brand.

11.2.60 There inevitably may be constraints as to how far this brand can go given that the buses (and other marketing material) would still need to be clearly distinguished compared with the brand in the North of Greater Manchester to signify differing ticketing arrangements and also to make it clear to customers who is accountable for a given service. This inevitably means that the network may not feel fully integrated and, despite Stagecoach's willingness to participate, there could still be some confusion given the various limitations on achieving one unified brand noted above.

11.2.61 There may be some confusion for customers at the North/South boundary where buses run by operators under the franchise scheme in the North of Greater Manchester and buses run by operators from the partnership area in the South of Greater Manchester run close to one another where such services have a service permit to operate in the North.

11.2.62 Single point of contact & single information provision: in terms of information sources, in the North of Greater Manchester, there would be a single comprehensive and real time source. This would be easy to understand and on a number of channels (including the web and on-board buses), and every effort would be made to ensure that it is up to date, consistent, and correct.

11.2.63 In the South of Greater Manchester, Stagecoach proposed that it would work with TfGM to develop a managed service and proposes that the TfGM digital app and website should provide customers with the single first point of contact. Subject to a VfM test, this could help to set up a single comprehensive source of information although it is worth noting that, unlike under franchising the whole of Greater Manchester, there would still exist partial sources of information run by individual operators that may add to confusion – as noted by Stagecoach in the discussions with TfGM when preparing their proposal, this is likely to be required in order to meet competition requirements in respect of not colluding with other operators and GMCA.

11.2.64 Customer Commitments Pledge: Stagecoach proposed to publish an annual commitments pledge to inform decisions on customer-related initiatives and targets which its performance can be measures against. These commitments will aid in the understanding of the bus service for customers which would help towards GMCA's objective of information presented in an easy to understand way on a number of channels. However, no further detail has been given on what these commitments would potentially involve, and it is therefore not possible to say with certainty that this proposal would help to improve the ease of understanding of the bus service for customers given they cannot be assessed without further detail.

11.2.65 Real-time information and audio-visual equipment: in respect of real-time information, TfGM would make sure that, in the North of Greater Manchester, the information provisions in the Act were taken forward in a way most useful to external providers of information, promoting the best use of this to make Greater Manchester more navigable. It is assumed that operators in the South of Greater Manchester would also do this (given that it would be a legal requirement), although the format of the type of data available may vary.

11.2.66 For its operations in the South of Greater Manchester, Stagecoach proposed to adhere to the DfT's Open Data regulation and expect to go beyond this. They also propose to fit audio-visual equipment to all fleet by December 2023. As it is likely that the provision of data and fitting of audio-visual equipment will be required by law, there may be a short-term improvement compared with under the Do Minimum.

Conclusions

11.2.67 Conclusions are as follows:

- There would be an improvement in information provision and the signposting of a single place to go, but there would still exist partial sources of information; and
- Introducing a common brand while at the same time having different parties accountable for the services run and differing fares and ticketing arrangements may lead to confusion for customers.

9. Safety of travel is improved
Objective
Safety is improved and incidents of crime or anti-social behaviour on buses are reduced. There is a perception of improved safety on the bus network, encouraging bus use within three years of intervention, and continued improvement after that. • There is active management to improve safety in partnership with the police, and to reassure passengers and potential passengers that the bus is a safe form of transport to use. • All buses installed with CCTV within one year of intervention. • Off-bus safety – there are well-lit and maintained, easily navigable interchanges with appropriate staffing.

11.2.68 Relevant proposals taken from Stagecoach's proposal offer included:

- E.8 – TravelSafe Scheme: Stagecoach will maintain its current level of support, four employees on a part time basis, to patrol bus and tram services.

Key issues

11.2.69 Stagecoach committed to maintaining its current level of support throughout the partnership and confirmed that Stagecoach would continue to work with TfGM and Greater Manchester Police to maximise the benefit of the TravelSafe Scheme over the next 10 years. As this is a scheme already in place that Stagecoach already supports, this proposal in itself does not likely bring more benefit than that under the Do Minimum option.

Conclusions

11.2.70 Conclusions are as follows:

- The proposal to continue supporting the TravelSafe Scheme over the next 10 years would not on its own bring additional benefit relative to the Do Minimum.

10. Improvement in on-bus experience
Objective
Consistent high standards are achieved for the cleanliness of buses and for driver behaviour, and the quality of vehicles improves. • Cleanliness - commitment to a high standard of cleanliness across all services. All buses to receive external clean daily; light interior clean pre-service; interior deep clean once a month within one year of intervention. • Bus drivers - continuous improvement in driver behaviour to improve customer experience. Appropriate professional standards and training of drivers. All drivers to have undertaken appropriate customer service training within the last year within three years of intervention. All buses fitted with Eco drive systems within three years of intervention. • Quality of assets - improved vehicle quality and connectivity for passengers.

11.2.71 Relevant proposals taken from Stagecoach's proposal offer included:

- B.5 – Customer Commitments Pledge;
- B.6 – Mid-Journey Cleaning: mid-journey cleaning for all main corridor services with TfGM's cooperation;
- B.8 – Additional Customer Experience Staff: this would enable every bus station to have an inspectorate presence during peak periods;
- B.9 – High-Quality Training: to be maintained;
- B.10 – Deliver Training to Small and Medium-Sized Operators: to be offered at an appropriate commercial rate;
- B.7 – Free Wi-Fi on Buses: Stagecoach would retrofit 127 older buses;
- E.1 – Real Living Wage: Stagecoach is committed to providing a fair wage to their employees and promoting responsible employment;
- E.2 – Workplace Engagement and Voice: continue to maintain and promote a culture of openness and accountability across the business;
- E.3 – Health & Wellbeing: Stagecoach would continue to promote initiatives to ensure the workforce feel supported and part of a wider community, such as health and wellbeing champions, a counselling service, employee interaction platforms and local recognition schemes;
- E.4 – Recycling: Stagecoach would continue their partnership with Waste Services suppliers so they can recycle 100% of the waste from Stagecoach vehicles;

- E.5 – Support for the unemployed: continue to support and promote jobseekers in Greater Manchester by continuing to offer a scheme that allows customers who present their Jobcentre Plus card to receive half-priced single fare tickets. Additionally, Stagecoach would continue to work with TfGM on their offer of providing free journeys to unemployed people or the recently employed;
- E.6 – Community Engagement: Stagecoach would continue to partner with charities who work within Greater Manchester; and
- E.7 – Breakfast Clubs: Stagecoach would participate in the Greggs Breakfast Club programme in Manchester, funding a portion of partner school breakfasts. They would also visit primary schools that we have funded with breakfast to talk about using buses and general bus safety.

Key Issues

11.2.72 Customer experience: Stagecoach proposed to deliver a customer commitments pledge from day one of the partnership, introduce additional customer experience staff and introduce mid-journey cleaning. There are proposals within the multi-operator partnership proposal on these areas. Stagecoach's proposals on community and employees could help to further improve staff morale and on-bus experience for customers. However, most of these commitments are commitments to continue doing things that Stagecoach is already doing and so are a feature of the Do Minimum option. Under the Proposed Franchising Scheme, there are proposals that would improve customer experience above the Do Minimum option, such as a unified branding across Greater Manchester, improved passenger waiting facilities, and a modernised bus fleet to reduce harmful emissions and improve air quality.

11.2.73 Driver standards: For the South of Greater Manchester, Stagecoach's commitments to maintain its standards and continue improvement would not necessarily bring additional benefit relative to the Do Minimum option. The partnership may not guarantee that there are improved training standards for all operators given that new operators could also enter the market and not offer these standards. Under the Proposed Franchising Scheme, there would be standardised driver training across all franchise operators to a high level of quality as specified in the franchise contracts, ensuring that all drivers across the network would have had the appropriate training and would all work to the same high standard.

11.2.74 Quality of assets: In the North of Greater Manchester TfGM could specify the quality of assets required and monitor these on an ongoing basis. Stagecoach proposed to introduce Wi-Fi on its fleet within one year of the partnership. The likely benefit associated with this is considered in the Economic Implications Section 11.3 below.

Conclusions

11.2.75 Conclusions are as follows:

- Cleaning commitments could improve the customer experience;
- Further commitments are unlikely to be of great benefit to passengers and it is not clear if there is a material shift from the status quo; and
- Some potential benefit from a faster roll-out of Wi-Fi.

Value for Money

11. Value for money for public investment
Objective
• The best value for money for public investment into the bus market, specifically the options being considered as part of the Assessment to reform the bus market. • The best value for money for any other specific intervention in the bus market. • Both of these will be measured by (i) the social value of any public investment, taking into account all of the costs of the intervention, measured by a Net Present Value calculation (the benefits minus all of the costs), and (ii) the benefits of the investment with regard to the constrained budget of public sector investment (money available to the Mayor and GMCA), measured by a Benefit Cost Ratio of the benefits divided by the costs to that constrained budget.

11.2.76 Relevant proposals taken from Stagecoach's proposal offer included:

- Stagecoach's profits, in excess of a target level of profit, are to be shared 33.3% GMCA, 33.3% South Manchester Partnership Investment Fund, and 33.3% for Stagecoach; and
- Create a South Manchester Partnership Investment Fund: any savings to GMCA from initiatives proposed by participating operators to be used (a) by GMCA to invest in initiatives across Greater Manchester to benefit bus user experience and encourage a modal shift to bus (33.3%); and (b) for initiatives that benefit bus user experience and encourage a modal shift to bus in South Manchester (66.6%).

Key issues

11.2.77 Profit sharing mechanism: As Stagecoach's central case profit forecasts show that there would be no profit share to distribute in the first five years of partnership, it is likely that GMCA would not receive any profit share in the first five years of the partnership.

11.2.78 Stagecoach presented some potential scenarios to TfGM in which revenue could rise if investments were made that had the effect of improving Stagecoach's profitability. However, there is no clear plan as to how these scenarios would be achieved or which parties would sponsor the investment that would enable these scenarios to be realised. Potential downside risks to Stagecoach's profitability may also offset any increases in profitability as a result of measures, thereby further reducing the chance of GMCA receiving a profit share.

11.2.79 Due to uncertainties around longer-term forecasting, Stagecoach proposed that after year five of the partnership, the target level of profit would be renegotiated. This may yield higher contributions to the profit share following the target profit level being renegotiated; however, this would be entirely dependent on the successes of all of Stagecoach's proposals noted and analysed in this report, and any possible change in the target profit level is therefore not able to be accurately forecasted based on the current information.

11.2.80 It is worth noting that, under the proposal, effectively only 66% of the revenue from the profit share mechanism would certainly be used for investment in the network, as 33%

would go back to Stagecoach. Of the 66% to be invested, half of this would be in effect for investment in the South of Manchester, which would predominantly benefit Stagecoach as it is the largest operator in this area, and some of the remaining investment in the rest of the network will also indirectly benefit Stagecoach by providing a more efficient bus network as a whole with the aim of increasing patronage across Greater Manchester.

11.2.81 By contrast under the Proposed Franchising Scheme for the whole of Greater Manchester, any potential increase in profitability would flow directly back to GMCA via either increased revenue (as GMCA takes revenue risk) or reduced franchise payments in the longer term.

11.2.82 Partnership fund: Stagecoach proposed that some savings from the partnership could be reinvested though an operator-based fund for innovative schemes. The key saving identified is a potential £1.8 million per annum saving to GMCA due to Stagecoach commercialising a portion of the tendered services budget in the South of Greater Manchester. Notwithstanding the issues identified above, which mean that any savings may not be sustained, Section 11.3 Economic Implications below considers how any funds available could be used / the likely level of economic benefit.

11.2.83 Value for money for public investment: in the North of Greater Manchester, it is expected that beyond the margin that operators would take for operating the service and taking the operation and cost risk that this implies, any surplus generated by fares or other revenues would be able to be reinvested in the bus network. This reinvestment would be aimed at improving the bus service, whether through reductions in fares, improvements to the network or other changes.

11.2.84 It is likely that there would be reduced benefit for any public investment in the North of Greater Manchester compared with franchising the whole of Greater Manchester under the Proposed Franchising Scheme, given that some of the benefits (e.g. network savings) are reliant on being able to redistribute resources across the whole of Greater Manchester (i.e. with no constraints on geography). Moreover, as the franchised area would be smaller in size, it may be more challenging to attract the same level of interest from bidders as would be possible when franchising the whole of Greater Manchester (given that admin/compliance costs would still need to be incurred but operators would not be able to bid for as many contracts as they could do when franchising a larger area). This creates a higher risk that TfGM may receive bids that are lower VfM, as is considered at section 11.4 Commercial Implications below. Additionally, the implementation of franchising would be delayed due to the need to undertake a new assessment (see Section 11.7 Legal and Other Considerations below), which would delay any benefit that can be delivered from franchising in the North of Greater Manchester, as is considered further at section 11.3 Economic Implications below.

11.2.85 In the South of Greater Manchester, GMCA would spend money in supporting and monitoring the partnership (see Section 11.6 Management Implications below). Any improvement in VfM would arrive from investment by Stagecoach and other firms in partnership measures. The level of benefit that the initiatives may bring is considered at section 11.3 Economic Implications below.

11.2.86 'Phase 2' interventions: As explained in the Assessment at section 8.8, the opportunities for implementing 'Phase 2' measures may be more limited under a partnership because it would not be able to undertake some of the interventions under a partnership – these limitations would mostly apply to the South of Greater Manchester under the scenario proposed by Stagecoach. Whilst the profit share / partnership fund proposed by Stagecoach may provide funds that could be used to carry out 'Phase 2' interventions, the level of these funds is not certain given the profit share is dependent on Stagecoach's performance in the South of Manchester, and the extent to which any 'Phase 2' interventions could be implemented would be limited in the South of Manchester due to there being a voluntary partnership with operators as opposed to GMCA having control such as they would in the franchised North.

11.2.87 Stagecoach proposed that GMCA use a series of AQPSs to maintain standards (e.g. vehicle quality) on key corridors (considered further at section 11.7 Legal and Other Considerations below).

Conclusions

11.2.88 Conclusions are as follows:

- The partnership fund is of uncertain value given the contingent nature of any contribution, relying on identified savings being realised and depending on the level of profit made by Stagecoach which would feed into the profit share arrangement;
- Value for money for public investment would be significantly lower compared with franchising the whole of Greater Manchester because of the reduced scope for action to make a change to network and fares and other factors; and
- Opportunities for implementing 'Phase 2' measures may be more limited in the partnership area.

12. Any market intervention is sustainable in the long-term
Objective
• Any intervention in the market should be feasible in its commercial and management arrangements. • Any intervention in the market is long lasting, given the need to create a sustainable improvement in the Greater Manchester bus market. It should be still in place in 2040 at the least.

Key issues

11.2.89 Longevity of franchising in the North: as explained in the Assessment, franchising under the Proposed Franchising Scheme would represent a long-term intervention and the same applies for franchising being introduced in the North of Greater Manchester. However, any instability in the South of Greater Manchester could impact the whole of Greater Manchester given the necessary interface between the North and South of Greater Manchester under the proposal.

11.2.90 Longevity of a partnership: For the South of Greater Manchester, it would be expected that any partnership would be agreed for around 10 years as per Stagecoach's proposals. At that stage, it could be renegotiated, a new partnership agreed, or operators could choose to return to the previous, wholly unregulated market. There would be no assurance that the benefits would continue over the long-term particularly as Stagecoach notes that: "*There is, however, a clear level of uncertainty today, of what post 10-years will entail*" (p34).

11.2.91 Whatever the governance arrangements that might be assumed, any partnership that could be agreed carries the risk that improvement would not be sustained over the long-term. Operators in a deregulated market would have different and potentially divergent objectives and the potential to sustain a partnership over the very long-term in this environment is low. It is therefore unlikely to still be in place in 2040 without significant change. Whilst it may be the case that successive partnerships would continue to deliver benefits to passengers, partnership arrangements can break down, and the experience of some other partnerships is that initial commitments are not always sustained, for a variety of reasons. It is also possible that not all operators in the South of Greater Manchester would agree to enter into a partnership or may agree less ambitious standards.

Conclusions

11.2.92 Conclusions are as follows:

- As with the partnership options tested in the Assessment, the longevity of the partnership in the South of Greater Manchester is not certain.

13. Any market intervention is affordable
Objective
• Any intervention in the bus market is affordable for GMCA over the long-term. • Affordability in each year following intervention.

Key issues

11.2.93 Cost implications for franchising: the Proposed Franchising Scheme proposed a smoothing out of the EBIT margin earned by operators across Greater Manchester. Although the total quantum of risk taken on by GMCA may be lower if franchising was limited to North Manchester than under the Proposed Franchising Scheme (given that it would only take revenue risk for the North of Greater Manchester), as the North achieves lower EBIT margins than in the South it is possible that the North could require additional subsidies to achieve the outputs that could be possible if franchising was introduced across the whole of Greater Manchester. Additionally, TfGM would incur costs of administering the partnership. This is considered further in the Section 11.5 Financial Implications and Section 11.6 Management Implications below.

11.2.94 Ongoing financial pressures: operators in the South of Greater Manchester would need to respond to financial pressures that may arise (e.g. by increasing fares or cutting the network) in a similar way to how TfGM might under franchising in the North of Greater Manchester. However, the range of tools available to operators to deal with such pressures are more limited – GMCA may be able to take a longer-term view and subsidise the running of buses more easily to avoid increasing fares or cutting the network if GMCA made such a decision. It is also worth noting that, given the proposal was for a voluntary partnership agreement, the enforceability of the contract would therefore depend on its terms and what remedy is sought for any breach, the details of which are not included in Stagecoach's proposal. Therefore, if the terms of the VPA are not stringent enough with sufficient remedial actions included, operators may be able to exit the agreement at any time, so one way for Stagecoach or other operators to make running the services affordable could be to exit the partnership agreement or choose not to honour some of its commitments given difficulties in their enforcement by TfGM. This may mean that the interventions are not enduring. Alternatively, operators could focus on meeting the commitments made and reduce commercial mileage to reduce costs, which could have a detrimental effect on the scope of services run in the South of Greater Manchester.

Conclusions

11.2.95 Conclusions are as follows:

- This may make a franchising scheme that applies only to the North of Greater Manchester relatively costlier and less financially sustainable; and
- In the South of Manchester, any interventions would need to be agreed between the parties of the partnership agreement which could delay their implementation and reduce the benefits to Greater Manchester as a whole given the separate process to implementing interventions in the North of Manchester.

Strategic Implications – Conclusion

11.2.96 It is recognised that there are potentially competition issues with the proposals, which would need to be resolved in order to implement the proposal legally, and so Stagecoach and TfGM would propose to undertake discussions on these with the CMA if it was considered appropriate to do so. For the purposes of this report, however, it is assumed that these issues will be resolved should the proposals be accepted.

11.2.97 Stagecoach intended that its proposal would aim to create a 'seamless' market in Greater Manchester where GMCA takes less risk and has lower costs than with the current franchising proposal as there will be a smaller market to franchise. However, the level of benefit that the proposal may bring is likely to be moderate due to the difficulties inherent in having two regulatory frameworks and the constraints that this imposes on what can be achieved, making it unlikely that GMCA would achieve the Vision for Bus as part of its Greater Manchester Transport Strategy 2040 if the option suggested by Stagecoach was pursued. There remains a risk that the partnership breaks down (given that it is voluntary in nature) and a risk that the partnership is not renewed / no longer relevant after 10 years.

11.2.98 Stagecoach's financial proposals are of note as these included a profit-sharing mechanism, but this would be of limited value given that Stagecoach's central forecasts show that there would be no profit share over the first half of the partnership and after this point the target level of profit would need to be renegotiated with Stagecoach.

11.2.99 Stagecoach's proposal to commercialise some tendered services would enable GMCA to achieve savings, but for the reasons set out above, there is a risk that the realisation of this saving is not enduring over the term of the partnership. Stagecoach's request that this amount is then invested by GMCA into a partnership fund has the effect of constraining GMCA's ability to choose where to spend this money and any contribution to the partnership fund via the profit share mechanism is likely to be limited given that the profit share mechanism is likely to deliver no value for the reasons explained.

11.2.100 Stagecoach's proposals on fleet investment provided a clear commitment to ensure that their South Manchester fleet is Euro VI compliant by September 2021. However, as this is subject to agreed funding from Defra (as is the case currently) it is not certain that this would lead to any significant benefit relative to the Do Minimum option. This is considered further at section 11.3 Economic Implications below.

11.3 Economic Implications

Introduction

11.3.1 This section considers the economic implications of Stagecoach's proposals from the first consultation. The aim of this section is to comment on the level of benefit that is likely to be achievable across Greater Manchester and therefore determine whether the proposals could change the conclusion of the Economic Case in the Assessment. The Financial Implications section below contains a discussion of the cost implications to GMCA, that are also of relevance. References in bold are references to Stagecoach's 35 initiatives.

Simplified and integrated fares

Simplicity

11.3.2 To recap, Stagecoach proposed to reduce the number of fare bands to four , create a single suite of period tickets for its services by January 2021, extend the introduction of carnet ticketing and continue to offer flat fares for adults travelling on buses between 19:00 – 23:59 and 00:00 – 04:00.

11.3.3 The Strategic Implications section above explains why when taking the Greater Manchester as a whole, despite Stagecoach's proposals in respect of the South, the fares and ticketing offer across Greater Manchester would potentially be more complex than under the Do Minimum.

Value for Money

11.3.4 In contrast to the Operator Proposed Partnership, Stagecoach did not propose to reduce the existing premium between the multi-operator and individual operator tickets.

11.3.5 Stagecoach's proposal to create a single suite of period tickets would mean that some discounts are removed (unlike under the franchising proposals) so this may lead to some disbenefits.

11.3.6 In terms of concessions and targeting socio-economic needs Stagecoach proposed to continue to participate in existing schemes it is currently part of and align on the implementation timelines of any future schemes set out by GMCA.

Fare capping

11.3.7 Stagecoach proposed to introduce fare capping on their services by the summer of 2021, introduce a capped product between Stagecoach and Metrolink by the end of 2021 and work with TfGM on an ongoing basis to deliver fare capping that works for both the franchised and partnership areas. This means that capping could be introduced more swiftly on Stagecoach's own services, but as explained in the Strategic Implications section above, there are a number of potential issues in terms of achieving GMCA's objective of Greater Manchester-wide capping.

Supported services

11.3.8 Stagecoach requested that customers who purchase a commercial operator ticket can use their ticket on largely similar tendered services in the South of Greater Manchester. This may have some benefit but, as Stagecoach has noted, the level of this benefit may be mitigated by Stagecoach's separate proposal to commercialise some of the tendered services (as these would no longer be supported services but a component of Stagecoach's network).

11.3.9 There may be some benefit in rolling out fare capping for the South of Greater Manchester more swiftly than may be possible under the Proposed Franchising Scheme. Taking Greater Manchester as a whole, however, it is likely that the benefit provided under this option would be substantially lower than under the Proposed Franchising Scheme and would lead to individuals potentially paying a premium over the price of an individual operator ticket to travel across Greater Manchester. It is also worth noting that the effect of Stagecoach's proposal to commercialise some of the services in the South of Greater Manchester could in fact reduce the take up of the Greater Manchester-wide ticket.

Fares – Interoperability

11.3.10 Under the proposal, there would be a smaller size franchised area that interoperability benefits would be modelled over, significantly reducing the interoperability benefits that could be achieved.

11.3.11 Whilst Stagecoach proposed to better promote a GMTL multi-operator style ticket covering the whole of Greater Manchester there is a limit to how much Stagecoach could market a ticket that is more expensive than its own without a mechanism that would enable the premium between the tickets to be significantly reduced. The impact of this marketing activity on the uptake of a Greater Manchester-wide ticket would, therefore, be very limited and would not necessarily offer much additional benefit relative to the Do Minimum option. There may be improved acceptance of tickets on certain routes, as modelled under the Ambitious Partnership option in the Assessment.

Customer experience

11.3.12 Stagecoach proposed that they could adopt appropriate TfGM-led branding and the proposal sets out how this would work in terms of bus livery, ticket marketing, uniform/badges and digital channels.

11.3.13 As noted in the Economic Case Supporting Paper published alongside the Assessment, unifying the bus system under a single brand will create benefits in the areas of simplicity in the areas of fares, network and the interface between customers and the industry. It would also provide greater confidence and assurance amongst passengers regarding the accountability of decision making and may also result in wider non-user placemaking benefits (such as in the case of the London transport brand which is known globally). It is the unification and not the single livery that is of importance.

11.3.14 Under the Proposed Franchising Scheme, a single brand goes alongside a simplified fares and ticketing proposition (removal of individual operator tickets), a single interface between the providers and users of the bus services, and increased accountability for service performance.

11.3.15 The proposal by Stagecoach inevitably faces constraints as to how far it can go given that the buses and other marketing material would still need to be clearly distinguished between operators given the different ticket arrangements proposed and different parties taking accountability for running the services.

11.3.16 Stagecoach's proposal to make the buses look similar without changing the underlying ticketing proposition (and potentially making it more complicated as explained at sections 11.2.40 to 11.2.42 in the Strategic Implications section above), however, could lead to disbenefits relative to the Do Minimum option. Stagecoach also proposed that a TfGM digital app and website could provide customers with a single point of contact and propose to work with TfGM to potentially provide a managed service (to provide some of the back-office infrastructure). Whilst this is a meaningful proposal, unlike under franchising the whole of Greater Manchester, operators would still likely need to promote their own tickets on their own platforms so there would still exist separate, partial sources of information.

11.3.17 The branding benefit modelled under the Proposed Franchising Scheme would not be achieved.

Improvement in on-bus experience

11.3.18 Stagecoach proposed to deliver a customer commitments pledge from day one of the partnership and introduce mid-service cleaning. There are proposals within the multi-operator partnership proposal on these areas. It is likely that there could be some marginal benefit.

11.3.19 Stagecoach's proposals on community and employees could help improve staff morale and on-bus experience for customers. However, as highlighted by Stagecoach in their proposals, most of these are commitments to continue doing things or improving things that Stagecoach is already doing. It is reasonable to assume that under all options operators would initiate a range of similar initiatives to varying degrees as part of their desire to stimulate goodwill and contribute to the community that they serve.

11.3.20 Stagecoach proposed to begin to provide additional customer experience staff, enabling every bus station in the area to have an inspectorate present during peak periods. Stagecoach's forecast for additional expenditure during the partnership period does not include a provision for additional customer experience staff, meaning that their proposal would be achieved by either redeploying existing staff or replacing current staff.

Safety of travel

11.3.21 Stagecoach committed to continue to support the TravelSafe Scheme over the next 10 years. It is assumed that Stagecoach would also do so under the Do Minimum option and therefore it is not clear whether this commitment offers any additional benefit.

Information

11.3.22 Stagecoach proposed to begin to provide real-time information from month three of the partnership. This could enable customers to better plan journeys, but the Act include provisions that will in due course require such information provision which would mean that the majority of this benefit will arise without intervention.

Training

11.3.23 Stagecoach proposed to continue to maintain high-quality training offered to drivers / continue to enhance course materials, continue to deliver engineering technical and driver apprenticeships throughout the duration of the partnership and have proposed to offer to provide driver training to SMEs at a commercial rate. Stagecoach's commitments to maintain their standards / continue improvement would not necessarily bring additional benefit relative to the Do Minimum option, nor necessarily exceed that which could be achieved under other reform options. Stagecoach's proposal to sell training might be helpful to other operators, particularly SMEs.

Wi-Fi

11.3.24 Stagecoach proposed to introduce Wi-Fi on all buses in their South Manchester fleet by the end of year one of the partnership (quicker than under the Proposed Franchising Scheme). It is possible that there could be some additional benefit incremental to the Operator Proposed Partnership, and this is considered amongst other potential benefits in the conclusion section of the Economic Implications below. The impact, however, is very small.

Network

Integration and efficiency

11.3.25 GMCA would have the ability to control the network planning process for routes in the North of Greater Manchester, whereas in the South of Greater Manchester, operators would retain the responsibility for network design and planning working as they choose with GMCA in partnership.

11.3.26 The network design work presented in the Economic Case of the Assessment showed what could be done under the Proposed Franchising Scheme to make the network more comprehensive, simple, frequent, direct, stable and responsive. This could be carried out for the North of Greater Manchester, but the amount of change that could be achieved in the North of Greater Manchester may be lower than for the same area when franchising the whole of Greater Manchester because GMCA would not have the benefit of being able to redistribute resources across the whole of Greater Manchester.

11.3.27 In the South of Greater Manchester, it is likely that the network would remain similar to the current network, and as operators would continue to compete in some areas, the network would not be significantly simplified or made more integrated. Thus, it may be challenging to agree changes that would enable the network to be more comprehensive, simple, frequent, direct, stable and responsive.

11.3.28 Stagecoach proposed a network working group and whilst there has not been a proof of concept conducted on how the working groups proposed by Stagecoach would work in the South of Greater Manchester, TfGM assumes that at a minimum, it would be capable of operating in the way explored for the multi-operator partnership. This would not enable GMCA to make direct changes to the network as it could under the Proposed Franchising Scheme meaning that the extent of benefits is limited.

11.3.29 Stagecoach did intend to make some improvements to their route change consultation process and provide route performance data for unprofitable routes which would provide TfGM with more visibility over the reasons for changes being made to services than it currently has, but as there would be multiple actors making decisions, it would be more difficult for GMCA to fully integrate the network than when franchising the whole of Greater Manchester under the Proposed Franchising Scheme.

Commercialisation of tendered services

11.3.30 Stagecoach proposed to commercialise a portion of the current tendered services and have estimated that this would provide GMCA with an annual saving of £1.8 million per annum once the current contracts expire. This would release some funding for GMCA. Section 11.2.10 in the Strategic Implications section above identified significant issues in terms of realising this saving and the durability of the saving over the appraisal period. Nevertheless, Section 11.3.40 to 11.3.44 below consider potential uses for any saving generated.

Network – Fleet Investment

Fleet investment

11.3.31 Stagecoach proposed to reduce the average of their fleet age from 8.03 years to 7.0 years by December 2023 and maintain a maximum age of 15 years and to fit Audio-Visual on all its buses by December 2023. Stagecoach also proposed to deliver a Euro VI compliant fleet by September 2021 subject to funding and agreed terms for retro-fit.

11.3.32 Stagecoach's proposal in respect of Euro VI compliance by September 2021 would not necessarily deliver more than that which could be achieved under the Do Minimum option, as the commitment is caveated as being subject to Defra funding for retrofitting existing fleet to be Euro VI compliant (page 34 of the proposals document in the dependencies section).

11.3.33 Stagecoach also proposed that 45% of their fleet would be 'better' than Euro VI compliant by September 2021. However, when considering how much benefit this brings relative to the Do Minimum option, it is important to note that Stagecoach's current fleet profile contains over 100 hybrid vehicles that once retrofitted would fall into the category of "*better than Euro 6"*. Stagecoach's proposal to achieve 45% of their fleet being better than Euro VI is therefore achievable only by virtue of the Euro VI compliance proposal. It is possible that any new fleet purchased between now and September 2021 would fall into the better than Euro VI category, but as Stagecoach has only committed to purchasing "*a balance of new vehicles (which are Euro 6, ultra-low or zero emission*" (p38), taken together, these proposals only amount to a firm commitment on Euro VI (which is subject to agreed funding from Defra as explained above).

11.3.34 Over the longer-term, TfGM would not have the same degree of control over the specification of buses in the South of Greater Manchester (compared with when franchising the whole of Greater Manchester) which may hinder its ability to deliver further change beyond that agreed with Stagecoach in the initial years of partnership.

11.3.35 Having two different regulatory regimes in Greater Manchester may make it challenging to implement future clean air measures given the differing policy levers that would be available.

11.3.36 If there were a reduction in average fleet by virtue of these proposals it is difficult to see the marginal difference this would make at fleet level being of benefit to passengers.

Network – Congestion and Service Punctuality

Network working group and performance accountability

11.3.37 Stagecoach proposed to create a working group from the start of the partnership including franchise operators, operators in the South of Greater Manchester, the highways authority and TfGM (on behalf of GMCA). Stagecoach proposed to implement quarterly performance meetings and are willing to be held accountable for its performance to monitor performance metrics. This group would work together to reduce journey time variability, increase reliability and reduce congestion.

11.3.38 Whilst the details of the working groups have not been discussed, it is likely that there could be a process set up in a similar way to that envisaged under the multi-operator partnership, with some potential additional accountability due to Stagecoach's willingness to be held accountable for its performance. Stagecoach's separate proposal to fund an additional signal engineer and an inspector within UTC may help to improve the communication between TfGM and operators.

11.3.39 It is important to note that no benefit in relation to potential highway infrastructure investment has been modelled in the Assessment for any of the options of reform given investment cases are considered on a case by case basis as under the Do Minimum. However, there is a significant amount of Quality Bus Corridor infrastructure investment planned under the GM Transport Strategy 2040 and the associated Delivery Plan, and there is no reason why this proposal would not be progressed in either the Do Minimum option or under the Proposed Franchising Scheme. Nevertheless, as Stagecoach's suggestion that GMCA invests some savings generated (as a result of Stagecoach commercialising some tendered services) effectively amounts to incremental funding for infrastructure improvements, the potential benefit associated with doing so is considered below (see Section 11.3.40 in the financial proposals section below).

Financial proposals

Profit share mechanism

11.3.40 As explained earlier, Stagecoach's central profit forecast would not lead to a profit share in the first five years of the partnership. Whilst Stagecoach presented some potential scenarios to TfGM in which revenue could rise if investments were made that had the effect of improving Stagecoach's profitability, there is no clear plan as to how these scenarios would be achieved / which parties sponsor the investment that would enable these scenarios to be realised. After year five of the partnership, the target level of profit would be renegotiated. Potential downside risks to Stagecoach's profitability may also offset any increases in profitability as a result of measures, thereby further reducing the chance of GMCA receiving a profit share.

Partnership fund

11.3.41 As explained earlier, the partnership fund would include any saving that GMCA generated as a result of Stagecoach commercialising some tendered services and a contribution from the profit share mechanism.

11.3.42 Section 11.3.30 above explains why the value of any saving from the commercialisation of tendered services is uncertain and as noted above, it would not be reasonable to assume any contribution from the profit share contribution to the fund.

11.3.43 Notwithstanding this, the partnership fund could be put towards the following initiatives as suggested by Stagecoach:

- Zero-emissions vehicles on a specific route;
- New routes;
- Kick-start initiatives;
- Social & economic;
- Infrastructure changes;
- Night services;
- Congestion solving measures; and
- Expediting roadworks to avoid congestion.

11.3.44 As the only saving identified by Stagecoach is a potential saving due to Stagecoach commercialising some tendered services (which has issues noted at section 11.3.30) and Stagecoach request that the majority of these funds are invested back into the South of Greater Manchester, there may be some limitation in GMCA achieving VfM. Nevertheless, there would likely be some benefit, and this is considered (together with other benefits noted) in the conclusion.

Potential delay to making an intervention in the North of Greater Manchester

11.3.45 As set out at section 11.7 Legal and Other Considerations below, it would be necessary to undertake a new assessment of a franchising scheme in the North of Greater Manchester if GMCA wanted to consider a franchising scheme applying to the North of Greater Manchester only. This would delay the level of benefit associated with franchising (in the North) and would lessen the present value of any interventions due to this delay and the discounting for the delay period.

‘Phase 2’ interventions

11.3.46 As set out in the Assessment at section 8.8, the opportunities for implementing ‘Phase 2’ measures may be more limited under a partnership because it would not be able to undertake some of the interventions under a partnership. Having two different regulatory regimes covering Greater Manchester means that there would be different policy levers available for different areas of the city, which could potentially lead to unforeseen negative consequences.

Costs

11.3.47 Section 11.5 Financial Implications below explains how the proposals would affect affordability. Although not repeated here, as the conclusions on affordability have economic implications (in terms of costs of the scenario), the conclusions of the Financial Case are taken into account when concluding on the Economic Implications – see below.

Economic Implications – Summary

11.3.48 The Assessment concluded that franchising offers better overall value to GMCA than the Operator Proposed Partnership as it offered the highest NPV and a broadly comparable BCR to the partnership options. It also provides a much more durable reform and a better platform for further investments in the industry.

11.3.49 In order to determine whether or not the conclusions of the Assessment remain valid it is therefore necessary to consider what level NPV/BCR the proposal could deliver, its durability and its effects on ‘Phase 2’ vision. Below is a summary of the benefits achievable (from the above analysis) and the impact that these are likely to have on these issues, taking into account the impacts on costs as outlined in the Financial Implications section below.

Benefits achievable

11.3.50 Below is a summary of the likely benefits achievable under Stagecoach’s proposal:

Network

11.3.51 Network benefits account for 14% of the user benefits modelled under the Proposed Franchising Scheme. As explained in the analysis above, any network benefits would be substantially lower compared with the Proposed Franchising Scheme as the area over which GMCA could make the changes to the network would be smaller in size and operators would decide what to do in the South (there may even be disbenefits at the boundary of the North and the South for customers). There may be some benefit from Stagecoach commercialising £1.8 million of tendered services but this saving is uncertain for the reasons set out earlier.

Fares and ticketing

11.3.52 Fares benefits make up 16% of the user benefits modelled under the Proposed Franchising Scheme. This is due to the reduction that current System One ticket holders would experience as all fares were unified at the operator own price level. As Stagecoach does not propose a reduction in the existing premium between the multi-operator ticket and individual operator tickets, TfGM cannot assume this benefit would be delivered.

11.3.53 Interoperability benefits make up 15% of the benefits modelled under the Proposed Franchising Scheme. This would only be partly achievable for the North of Greater Manchester and whilst there may be improved ticket acceptance on some tendered services within the South, this may only offer limited benefit (particularly as Stagecoach is commercialising some of the tendered services in the South).

Quality

11.3.54 Quality benefits make up 55% of the user benefits modelled under the Proposed Franchising Scheme, and benefits of unification of the system under a single brand make up around half of this. For the reasons explained earlier, this element of the benefits modelled under franchising would not be achieved under the split-Greater Manchester solution and there may even be disbenefits if a unified livery was introduced without unification of the service offer and core 'brand', as this would create a confusing and complex ticketing and customer service arrangement. As noted, some of the quality benefits may be delivered sooner and to a higher standard for the South of Greater Manchester alone (e.g. the introduction of Wi-Fi, fare capping on Stagecoach buses in the South, ticket acceptance on tendered services, mid-journey cleaning, some additional staff proposed). However, the quality benefits would likely not be higher in total compared with under franchising when taking into account the reduction in benefit from branding.

11.3.55 Overall, benefits would be substantially lower than under the Proposed Franchising Scheme and potentially even lower compared with the Ambitious Partnership option modelled (given that the Ambitious Partnership option included the assumption that the premium between multi-operator and individual operator tickets could be reduced, but this proposal is not contained within Stagecoach's proposal).

11.3.56 In addition, the ability to further invest in bus under the 'Phase 2' vision is limited in the same way as under the other partnership arrangements for the South of Manchester.

11.3.57 There are also the following strategic issues with the proposals, discussed at section 11.2 Strategic Implications above, that inevitably may further impact on the deliverability of benefits referred to above:

- As the VPA is a voluntary agreement there is a limited degree of enforceability;
- There is a risk that the partnership is not renewed after the initial ten-year term;
- Having two regulatory frameworks for buses would mean differing policy levers between the North and South and may lead to unforeseen consequences and make it more challenging to introduce 'Phase 2' measures; and

- There would be a delay (as noted in the Legal and other considerations section below) in implementing any franchising scheme in the North of Greater Manchester given that this would need to be assessed again – thus delaying the impact of the benefits that could be delivered in the North.

Costs

11.3.58 Section 11.5 Financial Implications and Section 11.6 Management Implications below conclude that although the franchised revenues and operating costs would relate to a smaller geography and it is likely that the scale of the financial risks would reduce in proportion to revenues and operating costs (compared with the Proposed Franchising Scheme), the overall funding requirement would likely not reduce in proportion to the scaled-down revenues and costs in a franchised area, as (a) there would be costs to manage the partnership, and (b) whilst some franchising costs would potentially reduce in line with revenues and operating costs (depots and on bus equipment), other costs are likely to be fixed or reduce to a lesser extent (management systems, resources). As explained at section 11.5 Financial Implications below, it is also worth noting that as Stagecoach is commercially the most successful and profitable operator in Greater Manchester, there is thus a risk that the revised franchised area is commercially weaker and requires additional ongoing funding as a result.

Conclusion

11.3.59 The combination of significantly lower benefits compared with when franchising the whole Greater Manchester under the Proposed Franchising Scheme and costs that are likely to be proportionally higher for each of the constituent parts that make up the whole means that the NPV and BCR of Stagecoach's proposal are both likely to be substantially lower than the Proposed Franchising Scheme. There is even a possibility that the NPV and BCR could be lower than that reported for the Ambitious Partnership option given that there are key areas where Stagecoach's proposal does not deliver – e.g. there is no proposed reduction in the premium between the Greater Manchester-wide ticket and individual operator tickets (explained above). It is also worth noting that the effect of Stagecoach's proposal to commercialise some of the services in the South of Greater Manchester could in fact reduce the take up of the Greater Manchester-wide ticket albeit to the benefit of some passengers.

11.4 Commercial Implications

Partnership in the South of Greater Manchester

11.4.1 Part 3 of the Commercial Case within the Assessment sets out the Commercial Case for the partnership option and, within it, sets out an introduction to the partnership model, a description of the mechanisms and powers relating to the delivery of bus partnerships and a description of the proposed mechanisms to support the partnership proposals considered in the Assessment.

11.4.2 Stagecoach proposed that the partnership in the South of Greater Manchester is governed by a VPA in a similar manner and so many of the assumptions made in the Assessment as to how this would operate are similar, but there are the following key differences:

- There would likely need to be an overarching VPA with common commitments and individual VPAs setting out individual commitments with each of the individual operators in the South of Greater Manchester (at least those willing to participate);
- Stagecoach has proposed that there would be Advanced Quality Partnership Schemes (AQPS) covering key corridors/routes to establish and then uphold standards agreed. TfGM would need to consult on any proposed AQPS and these would need to pass the relevant competition tests (see Section 11.7 Legal and Other Considerations below); and
- Technicalities would need to be worked through in terms of agreeing how the profit share and partnership fund would work in practice. This may also require further discussion to establish protocols for the allocation of costs (if Stagecoach has operations in the North as well as the South) and agreement administering the fund.

Franchising in the North of Greater Manchester

11.4.3 As explained at section 11.7 Legal and Other Considerations below, TfGM would need to undertake a new assessment of a franchising scheme and consult on a new scheme covering the North of Greater Manchester given that the currently Proposed Franchising Scheme covers the whole of Greater Manchester. The franchising scheme itself may differ in nature to the one assessed, and this would need to be determined.

11.4.4 There are the following key commercial implications on the franchised areas in particular:

- As explained at section 11.7 Legal and Other Considerations below, there would likely be a delay of around 18 months to introduce a franchising scheme in the North of Greater Manchester compared with the current timetable, and this means that there may be a delay to delivering benefits;
- As set out at section 11.6 Management Implications below, the incremental operating costs of running combined partnership and franchising networks could be less than operating the network under the Proposed Franchising Scheme, but it is likely that the overall scenario would be less efficient to manage as TfGM would be effectively monitoring the bus network in Greater Manchester under two different regulatory frameworks; and
- As Stagecoach is commercially the most successful and profitable operator in Greater Manchester there is a risk that the revised franchised area is commercially weaker and

requires additional ongoing funding as a result (discussed below at section 11.5 Financial Implications).

Cross-boundary issues

11.4.5 The issues set out at section 33 of the Assessment in relation to cross-boundary services for the Proposed Franchising Scheme would be similar at the boundaries of a franchising scheme for a North of Greater Manchester and a partnership in the South of Greater Manchester; however, there would also now be an ongoing boundary across the centre of Greater Manchester which would introduce new impacts not considered in the Assessment.

11.4.6 Given the clear customer need for services that cross the North and South boundary, there would need to be arrangements in place to enable buses to run across the boundary as seamlessly as possible.

11.4.7 There would need to be arrangements in place to enable services from the South of Greater Manchester to enter the franchised area. The likely considerations as to how this would operate are similar to those at section 33 of the Assessment. This means that operators would need to obtain a service permit to operate in the North of Greater Manchester and this would create an additional administrative burden on operators in the South of Greater Manchester. To obtain a permit, operators would need to pass the relevant legal tests set out in the Act, the focus of which will likely be on whether the services would have an "*adverse effect"* on a franchised service. If so, it is unlikely that the service would be able to obtain a permit and therefore could not operate in the North of Greater Manchester.

11.4.8 There would also need to be arrangements for franchise services to run into the partnership area in the South. These, however, will be less onerous, as services operating into the South from the North would not require a service permit to run. They would instead need to comply with the usual registration requirements and would need to be secured by GMCA under non-franchising powers (as GMCA would only be able to exercise its franchising powers under the Act to run services in the North of Greater Manchester), and they would be secured in the same procurement as the local service contract for the part of the service in North Manchester, thereby not significantly adding to the administrative cost for GMCA.

Competition

11.4.9 There may be some impacts on the level of competition resulting from the proposal with associated commercial implications.

11.4.10 As the franchised area would cover only the North of Greater Manchester, it may be more challenging to attract the same level of interest from bidders as would be possible when franchising the whole of Greater Manchester. This creates a higher risk that TfGM receives bids that are lower VfM compared with when franchising the whole of Greater Manchester. Potential bidders may (rightly or wrongly) believe that Stagecoach and any other operators that enter partnership in the South have an advantage in bidding, reducing the perceived attractiveness of the franchises.

11.4.11 Stagecoach is the largest single operator in the South of Greater Manchester and, following the introduction of franchising in the North, there would not in all likelihood be a similarly sized competitor in Greater Manchester with access to the relevant assets (mainly depots) to run services from in this area.

11.4.12 Stagecoach also proposed to use AQPSs to maintain standards (e.g. vehicle quality) on key corridors. Whilst it is plausible that the AQPSs could pass the relevant competition tests, there would still likely be a negative impact on competition – the same standards could potentially be introduced under franchising without the associated negative impact on competition.

Commercial Implications – Conclusion

11.4.13 Whilst Stagecoach's proposals result in a combination of two options already considered, the proposal would mean allowing two different regulatory frameworks for the bus network in Greater Manchester and as explained above this leads to some complications. The ring-fenced area for franchising in the North of Greater Manchester may also be less attractive to market entrants and creates risks in terms of achieving VfM.

11.5 Financial Implications

11.5.1 As set out in the Assessment, GMCA would have contrasting financial responsibilities under a franchising scheme and a partnership.

11.5.2 Under a franchising scheme, GMCA would have control and accountability around key decisions over fares, routes, service quality and funding. In line with this control and accountability, it would also assume direct financial risk in relation to farebox revenues and operating costs.

11.5.3 Under a partnership, GMCA would have similar financial responsibilities as under the Do Minimum option or status quo. The bulk of services would continue to be commercially operated, with GMCA allocating funding to tender non-commercial services and reimbursing operators on a 'no better, no worse' basis for concessionary schemes. GMCA would not control key decisions under a partnership and similarly would not assume direct financial risks in relation to farebox revenues.

11.5.4 The Assessment notes partnerships would require additional resources from GMCA to manage and to the extent partnership interventions increased demand (particularly concessionary demand) relative to status quo then this would result in a requirement for increased concessionary reimbursement.

Stagecoach's South Manchester Partnership Proposal

11.5.5 Based on the characteristics of the Proposed Franchising Scheme compared with the partnership options considered in the Assessment, it is considered likely that Stagecoach's proposal to have a mixed franchising and partnership Greater Manchester network would have the following financial advantages and disadvantages.

Advantages

11.5.6 As noted, under a franchising scheme GMCA assumes control and also assumes direct financial risks. As the franchised revenues and operating costs would relate to a smaller geography it is likely that the scale of these financial risks would reduce, in proportion to revenues / operating costs, compared with the Proposed Franchising Scheme.

11.5.7 Whilst some franchising costs would potentially reduce in line with revenues and operating costs (depots and on bus equipment), other costs are likely to be fixed or reduced to a lesser extent (management systems, resources). Therefore, the transition costs and associated funding requirement is likely to reduce in absolute terms, but the requirements would likely not reduce in proportion to the scaled-down revenues and costs in a franchised area. This is considered further at section 11.6 Management Implications below.

11.5.8 The Stagecoach proposal includes a profit share mechanism, but for the reasons explained earlier, the profit share available might be limited.

11.5.9 Stagecoach's request that GMCA reinvests any savings from the tendered services budget that are realised due to Stagecoach commercialising a portion of the tendered services would have the effect of constraining GMCA's ability to choose where to spend this money but may have some limited benefit as explained at section 11.3 Economic Implications above.

11.5.10 The investment figure of £142 million quoted by Stagecoach is not a cost borne by GMCA so is not directly relevant to the costs of the scheme from the perspective of GMCA.

Disadvantages

11.5.11 GMCA is likely to have to undertake a new assessment for the revised proposals for franchising in North Manchester (which would be considered alongside a partnership in South Manchester) and a further independent audit and consultation on the revised proposals, resulting in additional scheme development costs for GMCA.

11.5.12 Under the Proposed Franchising Scheme budgets would be set by reference to all sources of income (including farebox revenues and public funding) and network operating costs. Stagecoach is commercially the most successful and profitable operator in Greater Manchester and there is a risk the revised franchised area is commercially weaker and requires additional ongoing funding as a result.

11.5.13 Whilst noted as advantageous that the transitional funding requirement could reduce in absolute terms, GMCA is still likely to need to invest significant transitional funding for a partial franchise scheme without having full Greater Manchester-wide control.

11.5.14 As noted, GMCA could not pool its funding sources to the same extent under a mixed approach, in particular if the partnership area was successful in boosting demand (and concessionary trips), GMCA would need to reimburse and fund operators for these trips on a 'no better, no worse' basis.

Financial Implications – Conclusion

11.5.15 Stagecoach's proposal for a partnership in the South of Manchester, coupled with a franchising scheme in North Manchester, will result in less financial risk and cost to GMCA than the Proposed Franchising Scheme for the whole of Greater Manchester. The overall funding requirement would not be likely to reduce in proportion to the reduction in the franchised area. There would be costs to manage the partnership and, whilst some franchising costs would potentially reduce in line with revenues / operating costs (depots and on bus equipment), other costs are likely to be fixed or reduce to a lesser extent (management systems, resources). There is also a risk that the smaller franchise area remaining would not be as financially viable as the North is commercially weaker than the South currently. Stagecoach's financial proposals are of note, but the profit share mechanism may not provide a profit share (reasons set out at section 11.2.77 of the Strategic Implications section above) and Stagecoach's offer to commercialise some tendered services providing GMCA with some savings is of uncertain value.

11.6 Management Implications

11.6.1 This section discusses the potential impact of Stagecoach's proposal from a management case perspective as a consequence of operating a partnership in the South (around 40% of the market in Greater Manchester) and a franchising scheme in the North.

11.6.2 The aim of the Proposed Franchising Scheme is to create a seamless network. In practice, however, Stagecoach's proposal has two adjoining and overlapping regulatory frameworks. There are a number of issues to be addressed such as service permits into the franchised areas and dealing with future entrants to market or exits from the partnership. All of this will be difficult to manage and will incur costs. This results in TfGM having to oversee three different types of services (franchised services, partnership services and subsidised services).

11.6.3 The remainder of this section discusses the impact of Stagecoach's proposal, with around 40% of the market being operated as a partnership instead of being included under the Proposed Franchising Scheme, and the impact upon the partnership operating model.

11.6.4 The Management Case in the Assessment can be broken down into three elements:

- The future operating model people and other costs;
- Transition Costs – Implementation costs; and
- Transition Costs – Systems Costs.

Future Operating model – people and other costs

11.6.5 The Assessment considered the incremental resource requirements for GMCA to oversee franchising and partnership and identified resource requirements covering the following areas: leadership, management, network planning, customer contact, revenue protection, sales and marketing, stakeholder management and finance. Other operating costs would be incurred for planning the network, customer and sales and marketing.

11.6.6 Noting that Stagecoach's proposals for the South of Greater Manchester are in some respects more ambitious than the Operator Proposed Partnership (and may therefore require more monitoring from GMCA), it is likely that the TfGM resource costs for overseeing a partnership area in the South of Greater Manchester would be lower than under the partnership models assessed in the Assessment given that the partnership area proposed is smaller.

11.6.7 In a similar way, the cost of running a smaller franchised area would be lower compared with when franchising the whole of Greater Manchester under the Proposed Franchising Scheme as there would be a smaller network to franchise. This would result in some savings compared with if introducing the Proposed Franchising Scheme.

11.6.8 Taking Greater Manchester as a whole, it is therefore likely that the overall TfGM resource cost would fall in absolute terms, providing a saving to GMCA compared with if operating the Proposed Franchising Scheme.

11.6.9 However, it is important to note when taking each of the areas individually, there would not likely be a 1:1 reduction in the costs – some costs are fixed in nature (e.g. systems costs). This means that the cost of running a smaller partnership area would be proportionately higher than running a Greater Manchester-wide partnership, and the resource cost of running a smaller franchise area would be proportionately higher than running a Greater Manchester-wide franchise.

Transition Cost Implementation Costs

11.6.10 The implementation costs would reduce in areas where the costs are related to the number of franchises to be procured and the duration of the implementation activity. However, this would be offset partly by the cost of implementation of the partnership in the South of Greater Manchester. The areas where reductions will be achieved in the combined costs of implementation are:

- Transition PMO;
- Procurement Activities (note that some costs will be fixed);
- Stakeholder Management; and
- Operational Continuity (circa 40%).

11.6.11 The following costs are not envisaged to change because a proportion of these cost are fixed in nature:

- Business Change Costs;
- Legal;
- Specification;
- Modelling; and
- Project Management ETM/AVL/Driver Radio/CCTV/Wi-Fi.

Transition Systems Costs

11.6.12 The implementation of on-bus equipment (which forms part of the Commercial Case) are likely to reduce i.e. 60% of the volume of on bus equipment would be required. However, much of the costs of the ITS implementation would be fully incurred – there are systems costs which are largely independent of the scale e.g. payment calculation engine or Network Planning. It is assumed there would be some savings in the partnership cost as the systems required for franchising would also serve partnerships e.g. Network Planning.

Management Implications – Conclusion

11.6.13 In summary, whilst the incremental operating costs of Stagecoach's proposal of operating a partnership alongside a franchising scheme in the North of Greater Manchester could be less than operating the Proposed Franchising Scheme, it is likely that the overall scenario would be less efficient to manage as TfGM would be effectively monitoring the bus network in Greater Manchester under two different regulatory frameworks. The reduction in savings are not likely to be in line with the scale of the benefits decline of the combined operations.

11.7 Legal and Other Considerations

11.7.1 Should franchising be confined to North Manchester, the changes to the Proposed Franchising Scheme involved would require changes to the area, and the services, to which the scheme would ultimately apply. This may involve changing when some services become subject to regulation and also excepting some services (other than scholars services) from regulation ultimately under the scheme which cross between the area subject to franchising and the remainder of Greater Manchester. These changes to the area and services to which the scheme would ultimately apply would be so fundamental in themselves as to require a new assessment of that revised franchising scheme, its audit and further consultation, particularly given that the proposal would be coupled with a different approach to the provision of services in South Manchester. That would represent overall a course of action in respect of bus services in Greater Manchester not considered in the current assessment nor consulted upon. The procedure set out at sections 123B to 123G of the Act would have to be started again. The need to start a new statutory procedure would inevitably result in delay.

11.8 Further review of proposal

11.8.1 On 27 August 2020, TfGM wrote to Stagecoach and asked Stagecoach to confirm whether in light of the impact of Covid-19 on the bus market, its proposal remained valid or whether it anticipated any changes being required to the commitments in that proposal.

11.8.2 As summarised from section 2.4.18 of the Covid-19 Impact Report, Stagecoach said that it would need to undertake a further review of its proposal in the future and that they were not in the position to *“offer a fully developed alternative”*. In its response to the second consultation Stagecoach also confirmed that *“Operators would clearly like to develop a long-term proposal. However, the passenger demand uncertainty and the wider economic impact both locally and nationally in light of Covid-19 (which TfGM itself acknowledges) is such that developing any reliable partnership is impossible at this time”.* This is also consistent with OneBus’ response to the second consultation (as set out above at section 10.8.3) which shows that operators at this stage are clearly not able to propose detailed alternative partnership proposals due to the current uncertainty.

11.8.3 Instead, Stagecoach made the point in the second consultation that GMCA should consider 'recovery partnerships' as a short-term option which would *“ensure immediate certainty and sustainability of the bus network and at the time same to realise passenger and city region benefits much more quickly than bringing in franchising at this stage”*. Further information about 'recovery partnerships' and TfGM’s consideration of what consultees said during the second consultation on those partnerships is considered at section 13 – of this report.

11.9 Conclusion

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

11.9.2 The proposals can be summarised as follows:

- Operations & fleet investment – Investment in fleet to deliver a reduction in the average age of Stagecoach's fleet in the South of Greater Manchester to seven years, investment in fleet to deliver Euro VI compliance by September 2021 (subject to funding from Defra), as well as a target to ensure that 45% of Stagecoach's fleet in the South of GM is "better" than Euro VI compliant by the same date.
- Network planning & performance – Improved consultation on changes made to services including the provision of additional data on unprofitable routes and the establishment of KPIs including a performance regime. Stagecoach notably also propose to commercialise a portion of the currently subsidised services in the South of Greater Manchester and have calculated that this would represent a saving of approximately £1.8 million to GMCA per annum.
- Customer – Various initiatives to improve customer experience (eleven in total) including a proposed unified brand and a proposed single point of customer contact.
- Fares, Ticketing & Retail – Initiatives aimed at simplifying the fares and ticketing proposition including reducing the number of fare bands to four on its services, the creation a single suite of period tickets for its services in the South of Greater Manchester by January 2021, extending the introduction of carnet ticketing, introducing a flat fare in the evenings and rolling out fare capping on its services in the South of Greater Manchester by the summer of 2021.
- Financial proposals – A proposed profit-sharing mechanism that would split any profit generated by Stagecoach above an agreed "*target level of profit*" between GMCA, a 'South Manchester Partnership Fund' and Stagecoach. The money received by GMCA could be spent across the whole of Greater Manchester on initiatives that benefit the bus user experience and encourage modal shift to bus. Stagecoach proposes that the money in the partnership fund would also be spent on initiatives that benefit the bus user experience and encourage modal shift to bus, with two thirds specifically for reinvestment in the South of Greater Manchester.
- Community & Employee – Stagecoach intends to continue to enhance the role that it plays in the community throughout the duration of the partnership.

11.9.3 Stagecoach anticipated that the partnership would be set up using a VPA, making use of AQPSs on key routes and corridors to enforce certain standards. Stagecoach's intention was that other commercial operators in the South of Greater Manchester may also enter into the South Manchester partnership and confirm that they have received initial support from Arriva. Stagecoach proposed an initial partnership term of 10 years.

11.9.4 The sections set out above analyse the implications of the proposals from the perspective of each of the five cases to understand how likely the proposals are to deliver on GMCA's objectives (Section 11.2 Strategic Implications), whether there is likely to be any economic benefit from Stagecoach's proposals (Section 11.3 Economic Implications), and whether there are any other commercial (Section 11.4 Commercial Implications), financial (Section 11.5 Financial Implications), management (Section 11.6 Management Implications) or legal (Section 11.7 Legal and Other Considerations) issues to consider for GMCA.

11.9.5 Section 11.2 Strategic Implications, above, analyses whether the proposals would have enabled GMCA to achieve the Vision for Bus as part of its Greater Manchester Transport Strategy 2040. The Strategic Implications section finds that overall, whilst Stagecoach intends that its proposal will create a 'seamless' market in Greater Manchester, under the scenario proposed, it would not be possible for GMCA to achieve all of its objectives on simplicity, integration and in a number of other key areas, including network, for Greater Manchester as a whole.

11.9.6 There remains a risk around the longevity of any partnership in South Manchester (one of GMCA's objectives) as the partnership is voluntary in nature. This is an important consideration given that GMCA is seeking to achieve its Greater Manchester Transport Strategy 2040.

11.9.7 In respect of a franchise scheme in the North, there is also the fact that, as explained at section 11.7 Legal and Other Considerations above, the need to assess a new franchise scheme covering the North (alongside assessing a partnership in the South) of Manchester and follow all relevant statutory procedures will inevitably result in delay to the introduction of any franchise scheme, and delivery of the associated benefits, in the North. Therefore, while potentially accelerating the introduction of some initiatives in the South, there would be a delay to when any franchise scheme in the North of Greater Manchester could be delivered.

11.9.8 The implications of the proposals from a commercial perspective are considered at section 11.4 Commercial Implications above. The Commercial Implications section explained that whilst Stagecoach's proposals would result in a combination of two options already considered in the Assessment, the proposal would mean allowing two different regulatory frameworks for the bus network in Greater Manchester and this would lead to some complications (particularly for services at the boundary between the North and South of Greater Manchester) and potential inefficiencies in managing the network. This means that, as Section 11.6 Management Implications explains, whilst the incremental operating costs of operating a partnership alongside a franchising scheme could be less than operating the Proposed Franchising Scheme, it is likely that the overall scenario would be less efficient to manage, as TfGM would be effectively monitoring the bus network in Greater Manchester under two different regulatory frameworks.

11.9.9 The impact on affordability for TfGM is considered at section 11.5 Financial Implications. The Financial Implications section analyses how the overall funding requirement would be likely to change and finds that it would not reduce in proportion to the scaled down revenues and costs in a franchised area, as there would be costs to manage the partnership. It is also worth noting that as Stagecoach is commercially the most successful and profitable operator in Greater Manchester, there is a risk that the revised franchised area would be commercially weaker and require additional ongoing funding as a result.

11.9.10 Section 11.3 Economic Implications concludes that there would likely be significantly lower benefits associated with Stagecoach's proposal when compared with the Proposed Franchising Scheme (partly due to some of the strategic issues noted at section 11.2 Strategic Implications). Combined with costs that are likely to be proportionally higher for the partnership and franchise areas (compared with when introducing either of these proposals across the whole of Greater Manchester on their own), Section 11.3 Economic Implication concludes that the NPV and BCR of both networks under Stagecoach's proposal are likely to be substantially lower than the Proposed Franchising Scheme. The NPV may even be lower than the Ambitious Partnership option, as Stagecoach's proposal would not result in the existing premium between the individual and multi-operator tickets being reduced, as was assumed possible.

11.9.11 Overall, given that GMCA would not be able to achieve its objectives as set out in the Assessment under Stagecoach's proposal to have a partnership in the South and a franchising scheme in the North of Manchester, the conclusion that the proposal would deliver an NPV that is likely to be substantially lower than the Proposed Franchising Scheme and the other matters referred to above, the conclusion in the Assessment that the Proposed Franchising Scheme is the best option for reform of the bus market remains valid in comparison to Stagecoach's proposal.

11.9.12 This conclusion has not changed in light of Covid-19. As set out at section 11.8, Stagecoach's proposed partnership was reviewed again in the context of Covid-19 and the changes that has had on the bus market in GM. Stagecoach has confirmed that it would like to develop a long-term proposal, but that it is not in a position to "*offer a fully developed alternative*", given the passenger demand uncertainty and the wider economic impact both locally and nationally in light of Covid-19 which is such in its view that developing any reliable partnership is impossible at this time.

11.9.13 Stagecoach has also suggested that, once restrictions start to be lifted and passenger demand and wider behaviour starts to reset, local authorities, central government and bus operators should collaborate and deliver an interim 'recovery partnership' as a bridge to a situation when central government funding is no longer required and the future environment is clearer. This is considered separately at section 13 of this report and, in the context of whether, in absence of any detailed partnership proposals from operators at this stage, it would be appropriate to make a decision whether or not to introduce the Proposed Franchising Scheme at section 17.2.

12. First Proposal

12.1 Introduction

Background

12.1.1 As part of their response to the first consultation, First wrote a letter addressed to Eamonn Boylan, Chief Executive of GMCA, dated 7 January 2020. The letter set out the concept of a proposal to adopt a pilot-based approach for both franchising and partnership in Greater Manchester. More specifically, the letter contained their proposal that a local partnership (LP) should be run as a trial in one area, in parallel to any new franchising or similar scheme being piloted in another. First considered that the LP approach would be "*particularly amenable*" to the local circumstances in Oldham where First have their operational base and depot in Greater Manchester.

12.1.2 Given that there was limited detail provided, TfGM engaged with First and offered them the opportunity to expand on their proposal in order for TfGM to appropriately consider it as part of the consultation response process. First (Ian Humphreys, Managing Director of First and John Birtwistle, Head of Policy First UK Bus) delivered a presentation containing their "*Local Partnership Proposal*" to TfGM in February 2020 during which TfGM asked a number of clarification questions in order to understand First's proposition.

12.1.3 Go North West have also raised the principle of running a trial. In their response to the first consultation, they have proposed that franchising should be trialled in sub-area A (or a smaller area), for at least a year, following which there would be a period of reflection and consultation to assess the performance of the Proposed Franchising Scheme to date. This would be done before any decision is made to implement franchising in sub-areas B and C and it could therefore result in a decision to not introduce the Proposed Franchising Scheme.

12.1.4 It is worth noting that, in both instances, the proposal to run a trial of franchising is not comparable with any of the options considered in the Assessment. Further information on this, including why such a trial is unnecessary and how it is thought unlikely that any such trial would be a realistic alternative to achieve GMCA's objectives, as set out at section 16.2.13 of this report. This section only addresses First's proposed LP.

Nature of the proposal

12.1.5 First acknowledged and strongly agree that some form of change in the way that bus services are provided is desirable. However, they considered that the Proposed Franchising Scheme offers an extreme solution, moving from a deregulated free market to a "*rigid gross cost franchising system*". Therefore, they believed that an LP approach is the best option to take, offering reduced risk, lower costs and rapid realisation of benefits, and should warrant a trial.

12.1.6 First proposed that an LP would be set up in Oldham with "*immediate start and rapid progress*" underpinned by a "*simple legal framework agreement*" ideally in the form of a voluntary partnership agreement (VPA). First saw this as being a partnership that would develop over time but could be established within a matter of weeks or months.

12.1.7 In terms of the length of the pilot, First considered that five years would be a reasonable period. There would be annual measurement of performance within the five years. The intention would be to review the performance at the end of the third year of the proposed five-year term. If performance is deemed to have made good progress against the aims and objectives of the LP, there would be a renewal of the LP for a further five years. If the LP is not achieving the agreed objectives, then this review would result in the LP being dissolved at the end of its initial five-year term.

12.1.8 First confirmed that their proposal does not form part of the Partnership Plus proposal put forward by OneBus (and considered in detail at section 10 of this report). However, given that First are a part of OneBus, they confirmed that they would continue to support the Partnership Plus such that if that proposal was accepted by the Mayor to be implemented across the whole of Greater Manchester, they would stand by their commitments under that proposal. Similarly, should the LP proposal be implemented alongside Partnership Plus, First recognised the potential to work alongside OneBus and would continue to play a role in that partnership.

12.1.9 Given that First proposed that the LP would sit alongside a piloted franchising scheme, it is important to note that, as set out at sections 16.2.13 to 16.2.23 of this report, introducing franchising on a pilot basis has not been considered by GMCA and, as such, an approach would likely require GMCA to follow the process set out in the Act to develop, consider and, thereafter, introduce such an option.

12.1.10 In terms of First's proposal, there is very little detail provided, and that is why a proportionate approach has been taken to consider the proposal under the four areas of GMCA's objectives (Network, Fares and Ticketing, Customer and Value for Money). This proposal would, therefore, require a significant amount of further engagement with First to elicit the details of what is being offered. It is, therefore, only possible to review at a high level, what marginal benefits this may deliver over and above what the Partnership Plus might deliver, if combined with it or implemented alongside any new franchising or similar scheme being piloted in another area of Greater Manchester.

12.1.11 First envisaged that the LP would be established by First, TfGM and Oldham Council. Others would be invited to join either at the outset or by means of a Deed of Accession once underway.

12.1.12 A VPA that is limited to Oldham would likely give rise to a number of issues in respect to how this interacts with any other arrangements put in place across Greater Manchester. There are a small number of services that operate wholly within Oldham District, but the vast majority run into one or more of the other districts. For example, the core pattern of service consists of radial routes between Oldham and Manchester City Centre, most of which are run by First but one of which (at the time of writing this report) is run by Stagecoach, which creates a further complication. This problem is replicated in other directions out of Oldham district, with a key example being service 409, which runs from Rochdale District into Oldham District and then into Tameside district.

12.1.13 It is difficult to see how Oldham District alone could be treated in a partnership environment. There are currently a number of services running from Oldham to Manchester, Rochdale and Tameside, and the loadings on these services are likely to be much higher than the local Oldham-only services. It is not clear how ticketing arrangements would be dealt with for any 'cross-border' services (being services which would operate from the LP in Oldham and into any scheme applicable to the rest of Greater Manchester), or those services ran by operators other than First. There are likely to be customers who would want to transfer between a local service in Oldham onto services going out of Oldham, or vice versa, including customers who may want to transfer onto Metrolink. It is not clear how this would be dealt with not only from a ticketing arrangement perspective but also in relation to which partnership commitments are applicable for each service.

12.1.14 First suggested that their proposed pilot could run alongside a franchising pilot or alongside the Partnership Plus proposal put forward by OneBus but have given no further detail as to how this would practically operate. OneBus has not indicated that Partnership Plus could operate alongside other partnerships in Greater Manchester and in an area less than the whole of Greater Manchester. Combining different partnerships, or even different market reforms with different parties involved and different structures would be more complicated from a customer perspective, than the Partnership Plus proposal or the Proposed Franchising Scheme.

12.1.15 In considering First’s proposal, it is important to recognise the implications on Greater Manchester as a whole. GMCA’s objectives apply to the whole of Greater Manchester, and, therefore, should this proposal be implemented alone, it is highly unlikely, if at all, that these objectives would be achieved by 2040. First did not make it clear how any other operator in the Oldham geography would participate in this proposal, nor have they made it clear how this would fit around the proposal of Partnership Plus or a trialled franchising scheme, if that were to be in operation across the rest of Greater Manchester. Should an LP in Oldham operate alongside Partnership Plus, this would result in Greater Manchester managing more than one partnership which will increase the cost of managing partnerships. The objectives of achieving coherence across Greater Manchester would not be met with more than one partnership operating in Greater Manchester.

12.1.16 The proposal put forward by Stagecoach, and analysed at section 11 above, considers the implications of operating two different regulatory frameworks and concludes that the level of benefits would be substantially lower than under the Proposed Franchising Scheme. The Partnership Plus proposal has been analysed at section 10, and this represents a Greater-Manchester-wide multi-operator partnership. The conclusion drawn was that it would offer less benefit than the Ambitious Partnership option that has been modelled in the Assessment. The potential scale of benefits from the LP and Partnership Plus would likely be less than those that would arise from a reform to the market that is uniformly applicable across the whole of Greater Manchester, although the costs would likely remain similar should there be two different partnerships that TfGM would need to manage.

12.1.17 The remainder of this section focusses on the proposals put forward by First that differ from the Partnership Plus proposals and those put forward by Stagecoach.

12.2 First's Local Partnership Proposal

12.2.1 First indicated that the LP pilot in Oldham would be delivered via a VPA. This is similar to Stagecoach's offer to deliver a partnership in the South of Manchester. However, First proposed a pilot partnership in a geographically defined area, on a much smaller scale. The extent to which other operators would agree to this and sign up to it, should it be successful and applied to other districts, is not known as there has not been any engagement with other operators to date with regards to this proposal.

Network

12.2.2 Relevant proposals included:

- The Mayor would have greater involvement in the decision-making of network changes – First's preferred approach would be to commence a joint network review upon launch of the partnership, with option to continue the current network for an initial period of three years, with continuous open book monitoring of patronage and viability. Any changes proposed by the operator to reduce routes and/or frequencies would be approved through TfGM/GMCA, and there would be consideration given to continue to run routes that are not commercial, making use of the partnership funds. The operator remains free to enhance and experiment with growth initiatives where it is believed that an opportunity exists. Unmet demand identified by TfGM or market research could be 'quick-start' funded through agreed partnership arrangements;
- Tendered services – greater integration with commercial services and opportunity to provide links at lower or no cost using de-minimis provision where required;
- A ring-fenced time-limited 'emergency' tender fund to provide cover in circumstances of disagreement about existing service viability pending identification of a permanent solution;
- Integration between commercial and tendered services and other modes to deliver a best-value approach to demand-responsive and local link services delivering a complete network;
- Fleet investment of a minimum of 22 new vehicles per annum for 3 years; and
- Examination of fleet electrification opportunities.

12.2.3 Likely extent of network improvements: In relation to the first bullet point noted above, the aspect of performing joint network reviews does not differ from that considered under the Operator Proposed Partnership in the Assessment. First confirmed that they would consult with TfGM/GMCA on any detrimental service changes or withdrawals. If they were not accepted by the TfGM/GMCA, First would not make the change and would continue to support the service for a period of time. However, it is not clear how long they would continue to support the service and whether this is dependent on using a profit-sharing mechanism resulting from a partnership fund similar to that proposed under Partnership Plus.

12.2.4 The open-book monitoring of patronage and viability would consist of First sharing information with TfGM/GMCA on individual route performance where a route is planned to have a significant reduction in operation or cancellation. This would include details of what would be required in financial and/or operational/infrastructure terms to resolve the situation on both a short-term basis (to maintain operation during the review period) and on a longer-term basis.

12.2.5 First clarified that a ring-fenced time-limited "*joint funded emergency tender pot"* would be available for use in such circumstances. Use of the joint fund would be determined on a case-by-case basis. It is not clear exactly the extent to which the fund is time-limited. First clarified that they would expect this emergency tender pot to be jointly funded by First and GMCA, and it would be seen as an insurance policy, to be used to support services that would otherwise be unable to continue. It is reasonable to assume that the benefit arising from this would at least be equal to the value of money invested. It would also provide additional benefit from a customer perspective such that it would allow services to continue in operation that may otherwise be cut. There may be limitations in GMCA achieving VfM, given that these funds are to be ring-fenced specifically to support tendered services.

12.2.6 The first four bullet points listed above may all contribute to reducing the number of services that are needed to be withdrawn from the network and may keep routes running for longer; however, this is also subject to a joint emergency tender fund being available. The amount of funding available is unknown, and it is not clear how much GMCA might have to contribute. Given that this would be delivered as a pilot in Oldham and, even if it was operating alongside Partnership Plus, these proposals have not been made under Partnership Plus, and, therefore, it would not contribute to ensuring an integrated and efficient network across the whole of Greater Manchester. The extent to which this would be achieved in Oldham is likely to be slightly greater than that expected under Partnership Plus if there was less unexpected removal of services and the ability for GMCA to approve those services which resulted in significant change/withdrawal. However, this would not go as far as what could be achieved under the Proposed Franchising Scheme. It is not clear how the proposed approval process would work and what would happen in the instance that there is disagreement between GMCA and First.

12.2.7 Under the Partnership Plus proposal, OneBus committed to providing 450 new buses over the first three years of the partnership. It is not clear who has committed to what on an individual operator basis. It is assumed that, given First have confirmed they stand by the commitments made under the OneBus proposal, the 22 new buses per year for three years would be in addition to First's contribution to the 450 new buses provided across the whole of Greater Manchester. These additional buses would help contribute to achieving a reduction in the average fleet age, with First claiming that the fleet age average would fall from 8.4 years in April 2020 to 6.8 years in April 2023. This would not necessarily achieve more than that which could be achieved under the Do Minimum option. As noted in the analysis performed in the Assessment, it was estimated that an additional 50 buses per year (on top of the 150 proposed by operators), would be required to bring the average age to below seven years over a five-year period. Capital investment is required to meet customer needs and replace life-expired vehicles. It is not expected that this proposed investment would be a significant step change in investment compared with what would be expected outside the introduction of an LP.

12.2.8 The proposal to examine fleet electrification opportunities would also not go beyond what could be achieved under the Do Minimum option and would presumably be subject to funding being available.

Fares and Ticketing

12.2.9 Relevant proposals included:

- Pricing – operator to continue the process of fares simplification – from 2 January 2020, there are only four standard single fares. Previously stated commitments to the two-year price freeze on multi-operator products would still apply subject to GMTL approval;
- Ticketing Technology – in addition to the Partnership Plus, commitments to be enhanced by early adoption of tap and cap; and
- Where more than one operator is involved in overlapping provision, a commitment to examine best value through TfGM support for a qualifying agreement.

12.2.10 In relation to the simplification of fares, this does not go beyond what has been proposed under the Partnership Plus offer.

12.2.11 Fare capping: First clarified that there would be flat fares with EMV model 2 capping within six months and would involve tap-on rather than tap-on and-off (hence the flat fare). There would be daily capped rates, as well as weekly and monthly. This would go some way to achieving objective seven of "*account-based smart ticketing introduced as soon as possible*". However, under a partnership, operators would still retain their own products and, therefore, this would not achieve "*whole bus network capped products*". Although this may provide some level of benefit to those passengers regularly using First services, it would not offer the same level of benefit as could be achieved under the Proposed Franchising Scheme whereby a capped product could be introduced that would be valid across the whole of Greater Manchester.

12.2.12 The proposal to explore and use a qualifying agreement where appropriate does not differ from what has been offered under the Operator Proposed Partnership considered in the Assessment.

Customer

12.2.13 Relevant proposals include:

- Livery/branding – a localised livery would be applied following local agreement. A similar concept to Vantage would be applied that is sympathetic to the Greater Manchester corporate transport design.

12.2.14 First suggested that all buses could be painted in the same colour, "*all buses orange – or yellow – or whatever TfGM decides; can retain route/corridor branding (or not)".* Having all buses in the same colour may provide some level of benefit to the customer. However, unless this was applied consistently across the whole of Greater Manchester, as proposed under the Proposed Franchising Scheme, it could lead to greater confusion from a customer perspective. The value accredited to brand has been discussed further at sections 5.4.6 to 5.4.9 of the Economic Implications section above. It is not yet known if all operators across Greater Manchester would sign up to this. As mentioned above, First have not considered how this would operate alongside OneBus' Partnership Plus proposal, and although some of the proposals are aligned, the proposal has not been tested with the other operators. There are a number of commitments that are not aligned with Partnership Plus, and, therefore, other operators would not be familiar with, such as painting all buses the same colour and the additional fleet investment. Under a partnership approach, operators would presumably still want to ensure that their own operator branding remains clear and visible to avoid confusing the customer as they would continue to offer their own individual products.

Value for Money

12.2.15 Relevant proposals included:

- Profit growth generated by partnership interventions would be reinvested into services.

12.2.16 This does not differ from what has been offered under Partnership Plus. This proposal has been considered in further detail at section 9 above as part of the Partnership Plus considerations.

12.3 Further review of proposals

12.3.1 On 27 August 2020, TfGM wrote to First and asked First to confirm whether, in light of the impact of Covid-19 on the bus market, its proposal remained valid or whether it anticipated any changes being required to the commitments in that proposal.

12.3.2 As summarised from section 2.4.21 of the Covid-19 Impact Report, First said that they *"still believe that in principle, the local partnership offer for Oldham remains valid"* but 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"*.

12.3.3 As part of its response to the second consultation, First said that it would prefer a partnership approach. It stated that events during 2020 have only served to strengthen the argument that partnership proposals can be agreed and implemented more quickly and that there have been many good examples of partnership working as service levels and tender specifications have been constantly changed and updated to reflect the different needs of society. However, as set out at section 7.5.68 of this report, given that bus services have been and continue to be supported by Government subsidy, and service changes have required TfGM sign-off, this is a clear example of TfGM and operators working efficiently to agree and implement changes to respond to changing demand levels. In addition, franchising would enable a coordinated network approach rather than an operator by operator patchwork response.

12.3.4 In response to the second consultation, they also said that the process of reaching agreements on service level provision between operators and local authorities mandated by the DfT has generally worked very well. First also stated that the local partnership set out in its letter dated 7 January 2020 remains the best option going forward based on the principle of Mayoral control of the network, best value, relative simplicity, low cost to introduce and rapid realisation of public benefits. No further detail was provided by First during the second consultation as to how a local partnership would work, and as explained above, it is still considered that such an option would not provide any greater benefits than OneBus's Partnership Plus proposal. It would also potentially cause other difficulties in terms of how any partnership would work alongside other markets, such as a franchising scheme.

12.4 Conclusion

12.4.1 This section of this report details the work undertaken by TfGM in reviewing First's proposal to introduce a pilot LP in Oldham. There remains a risk around the longevity of any intervention given that the partnership is voluntary in nature and is currently being proposed to be run on a trial period, initially for a five-year term with a review of performance after three years. There was little detail provided on each of the proposals, and no further detail was provided by First as part of its response to the second consultation, although First reiterated that they believe that it "*remains the best option going forward*".

12.4.2 In broad terms, there were a handful of commitments contained within this proposal that did not feature in Partnership Plus, such as the additional fleet investment of 22 vehicles per year, the time-limited emergency tender fund and the localised livery. However, given there are also a number of Partnership Plus commitments that were not present in the First proposal, and the ability for Partnership Plus to be applied across the whole of Greater Manchester, providing a greater opportunity for the objectives being met, it is concluded that First's proposal would not provide any greater benefits than Partnership Plus. There is also uncertainty about extending the pilot across Greater Manchester, should it be successful in Oldham, given that it has not been tested with any other operators.

12.4.3 TfGM is confident that sufficient consideration has been given to First's pilot LP proposal to come to the view that overall it is likely that the proposal would deliver (when implemented in parallel with any new franchising or similar scheme being piloted in another area of Greater Manchester), no greater benefits than the Partnership Plus proposal operating across the whole of Greater Manchester and significantly less benefits than the Ambitious Partnership modelled in the Assessment. This conclusion has not changed as a result of Covid-19.

13. 'Recovery Partnerships'

13.1.1 During the second consultation, Stagecoach, Go North West, First, Transdev and OneBus commented that GMCA should consider a 'recovery partnership'. A number of these referred specifically to a brochure published by the Confederation of Passenger Transport (CPT) in October 2020 which set out high-level proposals for 'recovery partnerships', in a brochure entitled "*post covid-19 delivering a passenger led recovery*" (the "*CPT Recovery Partnership Document*"). The term 'recovery partnership' is promoted by CPT within this brochure to reflect "*an agreement between a bus operator(s) and local transport authority and [which] will be entered into once the current Coronavirus Bus Service Support Grant (CBSSG) comes to an end*". CPT state that it "*will provide a local framework for agreeing the new network, distribution of funding to support it in the short term and the rapid mobilisation of bus priority measures to sustain it for the long term".* As the industry body representing bus operators, this brochure sets out CPT's preferred approach to the period post CBSSG.

13.1.2 The CPT Recovery Partnership Document sets out three priorities for delivering *"the bus services of tomorrow."* These are:

- "short term ringfenced funding to get recovery partnerships off the ground. In year one this will need to be £500m, declining thereafter as networks become self-sustaining";
- "the current support mechanism [assumed to be the current levels of CBSSG-R (or equivalent) paid by central government, and payment of concessionary travel payments at pre-Covid rates] to remain in place until all three tests for moving to recovery partnerships are met"; and
- "Ensuring that local transport authorities have the resources and skills required to play an active role and deliver their goals and targets."

13.1.3 The CPT Recovery Partnership Document also sets out that "*it is important that recovery partnerships are delivered at the right time... three tests need to be met before recovery partnerships are implemented:*

- removal of social distancing… to be able to fill a bus to capacity;
- positive messaging on using public transport … a significant pro-public-transport message from the Government is needed to help encourage people back onto the bus; and
- passenger numbers have returned in significant numbers."

13.1.4 On 24 November 2020, Stagecoach wrote to TfGM to outline its belief that bus would play a crucial role in helping the country to recover from Covid-19 and in also helping the country in moving towards a green recovery. Stagecoach attached the CPT Recovery Partnership Document, summarised at sections 13.1.2 to 13.1.3, to that letter.

13.1.5 In response to the second consultation, some of the comments made by consultees on 'recovery partnerships' included the following:

- As set out above at section 11.8.3, Stagecoach made the point that GMCA should consider recovery partnerships as it would "*ensure immediate certainty and sustainability of the bus network and at the time same to realise passenger and city region benefits much more quickly than bringing in franchising at this stage*".

Stagecoach also commented that they "*do not envisage a recovery partnership approach as a long-term solution*". Stagecoach's response also attached the CPT Recovery Partnership Document.

- Go North West commented that it is important "that we prioritise passenger recovery (without regulatory distraction) to help ensure a sustainable network that then forms a viable franchising proposition for the longer term". Go North West also submitted a proposal for "an amended Three-Stage process" that starts with an "economic recovery partnership" and commented that this partnership would "provide GMCA with a stronger input in the planning of bus services and enable a more viable bus network to enter the franchising process".
- OneBus commented that "all parties are likely to be impacted by the effects of Covid-19 and will continue to be until there is certainty about the economy and patronage find its new level. This will take time and in the interim it would be more beneficial to all parties if the option of a Recovery Partnership was considered in the interim… we are also concerned that little if any recognition has been made of the Recovery Partnership proposals being discussed at a National level as a way forward for the industry".
- First commented that "as the Govt decides upon its approach to ending CBSSG and what it requires from the industry going forward. As things stand, other local areas will be visibly pressing ahead at speed with partnership working, while GM uniquely could be held back by debate and uncertainty."
- Transdev commented that "It is imperative that we work on a short-term recovery plan at an early opportunity."

13.1.6 Abellio, however, stated that "*It is Abellio's clear view that, following Covid-19, GMCA is the appropriate body to make decisions about how and when to align the network to the market and that franchising rather than any form of continuing CBSSG Restart is the optimum method for doing this in order to ensure competition as soon as possible*."

13.1.7 TfGM requested to meet with OneBus to seek clarification about aspects of their response to the second consultation in relation to 'recovery partnership' proposals. This meeting took place on 23 February 2021, and OneBus attended with two of the operators that they represent, Stagecoach and Transdev. This meeting clarified that, in the view of OneBus, Stagecoach and Transdev:

- A 'recovery partnership' approach was critical regardless of what happened in the future with the bus network in Greater Manchester i.e. it was independent of any decisions made around the Proposed Franchising Scheme as the focus of a 'recovery partnership' is much more on the short-to-medium-term recovery of the bus market.
- The key objectives of a 'recovery partnership' should be to:
  - provide stability in the network and to operators; and
  - to encourage passengers to return to using the bus network.
- A 'recovery partnership' would:

  - Require ringfenced local funding that allows TfGM and the Greater Manchester operators to form a strategy for recovery that targets growth in passenger numbers.
  - Need to provide a degree of certainty and allow operators to be able to make some level of commercial return to, in turn, allow operators the ability to invest in CAPEX and get back into a cycle of investment in assets.

13.1.8 OneBus and the operators also indicated a number of key areas where they see that the 'recovery partnership' could deliver particular benefits, and whilst none of these have been worked up in detail, they include:

- Adaption of the network post-Covid-19 in a jointly designed way to make the best use of any Government funding;
- Interoperability of tickets between operators; and
- The rebuilding of the passenger base in support of certain areas, such as the night-time economy.

13.1.9 OneBus and the operators stated that adaption of the network in a jointly designed, dynamic way and at an appropriate level of detail, would require TfGM and the Greater Manchester bus operators to work together to ensure that the network best meets passengers' needs. It would also need to make best use of available Government funding, and de-risk any potential bus reform going forwards.

13.2 TfGM response

13.2.1 It should be noted that, whilst CPT has promoted a 'recovery partnership' as part of the CPT Recovery Partnership Document, this reflects the operator community proposals to DfT for the period when CBSSG (including CBSSG Restart (CBSSG-R) and any future Government funding allocation(s) that may replace CBSSG) ceases or is reduced in scale and is dependent on Government funding.

13.2.2 Similarly, the Urban Transport Group, representing transport authorities including TfGM, has also been in discussions with the Department for Transport about the same phase of recovery.

13.2.3 To date, the Department for Transport's National Bus Strategy that is expected to set out a roadmap for bus recovery post-CBSSG has not yet been released, and it is currently unknown what this will say in regard to 'recovery partnerships' or similar. Therefore, the references to 'recovery partnerships' from the operators set out at sections 13.1.5 to 13.1.9 are the operators current notion on how recovery from Covid-19 could take place.

13.2.4 TfGM agrees with the comments raised by the various stakeholders that interim arrangements are required to help the local bus network in Greater Manchester to transition from the current arrangements based on CBSSG-R. Furthermore, the recovery objectives set out by the operators at section 13.1.7 around stabilising the network, attracting passengers back onto buses and facilitating investment in assets are also aligned with TfGM's objectives.

13.2.5 TfGM also agrees with operators when they stated that any such 'recovery partnership' would not be an alternative to a long-term arrangement such as the Proposed Franchising Scheme, and would instead aid the short- to medium-term recovery of the market. TfGM disagrees, therefore, with Abellio's comment that "*franchising rather than any form of continuing CBSSG Restart is the optimum method"* as the two (or any 'recovery partnership') are not mutually exclusive.

13.2.6 While 'recovery partnership' type arrangements would be put in place irrespective of the decision to implement the Proposed Franchising Scheme, TfGM consider that a process that saw a combination of a period of a 'recovery partnership' followed by the implementation of the Proposed Franchising Scheme would be beneficial for the bus market in Greater Manchester. By contrast the current uncertainty as to what a partnership arrangement might deliver in the medium to long term, noting that this is likely to take time to clarify, means that the Proposed Franchising Scheme would provide GMCA with better levers to support recovery and certainty.

13.2.7 To this end, TfGM agrees that a coordinated local response is critical. Throughout the Covid-19 pandemic, TfGM has worked closely with bus operators and would expect this to continue as the network recovers, including areas of recovery from Covid-19 set out by operators – such as network design, ticketing arrangements etc. Some of this dialogue has already commenced and will be further developed when there is a greater level of clarity from the Department for Transport of the arrangements to follow CBSSG-R.

13.2.8 Go North West's proposal for "*an amended Three-Stage process*" that starts with an "*Economic Recovery Partnership*" is considered in section 14.

13.3 Conclusion

13.3.1 To date, the Department for Transport's National Bus Strategy, which is expected to set out a roadmap for bus recovery post-CBSSG, has not yet been released. It is also currently unknown what this will say in regard to 'recovery partnerships' or similar.

13.3.2 TfGM has engaged with OneBus to understand its proposals in relation to 'recovery partnership' in more detail. Those discussions have clarified that interim arrangements involving a coordinated local response are required to help the local bus network in Greater Manchester to transition from the current arrangements based on CBSSG-R.

13.3.3 TfGM agrees that interim arrangements are required to help the local bus network in Greater Manchester to transition from the current arrangements based on CBSSG-R. TfGM and OneBus also discussed and agreed that any such 'recovery partnership' would not be an alternative to a long-term arrangement such as the Proposed Franchising Scheme, and would instead aid the short- to medium-term recovery of the market.

13.3.4 To this end, TfGM agrees that a coordinated local response is critical. Throughout the Covid-19 pandemic, TfGM has worked closely with bus operators and would expect this to continue as the network recovers. Some of this dialogue has already commenced and will be further developed when there is greater level of clarity from the Department for Transport of the arrangements to follow CBSSG-R.

14. Go North West alternative three-stage proposal

14.1.1 As set out at section 13.1.5, in response to the second consultation, Go North West submitted a proposal for "*an amended Three-Stage process*". The written response largely concentrated on Phase One ("*economic recovery partnership*") and Phase Two ("*a package of Direct Award 'franchise' contracts*"). This set out that Go North West propose that:

- The "*economic recovery partnership*" would consist of a voluntary partnership lasting 12 – 18 months starting from the cessation of the current Covid-19 Bus Services Support Grant (CBSSG) arrangements. The voluntary partnership would be based on a mutual agreement of scope, based on existing agreements where possible, and Go North West suggest that this could include:
    - A passenger growth plan.
    - Allowing single operator Greater Manchester (GM) wide day tickets to be used free of charge on any participating operator's services (with no pooling of revenue).
    - Joint working to assess the impacts of Covid-19 on demand for travel in Greater Manchester.
    - Increased number of zero and low emission buses.
    - Identification of critical infrastructure projects designed to improve the reliability of buses.
    - An updated assessment of the viability of the different options post-Covid-19.
    - Plan for gradual transition towards a single brand for GM.
    - Securing continued funding for the current level of bus services across GM as the economy recovers post-Covid-19 paid via GMCA, but ringfenced for the purpose of the partnership.
- The "*package of Direct Award 'franchise' contracts*" would extend beyond the initial recovery period and, according to Go North West, would help achieve GMCA's ambition for the bus market whilst avoiding the time delay, financial and operational dangers otherwise inherent in transition. Go North West propose that such Direct Award contracts could include:
    - A simplified transition.
    - A more predictable timetable for change.
    - Dramatically reduced costs of transition for GMCA.
    - Agreement on the transfer of employees, bus depots and vehicle fleets to the franchising authority at the end of the Direct Award period.
    - Committed investment programmes allowing residual value to be recognised and transferred at the end of the initial period of Direct Award.
    - Stability in the agreed network and service levels for a defined period.
    - Agreement on fares, including contactless capping (introduced more quickly than might otherwise be the case) network change procedures and future concessionary payments.

  - Better integration with the rest of Greater Manchester's public transport network.
  - More certainty for front line staff and more stability of their terms and conditions.
  - Ability to learn from the operation of such contracts to optimise the commercial and management arrangements for a future delivery model.
  - Commitment from both operators and transport authority to an orderly, collaborative transition process.
- Phase Three ("*A further review of the case*"), as per their written response to the second consultation, indicated that they envisaged that the period of "*Direct Award 'franchise' contracts*" would effectively act as a pilot scheme to determine whether competitive franchising contracts should be entered into.

14.1.2 TfGM subsequently asked to meet Go North West to seek clarification about aspects of its proposal for "*an amended Three-Stage process*". This meeting occurred on 17 February 2021. This meeting clarified in relation to 'recovery partnerships' that:

- Go North West propose that the "*amended three-stage process*" would consist of:
  1. An Economic Recovery Partnership
  2. A package of Direct Award 'franchise' contracts
  3. A further review of the commercial case
- The process would start with an 'Economic Recovery Partnership' that itself would be split into three phases:
  1. Continuation of the current arrangements with operators supported by CBSSG-R (or equivalent).
  2. A second phase that commences from the cessation of CBSSG-R (or equivalent) funding.
     - This phase would also be reliant on Government funding and would utilise some of the £300m that was announced to drive transformation of bus service in in 2021/22 as part of the Government's Spending Review 2020.
     - However, it would allow some risk transfer back to the private sector and therefore allow a margin to be made on that risk and enable operator investment in assets.
     - Go North West indicated that this phase could include a number of mutually agreed areas of focus, and, whilst none of these have been worked up in detail, Go North West consider that they could cover issues such as:
       - Joint working between TfGM and the Greater Manchester operators to assess the impact of Covid-19 on the network;
       - The interoperability of tickets between operators;

- A commitment to an ongoing reduction in carbon emissions; and
- A gradual transition towards a single brand in Greater Manchester.

3. A third phase that further builds on the partnership.
    - This would utilise some of the funding announced by Government to enable investment in at least 4,000 new zero-emission buses.
    - This would enable operators to take on more risk and could cover aspects such as network, zero-emission investments and bus-related infrastructure etc.
    - This phase would last until whatever enduring model (such as the start of the first direct awarded franchise under the proposed Go North West "*amended three-stage process*") is adopted.

14.1.3 The meeting also clarified:

- In relation to the 'package of Direct Award 'franchise' contracts' that Go North West would:
    - Intend for the Direct Award franchises to be subsequent to any Mayoral Decision in favour of the Proposed Franchising Scheme, i.e. it would be a way of transitioning to franchising and ultimately to franchises being let in an open competitive environment.
    - Propose that the Direct Award contracts would be let based on a package of routes per depot, rather than the route by route franchise model that they have proposed as an alternative to the TfGM packaging strategy in their main consultation response (in the event direct awards were not implemented). This is considered further at sections 6.9.89 to 6.9.98.
    - Propose that the broad commercial approach set out in the Assessment would be the basis of the letting of Direct Award contracts, e.g. revenue and cost risk approach, use of a performance regime etc.
    - Propose that the Direct Award contract would last for c. seven years.
    - Propose that this would allow a way of agreeing that at the end of that franchise contract the depots and vehicles are transferred at a fair price to GMCA.
- In relation to "*A further review of the case*", that Go North West would:
    - Envisage that the final phase of their proposal would be to review commercial lessons learnt from the Direct Award contracts.
    - Propose that this would enable TfGM to update their commercial model for franchising for the next round of franchising.
    - Not propose that it would be a review of whether franchising is the right model and that they were not proposing that a new assessment (as required by section 123B of the Bus Services Act 2017) would be required.

14.1.4 It was also agreed at this meeting on 17 February 2021 that a subsequent follow-on meeting would be held between the legal representative of both parties to understand the basis on which Go North West are proposing that Direct Award contracts would be permissible.

14.1.5 This meeting was held on 25 February 2021, and Go North West clarified its understanding of how direct awards would assist GMCA in transitioning to the Proposed Franchising Scheme, as well as what legal powers may be used for the Direct Award contracts.

14.2 TfGM response

14.2.1 TfGM agrees with Go North West that there are a number of benefits that could be achieved through the use of Direct Award contracts to facilitate transition.

14.2.2 In its response to the second consultation, Go North West commented that "*Direct awards are permissible in procurement law where there is only one supplier with the expertise to provide the services required or with the capacity to provide them on the scale required*". Go North West confirmed this analysis in their meetings with GMCA, highlighting that in their view, the complexity of transition to franchising would be difficult without the use of direct award contracts, and that an ability to use direct award contracts would mitigate a number of transition risks due to the capacity and capability of the current operators.

14.2.3 TfGM understands that Go North West's view is that direct award of contracts is possible due to this falling within one of the exceptions in regulation 50(1)(c) of the Utilities Contract Regulations 2016, on the basis that there is only one economic operator who could provide the service.

14.2.4 Whilst, if it were the case that only one operator could provide the services, either for technical or competition reasons, it is correct that it would be possible to direct award on these grounds, the Commercial and Management Cases of the Assessment considered that GMCA would be able to make and operate the Proposed Franchising Scheme without the need to directly award local service contracts. TfGM remains of the view that whilst there are a number of challenges to such an approach, this remains achievable. It is accepted that, if permissible, direct awards would assist with the transition to franchising: however, TfGM does not agree with Go North West's analysis that there "*is only one supplier with the expertise to provide the services required …*" either specifically in respect of Go North West or more generally for the services to be franchised across Greater Manchester. For that reason, TfGM does not believe that GMCA would be able to rely on the exceptions under regulation 50(1)(c) of the Utilities Contract Regulations 2016 to directly award all the franchise contracts as proposed by Go North West.

14.3 Conclusion

14.3.1 TfGM has considered Go North West's alternative three-stage proposal, and has engaged with Go North West to understand its proposal in more detail. Those discussions have clarified how it is important that operators continue to have access to additional funding whilst restrictions are eased and the market recovers from Covid-19.

14.3.2 TfGM and Go North West also discussed the benefits of direct awards and whilst it is accepted that directly awarding franchise contracts during transition would assist with mitigating some of the risks of transition to the Proposed Franchising Scheme, TfGM does not believe that GMCA would be able to use the exceptions under regulation 50 of the Utilities Contract Regulations 2016 to direct award all of the franchise contracts during transition as proposed by Go North West.

14.3.3 However, as set out as sections 13.3.3, TfGM agrees that interim arrangements are required to help the local bus network in Greater Manchester to transition from the current arrangements based on CBSSG-R.

15. EQIA Response Themes

15.1 Introduction

15.1.1 Under the Equality Act 2010 (s. 149), GMCA and the Mayor are subject to the public sector equality duty, which requires them, in the exercise of their functions, to have due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimisation.
- Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it.
- Foster good relations between those who have a relevant protected characteristic and those who do not.

15.1.2 Having due regard to the need to advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:

- Remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that is connected to that characteristic;
- Take steps to meet the needs of persons who share a relevant protected characteristic that is different from the needs of persons who do not share it;
- Encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

15.1.3 Having due regard to the need to foster good relations between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to tackle prejudice and promote understanding.

15.1.4 "*Relevant protected characteristics*" are age, disability, gender reassignment, pregnancy and maternity, race; religion or belief; sex; and sexual orientation.

15.1.5 TfGM uses a standard questionnaire to undertake an Equality Impact Assessment (EqIA) of any significant policy, intervention or change for which it is responsible. That questionnaire is used for internal purposes only. However, for the purposes of the first consultation, to allow consultees to comment on equality issues, an initial screening EqIA was published by TfGM in draft form on behalf of GMCA in addition to the consultation materials required by section 123E(2) of the Act. The focus of the initial screening was to identify any potential adverse impacts so that those potential adverse impacts could be addressed and minimised moving forward.

15.1.6 The EqIA published for the first consultation did not anticipate that the Proposed Franchising Scheme would have any adverse impacts on those with protected characteristics and there would be positive impacts of varying degrees on certain groups.

15.1.7 Question 44 of the first consultation asked consultees for any comments on the potential impacts identified through the EqIA. All comments received in response to that question were reviewed in full by TfGM.

15.1.8 Ipsos MORI's June 2020 Consultation Report shows that the vast majority of those who responded to the question on the EqIA were members of the public and that only 14 statutory consultees commented.

15.1.9 In the second consultation, consultees were not asked to comment on the EqIA again, but the consultation questions were of a sufficient scope to permit comments relating to matters consultees considered relevant, including impacts or potential impacts on those sharing protected characteristics. As a result, many comments received during the consultation mentioned or discussed matters relating to protected characteristics. TfGM undertook a full review and assessment of these comments.

15.1.10 The EqIA has been updated to reflect comments received during both periods of consultation.

15.1.11 Through review of the responses and the Ipsos MORI reports for both consultations, a number of themes have been identified as follows:

- Language and format of the EqIA;
- Benefits not included in the EqIA;
- Involving protected characteristics in the development and provision of bus services;
- Vehicle specifications;
- Driver awareness and training;
- Concern over those without access to or ability to use technology being disadvantaged;
- Importance of personal safety and security;
- Simpler pricing and ticketing;
- Additional safety concerns as a result of Covid-19;
- Comments on considering the needs of passengers during the proposed transition period; and
- Potential mitigations and future decision making.

15.1.12 Through the first consultation, there was a wide range of support from consultees on the findings of the EqIA. This can be seen at section 13 of Ipsos MORI's June 2020 Consultation Report, which found that during the first consultation 130 of the 244 members of the public who responded to this question made a favourable comment about the consideration of the impacts of the Proposed Franchising Scheme on persons with protected characteristics. Ipsos MORI also reported positive comments from Abellio who agreed with the findings of the EqIA. Ipsos MORI also identified favourable comments by other non-statutory consultees, such as The University of Manchester, The Church of England, Manchester Metropolitan University and Manchester Friends of the Earth.

15.1.13 Before considering the key themes listed above, it is also important to reflect on some of the other comments made by consultees in the first consultation in response to the question on the EqIA. Go North West did not have any comments on the EqIA, other than to say that its focus was "*on bus users rather than employees*". As explained above, the purpose of the EqIA is to illustrate GMCA's consideration of the Proposed Franchising Scheme in the light of its public sector equality duty, including the duty to have regard to the need to advance equality of opportunity between persons who share a relevant protected characteristic, and persons who do not share it.

15.1.14 First did not have any comments on the EqIA but said they "*do not believe that there are any material differences between the Franchising proposals and a partnership-led approach in respect of their impact on persons with protected characteristics*". This may be correct in so far as the partnership options would be unlikely to cause any adverse effects on persons with protected characteristics, but to clarify, the EqIA has been undertaken on the Proposed Franchising Scheme because that was the preferred option from the Assessment.

15.2 Theme 1 – Language and format of the EqIA

15.2.1 During the first consultation, some consultees found that the language and format of the EqIA was a barrier to understanding it. This is probably because, as explained above, the EqIA pro forma is intended for internal use by TfGM only. The preface to the EqIA has been updated to reflect this.

15.3 Theme 2 – Benefits not included in the EqIA

15.3.1 Some consultees suggested during the first consultation that some benefits of the Proposed Franchising Scheme had not been included in the EqIA. For example, one respondent pointed out the benefits of a stable network for autistic people.

15.3.2 A small number of consultees found the EqIA insufficiently detailed but did not specifically identify any adverse impacts of the Proposed Franchising Scheme on people with protected characteristics. One respondent, who agreed with the Assessment, thought the benefits of the Proposed Franchising Scheme to people with protected characteristics could have been described in more detail.

15.3.3 Rochdale Borough Council thought the EqIA failed to address impacts relating to the affordability of fares, although they did not elaborate on what these impacts might be. This point is addressed at section 15.12 below. Rochdale Borough Council also thought the EqIA neglected to consider the impact of the Proposed Franchising Scheme on people with mental illnesses, although this is in fact was considered under Question 8 of the EqIA.

15.3.4 HCT Group thought that the EqIA considered the impact of franchising on people with protected characteristics "*a little narrowly*" and that, for example, it ignored the fact that women use buses more than men and would be disproportionately affected by the changes to the bus market. When considering the requirements of the public sector equality duty in relation to the proposed reform of bus services, we have not identified any adverse impacts on women as a group

15.3.5 HCT Group also commented that "*GMCA does not appear to consider the impact on essential life skills that bus reform could have e.g. increased independence, confidence, particularly on younger and older people and those with a disability*", and also felt that "*Compared with the depth of the rest of the assessment, the Equality Impact Assessment is lacking*". When considering the requirements of the public sector equality duty in relation to the Proposed Franchising Scheme, TfGM has not identified any adverse impacts on the groups noted by HCT Group.

15.4 Theme 3 – Involving protected characteristic groups in the development and provision of bus services

15.4.1 Consultees in both consultations emphasised the importance of understanding the needs of people with protected characteristics and of involving them in the development and provision of bus services.

15.4.2 In her response to the first consultation, Kate Green MP urged ongoing monitoring of the impact of franchising on protected characteristic groups, including passenger feedback and engagement with stakeholders and representative groups. Additionally, Greater Manchester Disabled People's Panel advocated a carer's pass and felt it should be involved in the process of commissioning services. TfGM and GMCA will continue to comply with the public sector equality duty, which is an ongoing duty, through conducting ongoing self-evaluation and review.

15.4.3 As set out above, the public sector equality duty is an ongoing duty necessitating the need for ongoing self-evaluation and review. This means that if implemented, the effects of the Proposed Franchising Scheme will be carefully monitored to ensure ongoing compliance with GMCA's duties under equality legislation. It should be noted that GMCA already has advisory panels representing disabled people, ethnic minorities, the LGBT community and women and girls, as well as an Ageing Hub and the Youth Combined Authority. A faith panel is also being considered. These are separate from any consideration of consultation responses and operate irrespective of any decision on whether or not to make the Proposed Franchising Scheme but could potentially be utilised for further engagement on potential impacts of the proposed Scheme.

15.5 Theme 4 – Vehicle specification

15.5.1 Some consultees made comments in both consultations broadly related to the specification and operation of vehicles. Some emphasised the importance of physical accessibility and space for wheelchairs, prams and buggies. Other points raised were the benefits of audio-visual announcements and automatic ramps, the safety benefits of centralised access to live CCTV, and the importance of destination blinds being as visible as possible. Several people thought the introduction of rear doors would make it easier for wheelchair users since passenger flow would be better and people would not block the entrance. Several people also thought Wi-Fi and/or 5G would promote accessibility. One respondent to the second consultation stated that region-wide standards of accessibility for disabled users could be introduced. A respondent to the first consultation thought money should be spent on making bus stops accessible before spending it on the Proposed Franchising Scheme.

15.5.2 In the first consultation, TravelWatch NorthWest said that they broadly agreed with the findings of the EqIA but did say that the opportunity should be taken to address the problem that passengers often have to compete to use the limited space on buses for wheelchairs, prams and pushchairs.

15.5.3 In their response to the first consultation, the Guide Dogs for the Blind Association noted the estimated 77,100 people living with sight loss in Greater Manchester, who have a disproportionally high rate of unemployment and whose numbers are expected to increase by 23% by 2030. They considered that without audio-visual technology, buses are not accessible to people with sight loss and that the Proposed Franchising Scheme would offer an opportunity for such technology to be mandated across Greater Manchester.

15.5.4 Vehicle specification would be considered in the design of contracts and plans for quality monitoring, and continued consideration of the public sector equality duty shall be given to how such vehicle specifications may impact on those with relevant protected characteristics. Contracts will have mechanisms that will enable the specifications to be adapted during the franchise period if they are necessary for the purpose of meeting reasonable adjustments. There are also legal obligations in respect of the physical accessibility of vehicles and ongoing consultation in relation to audio visual announcements, as detailed at 15.13.4 Where it is a requirement of the law TfGM will respond accordingly, beyond this any other changes that might be beneficial to those with protected characteristics will be considered.

15.5.5 None of the comments alter the conclusion of the EqIA that the Proposed Franchising Scheme would not have any adverse impact on those with accessibility requirements.

15.6 Theme 5 – Driver awareness and training

15.6.1 Several consultees in both consultations highlighted the importance of drivers being aware of, and trained to deal with, the needs of all passengers, particularly those who are vulnerable or have special needs.

15.6.2 In their response to the first consultation, TravelWatch NorthWest commented that driver awareness and training was important but did not explain how this would impact on those with protected characteristics.

15.6.3 As with vehicle specifications, this point would be considered in the specification of contracts and in plans for quality monitoring. Cost implications and practical considerations are less likely to be as significant as for vehicles. Under a franchising scheme, standards would be set for driver behaviour (for example) and minimum expected levels of training.

15.6.4 Again, none of the comments alter the conclusion of the EqIA that the Proposed Franchising Scheme would not have any adverse impact on those with accessibility requirements.

15.7 Theme 6 – Concern over those without access to or ability to use technology being disadvantaged

15.7.1 In both consultations, consultees raised this issue in relation to smartphones or access to the internet, stating (for example) that phone-based ticketing was unsuitable for some disabled people. In addition, some consultees felt that bus travel should not require people to have a bank account or smartcard.

15.7.2 These points would be considered as plans for fares, ticketing and information are developed and any proposed changes would be subject to separate EqIAs. For example, should a proposal be made to introduce a new ticketing product for use across all franchised services, a separate EqIA will need to be undertaken by TfGM to consider whether the introduction of that product would meet its equality duties. There are currently no plans to withdraw cash fares.

15.8 Theme 7 – Importance of personal safety and security

15.8.1 In both consultations, some people noted the importance of personal safety and security – from crime, hate crime and antisocial behaviour – and particularly at night, for women, vulnerable people and members of the LGBT community.

15.8.2 In their response to the first consultation, the University of Manchester Students' Union raised the issue of hate crime and said that TfGM should be a third-party hate crime reporting centre. The Union also suggested a help system for people who might feel threatened and that GMCA should consult and collaborate with different community groups to make buses safer (and more accessible). In their response to the first consultation, the Proud Trust was concerned about the hidden costs arising from hate crime and fear of hate crime, such as having to pay for taxis rather than use public transport. Hate crime was also an issue raised by the Greater Manchester Disabled People's Panel in their response to the first consultation.

15.8.3 These important issues, properly considered, are not specifically related to the Proposed Franchising Scheme and the Assessment recorded in the EqIA does not find that the Proposed Franchising Scheme would increase the risk of such personal safety and security issues. TfGM already actively addresses the issue of personal safety and security on public transport. Safety and security would be fully considered in the development of plans for the Proposed Franchising Scheme and could be informed, amongst other things, by engagement with GMCA's advisory panels referred to above.

15.9 Theme 8 – Simpler pricing and ticketing

15.9.1 Some people who responded to the second consultation noted that the standardisation of the bus system through the Proposed Franchising Scheme would remove often confusing types of tickets and provide a simpler fare structure, which would be helpful to everyone but especially those with learning disabilities or cognitive impairments. This is because the Proposed Franchising Scheme would lead to the removal of individual operator tickets, greatly simplifying the fares structure. GMCA agree with these conclusions, and this has informed the decision to proceed with consideration of the Proposed Franchising Scheme.

15.9.2 Under the current system, fares and ticketing are complex – there are more than 150 types of ticket. A simplified and integrated fares system is a key outcome for GMCA's Vision for Bus, and the Proposed Franchising Scheme would enable simpler and integrated fares and ticketing for customers than under any partnership options. This is because the structure of the current bus market does not allow bus operators to fully integrate fares and ticketing.

15.10 Theme 9 – Additional safety concerns as a result of the Covid-19 pandemic

15.10.1 Some respondents in the second consultation emphasised the heightened importance of cleanliness, social distancing and increased ventilation on buses as a result of the Covid-19 pandemic. They felt it should be a priority to make buses safe and accessible for older people, people with disabilities and other vulnerable groups.

15.10.2 If it is decided to implement the Proposed Franchising Scheme, it will not be operational immediately from the point of Mayoral decision. At the time of implementation, any specific requirements in relation to Covid-19 will be taken into account. There is therefore no resulting change to the impacts as outlined in the EqIA.

15.11 Theme 10 – Comments on considering the needs of passengers during the proposed transition period

15.11.1 In the first consultation, two statutory consultees noted the importance of considering the needs of vulnerable and disadvantaged people during the transition to the Proposed Franchising Scheme. Stockport Metropolitan Borough Council said that *"There is a need to ensure the changes and the interim stages of the process are clearly communicated to the public and that all bus providers are supportive of the needs of the vulnerable members of society who will be most affected by the changes"*. Trafford Council also said that the EqIA should *"consider the impacts on people during the phasing in of the Franchising Scheme factoring in the potential loss or reduction of bus services during this time. This could have a significantly negative effect on people, particularly on specific groups"*.

15.11.2 The public sector equality duty is an ongoing duty necessitating the need for ongoing self-evaluation and review during any transition period. Should the Proposed Franchising Scheme be made, communication about any changes to the bus system will be clear and accessible to all.

15.12 Theme 11 – Potential Mitigations and Future Decision Making

15.12.1 Some respondents in the second consultation raised concerns in relation to the potential mitigations that GMCA may need to consider in the future to ensure that the Proposed Franchising Scheme remained affordable and provided VfM to GMCA in the event that bus revenues and net revenues were lower than forecasted in the Assessment. These mitigation options were set out at section 5.3 of the Covid-19 Impact Report and included the following:

- Paying concessionary reimbursement based on actual usage as opposed to pre-Covid-19 levels;
- Reducing transition costs;
- Using other sources of funding available to GMCA; and
- Making reductions to the network.

15.12.2 Specifically, the comments in response to the second consultation mentioned that any increase in fares or reduction in services could impact on those with protected characteristics, particularly older people and those with disabilities.

15.12.3 In their response to the second consultation Stagecoach stated that: "*Any steps which result in higher fares or a reduced network will disproportionately impact citizens on lower incomes who do not have access to a car and rely on buses to access employment and public services. This would in turn impact their life opportunities, counter to the stated objectives of GMCA".*

15.12.4 Stagecoach also stated that: "*Any reduction in services or network size as a mitigation measure would also cause problems for passengers, in particular those with protected characteristics who are more likely to rely on buses and may not have access to a car. This in turn will impact their ability to participate in the jobs market and secure equal life opportunities. Given the wider economic impacts of Covid-19, such changes would compound the negative impact on passengers".*

15.12.5 No specific analysis was provided by Stagecoach in relation to the potential problems referenced.

15.12.6 GMCA recognise the possibility of adverse impacts that could follow in the event that any of the mitigation options (as set out in Covid-19 Impact Report) were put in place but it is difficult to say at this stage whether they are likely to occur or to what extent. Any proposed changes would be subject to due consideration by GMCA/TfGM of the public sector equality duty and to the extent that any of these mitigations may impact on those with protected characteristics, they would be analysed in further EqIAs as required.

15.13 Conclusion

15.13.1 As considered above, there are no aspects of the EqIA which would require significant changes at this stage. This means that the revised form of EqIA published following the second consultation is not materially different to the EqIA published for the purposes of the first consultation.

15.13.2 Several useful points were raised during the consultations, which has also provided additional insight into the concerns of passengers. These points and concerns have been considered, as detailed above and nothing has emerged which would alter the EqIA or call into question the benefits of the Proposed Franchising Scheme.

15.13.3 The importance of accessibility was emphasised in several responses to the first consultation, including the University of Manchester Students' Union, who suggested driver training, audio cues at bus stops and a second door on buses as ways of improving accessibility. Additionally, Greater Manchester Disabled People's Panel identified 11 priorities for bus travel by disabled people, including audio-visual real-time information at stops and on buses, improved signage and driver training.

15.13.4 The Bus Services Act gives the Secretary of State for Transport the power to create, "*for the purpose of facilitating travel by disabled persons*" regulations governing the standards of information provided by bus operators, including audio-visual announcements. Following a public consultation on this by the Department of Transport in the summer of 2018, it had been expected that these regulations would be made in 2019. Although the regulations have yet to be made, it is expected that they will be in due course and that thereafter those operating bus services will be required to provide information on-board buses in compliance with those regulations. It is anticipated that these measures would improve the accessibility of buses for those with physical disabilities and those with communication or sensory impairments.

15.13.5 As stated above, GMCA recognise any future proposed changes would be subject to due consideration by GMCA/TfGM of the public sector equality duty and the impact on those with protected characteristics, and they would be analysed in further EqIAs as required.

15.13.6 Following a review of the responses to the consultations, it is not anticipated that the Proposed Franchising Scheme would have any adverse impacts on those with protected characteristics and there would be positive impacts of varying degrees on certain groups. The EqIA has been updated to reflect comments from both consultations. A full Equality Impact Assessment is not required as no adverse impacts have been identified within the screening process.

16. The Proposed Franchising Scheme: Legal and other considerations

16.1 Introduction

16.1.1 This Section 16 is split into two parts. The first part sets out TfGM's analysis of the responses from both consultations in relation to particular questions on the Proposed Franchising Scheme. The second part focuses on some of the other challenges raised by consultees from a legal and procedural perspective.

16.1.2 In relation to the questions asked during the first consultation:

Sections 16.2.1 to 16.2.6 considers TfGM's analysis of responses received from consultees on the corrections and changes made to the Proposed Franchising Scheme (Question 1);

Sections 16.2.7 to 16.2.23 considers TfGM's analysis of the responses to the proposal to introduce the Proposed Franchising Scheme across the entirety of Greater Manchester (Question 2), including how some consultees thought that the Proposed Franchising Scheme should apply to a smaller area or in some cases should be introduced only as a trial;

Sections 16.2.24 to 16.2.33 considers TfGM's analysis of comments concerning the services that are proposed to be franchised under the Proposed Franchising Scheme (Question 3);

Sections 16.2.34 to 16.2.45 considers TfGM's analysis of comments concerning the proposed division into three Sub-Areas and the arrangements for transition (Question 4);

Sections 16.2.46 to 16.2.50 considers TfGM's analysis of comments concerning services proposed to be excepted from regulation (Question 5);

Sections 16.2.51 to 16.2.57 considers TfGM's analysis of comments relating to the proposed date for making the Proposed Franchising Scheme (Question 6);

Sections 16.2.60 to 16.2.72 considers TfGM's analysis of responses concerning plans for consulting on how well the scheme is working (Question 9). This analysis also considers the two proposed options that TfGM has considered for adjusting the Proposed Franchising Scheme in relation to this aspect of future consultation;

Sections 16.2.75 to 16.2.89 considers TfGM's analysis of responses concerning changes to improve the Proposed Franchising Scheme (Question 46); and

Finally, 16.2.90 to 16.2.95 considers TfGM's analysis of responses concerning the effect of suggested changes (Question 47).

16.1.3 In addition to this, 16.2.96 to 16.2.100 considers TfGM's analysis of the question in the second consultation, which asked whether consultees considered that the Proposed Franchising Scheme would not require any further modification beyond those already contemplated after the first consultation and included in the draft Proposed Franchising Scheme.

16.1.4 Consideration has also been given to Ipsos MORI's findings from both consultations. For those questions set out at section 16.1.1 above this can be found at section 6 of Ipsos MORI's June 2020 Consultation Report. The outputs of the second consultation are contained at section 13 of Ipsos MORI's March 2021 Consultation Report, which has also been considered and reported on against each consultation question, if and where appropriate. Questions 7, 8, 10 and 11 of the first consultation have been considered in the Commercial Case section of this report at section 6.

16.1.5 The second part of this section 16 focuses on some of the other challenges raised by consultees from a legal and procedural perspective. These issues have been divided into key themes, namely:

16.4 provides TfGM's analysis in relation to comments from consultees about the lawfulness, propriety and/or reasonableness of the process followed by GMCA;

16.5 provides TfGM's analysis in relation to comments from consultees that any decision to implement the Proposed Franchising Scheme at this time would be irrational; and

16.6 provides TfGM's analysis in relation to comments from consultees about potential impacts on operators (including consideration of the responses to Questions 38 and 39 of the first consultation).

16.2 TfGM's review of consultation questions

Question 1: Do you have any comments on the corrections and changes made to the Proposed Franchising Scheme?

16.2.1 The first consultation question in the first consultation asked for comments on the corrections and changes that were intended to be made to the version of the draft Proposed Franchising Scheme, which was sent to GT. Those changes included correcting some typographical errors, inserting a clearer map and removing some markings and/or services from the lists set out in Annex 1 and Annex 4. Both versions of the Proposed Franchising Scheme were made available to consultees. Consultees were told that those changes would have no practical effect if made and that GT had also agreed that those changes would have no effect on its opinion, or its observations, on the Assessment.

16.2.2 As it appears from section 6.1 of Ipsos MORI's June 2020 Consultation Report, 323 consultees responded to this question during the first consultation. The vast majority of the comments received were from members of the public who in broad terms, made favourable comments on those corrections and changes.

16.2.3 There were, however, some comments made by members of the public in this question that were not about the proposed corrections and changes but on other matters. For example, some consultees said that the Proposed Franchising Scheme would allow for integration with other modes of transport and that the proposals were not ambitious enough. Whilst these comments have been considered, and the scope for greater integration between modes of transport is consistent with GMCA's objectives, they do not relate to the corrections and changes made to the Proposed Franchising Scheme.

16.2.4 Very few statutory consultees commented on the corrections and changes. Of those statutory consultees who did, such as TravelWatch NorthWest and Bolton Council, none of them made any unfavourable comments.

16.2.5 OneBus said that they had *"no comments as we were not given access to the original draft"*. However, both the original and revised draft versions of the Proposed Franchising Scheme were published and made available alongside the consultation document. Other consultees, as explained above, were able to correctly identify that two versions of the Proposed Franchising Scheme were published during the first consultation. At no point during the first consultation did OneBus express concerns that they had not been given access to both draft versions of the Proposed Franchising Scheme.

16.2.6 Go North West agreed that the corrections and changes proposed were minor and would have no impact on the Proposed Franchising Scheme.

Question 2: Do you have any comments on the proposal that the Proposed Franchising Scheme should apply to the entirety of Greater Manchester?

16.2.7 Section 6.2 of Ipsos MORI's June 2020 Consultation Report examines the comments received from consultees during the first consultation on the proposal that the Proposed Franchising Scheme should apply to the entirety of Greater Manchester. It notes how the majority of consultees (695 of those 818 who commented on this question during the first consultation), and many of the statutory consultees, made favourable comments in support of the proposal for the Proposed Franchising Scheme to apply to the entirety of Greater Manchester. OneBus, for example, said that *"it is logical that the Proposed Franchising Scheme should apply to the entirety of Greater Manchester …".* In particular, it appears that the majority of the public were generally supportive of the Proposed Franchising Scheme applying to the whole of Greater Manchester.

16.2.8 Some consultees went on to explain why. For example, some said that this would help better integration of bus services into the wider public transport network and could also help to facilitate a simplified ticketing system.

16.2.9 Two members of the public suggested that the Proposed Franchising Scheme should apply to a smaller area of Greater Manchester. One said, "I *believe that if franchising is the preferred option it should only apply to sub sections A and B. Area C should remain on a deregulated basis or in a partnership model*". No reasons were given as to why the Proposed Franchising Scheme should not apply to Sub-Area C. The other person appeared to express broad opposition to the proposals, commenting that "*Given my stated view of the wrong-headedness of the entire proposal my suggestion would be that the Proposed Franchising Scheme be confined to the route between the offices of the Mayor of GMCA and the offices of the Leader of Manchester City Council, in effect Mount Street*".

16.2.10 During the first consultation, Arriva commented that *"if a franchising scheme is the preferred option of GMCA we feel that it could be restricted to those parts of Greater Manchester in which there is clear evidence of market failure and therefore a case for such significant local authority intervention*". As set out below at section 13.2.16, the Assessment considered why it was appropriate for any intervention to be introduced across the entirety of Greater Manchester. Arriva did not respond to the second consultation.

16.2.11 Whilst Transdev did make a comment during the first consultation that the proposal was sensible, they said something similar to Arriva by suggesting excluding certain corridors which provided cross-boundary services so that those services would not need a service permit to operate. No specific corridors were suggested by Transdev, and it is unclear how this would work practically. Notwithstanding this, during the second consultation, Transdev commented that the Proposed Franchising Scheme would not require any further modification. Section 4.8 of this report also addresses the comments received in relation to the proposed service permit scheme and explains how the majority of cross-boundary services should be able to successfully apply for a permit without any significant changes needed to their services.

16.2.12 Section 6.2.3 of Ipsos MORI's June 2020 Consultation Report notes how some members of the public also made some other suggestions to the Proposed Franchising Scheme. The example provided by Ipsos MORI said, *"I think it should apply entirely within Greater Manchester with connecting services running out of the region to border towns"*. It was already the case that the Proposed Franchising Scheme would apply to a number of cross-boundary services in so far as they operate within Greater Manchester. Other cross-boundary services would be still able to operate in Greater Manchester if they obtained a service permit. Another suggestion which some consultees appear to have made, that the Proposed Franchising Scheme should be extended beyond the boundary of Greater Manchester, would not require the agreement of other neighbouring authorities to franchise, and in many cases would not be possible without the consent of the Secretary of State for such other authorities to consider a franchising scheme.

16.2.13 There were a few suggestions made during the first consultation that the Proposed Franchising Scheme should be introduced initially on a trial or pilot basis to determine whether franchising would work in a smaller area of Greater Manchester before rolling it out further. Go North West said that *"it would be unreasonable to roll it out to the whole* *area without a genuine trial followed by a staggered and gradual implementation*", before going on to propose how they believe franchising should only be introduced on a trial basis for one year in Sub-Area A, following which GMCA would assess the performance of the scheme and undertake another consultation to ask consultees whether that trial should be extended to another Sub-Area or not.

16.2.14 Go North West repeated this suggestion in its response to the second consultation by stating that *"if franchising were to be implemented on the basis of sub-areas, it should be implemented on a staged basis starting with a trial in sub-area A which is followed by a meaningful period of consultation, after which the Proposed Scheme may be adapted and improved for roll-out to sub-area B or C"*.

16.2.15 First also suggested a similar approach "*where Franchising … is tested in a ring-fenced location within Greater Manchester, alongside a partnership led approach*". First then went on to explain why a trial would be appropriate as they said "*Once there is a commitment to Franchising the effect on the provision of local bus services is immediate and significant as it changes operators' future plans irrevocably. The proposals… does not offer a credible opportunity to learn, reflect and amend, and will result in the region being irrevocably committed to Franchising, without opportunity to reassess this decision if it proves not to be in the interests of passengers and the wider community."*

16.2.16 During the second consultation, First reiterated the comments it had made to the first consultation and said that *"we believe the Local Partnership…remains the best option going forward and certainly warrants a trial"*. A similar point was also made by a member of the public who said that the Proposed Franchising Scheme should be introduced *"only for a small amount of years to see if benefits are there*".

16.2.17 TfGM does not consider that a trial would be necessary. This is because, as set out in the Assessment, the benefits from the Proposed Franchising Scheme (particularly around network and integration etc.) come from the fact that it would apply to the entirety of Greater Manchester and that it would be a long-term, enduring model. The Assessment concluded that the entire bus market in Greater Manchester was not performing as well as it could be and that in order to achieve GMCA's objectives and to promote consistent change and improvement across Greater Manchester, any option to intervene in the market should apply to the entirety of Greater Manchester.

16.2.18 Both Go North West and First suggest that franchising could be trialled within a smaller, specific area of Greater Manchester. No specific areas were identified as being suitable to be 'ring fenced' as such and it is not clear how this would work in practice, particularly in considering how services crossing the boundary of the 'ring-fence' would operate and what exceptions would apply to services within that trial area. It is unlikely that any such option would deliver the same passenger benefits as expected under the Proposed Franchising Scheme as customers would continue to face the same challenges in relation to the current complex fares and ticketing offer, while also needing to purchase an additional product to travel within the trial area and having to deal with the complexity introduced by cross-boundary travel between different parts of Greater Manchester.

16.2.19 Franchising is not a novel system for regulating bus services but would be a significant change to the bus market in Greater Manchester as it would change the nature of how the market operates in the long-term. The Assessment considered in detail how the Proposed Franchising Scheme would work across the whole of Greater Manchester, what effects it would be likely to have, how it would contribute to the policies of GMCA and other neighbouring authorities and other factors. A significant amount of work was also undertaken to compare the proposal against other realistic courses of action and without repeating the contents of this report or the Assessment, this followed extensive engagement with operators. Detailed consideration has therefore been given to the proposal, and there would be no reason to initially trial any of the options considered in the Assessment because they would not be expected to provide the same benefits as a wider franchising scheme, such as the Proposed Franchising Scheme.

16.2.20 First made the point during the first consultation that the Proposed Franchising Scheme "*does not offer a credible opportunity to learn, reflect and amend, and will result in the region being irrevocably committed to Franchising, without opportunity to reassess this decision if it proves not to be in the interests of passengers and the wider community*". As set out from section 16.2.60 of this report, it was proposed after the first consultation that GMCA would modify its plans on consulting on how well the Proposed Franchising Scheme is working. That would allow GMCA to get feedback from users sooner than originally proposed.

16.2.21 The argument that there should be a "*trial*" of franchising with subsequent staggered and gradual roll out across the remainder of Greater Manchester is, in effect, that the transitional period should be extended to provide a greater opportunity to learn from experience as franchising is introduced. This appears to be similar to the comment made by Go North West during the second consultation that there should be a "*a meaningful period of consultation"* after franchising is introduced in Sub-Area A. This argument was also made from section 6.9.22 of the Commercial Case response section.

16.2.22 It should also be noted that the Act also allows for the Proposed Franchising Scheme to be varied and/or revoked, so clearly GMCA would not be *"irrevocably committed to Franchising"* if it was found that there were significant problems with the Proposed Franchising Scheme that could not be resolved or other reasons for going back to a deregulated market. It is, however, accepted that there would be a significant amount of complexity that would need to be considered and overcome should any decision be taken to revoke the Proposed Franchising Scheme, for example, in relation to any facilities being provided by GMCA.

16.2.23 The majority of consultees agreed with the proposals that the Proposed Franchising Scheme should apply to the entirety of Greater Manchester, and while some suggestions of a trial or pilot approach were raised by some of the bus operators, as explained above such an approach would not be necessary.

Question 3: Do you have any comments on the local services that are proposed to be franchised?

16.2.24 Question 3 to the first consultation asked for comments on the services that are proposed to be franchised under the Proposed Franchising Scheme. Section 6.3 of Ipsos MORI's June 2020 Consultation Report notes that 512 consultees responded to this question and that out of the 293 favourable comments made, 128 of those where from members of the public who were generally supportive of the proposal. Only a small number of statutory consultees provided any comments during the first consultation.

16.2.25 Go North West was concerned that services operating from its Queens Road depot (which is in Sub-Area B) would be required to obtain a service permit in order to operate in Sub-Area A if franchising becomes effective in that area. As explained in the Commercial Case at sections 6.9.53 to 6.9.54, TfGM has reviewed the classification of the services proposed to be franchised and proposes that a number should be given different classifications in any franchising scheme which is made. They are incorporated into the scheme proposed by this report.

16.2.26 Some other consultees (such as local authorities and members of the public) said that cross-boundary services should be included in the Proposed Franchising Scheme. This point was also made by consultees to the second consultation, including Go North West, who said that *"Any franchising scheme should include cross-boundary services"*. The Proposed Franchising Scheme does, in fact, include some services which would cross the Greater Manchester border, but they are only identified in the Proposed Franchising Scheme to the extent that they operate in Greater Manchester. That is because those services cannot operate under a franchise contract outside of Greater Manchester, as those other areas would not be franchised, and it would, therefore, be unlawful for them to operate in those other areas under a local service contract. To the extent that they operate outside of Greater Manchester, then that portion of the route would need to be permitted under other powers. Annexes 1 and 4 of the Proposed Franchising Scheme list the services which would be franchised, and those services are currently listed above at section 4.8.25 of the Strategic Case response section of this report.

16.2.27 Section 6.3.3 of Ipsos MORI's June 2020 Consultation Report notes how the majority of the public who responded to the question were generally supportive of the proposal.

16.2.28 One member of the public suggested in the first consultation reinstating services which had been previously withdrawn as they commented *"I think it would be good to look to reinstate lost bus services…"*. Another person made a similar point and commented "*The proposals list only existing services. It should also cover services that there should be but that do not exist, either because they used to exist but were dropped, or that are needed but never existed in the first place…"*. Similar comments were made by some consultees during the second consultation, including Robert Largan MP and the Friends of Mill Brow group, who suggested the reinstatement or re-routing of existing services.

16.2.29 Given the scale of change involved in introducing the Proposed Franchising Scheme and changing how the market operates, it was considered in the Assessment that making service changes during the implementation period would not be appropriate and would create further risk to GMCA and potential confusion to staff and the public. Most consultees were in support of the proposal that only existing services would be franchised at the outset, and an example of this can be seen when one person commented during the first consultation *"I presume this is all existing services – it should be"*.

16.2.30 Taking into account the considerations in the Assessment and the few suggestions that other services should either be introduced or reinstated, the proposal to franchise existing services only is still considered appropriate. Including other services would instead be an issue which GMCA could consider after transition as GMCA would be able to make network changes in the future, for example, if making any changes as part of any 'Phase 2' measures.

16.2.31 Some consultees also suggested introducing express services. A similar view was expressed by those participating in the deliberative research sessions for the first consultation with Ipsos MORI, as set out at section 3.7 of Ipsos MORI's June 2020 Qualitative Research Report. If there are express services currently running, then they would be included in the list of services identified in Annex 1 of the Proposed Franchising Scheme, albeit that list does not identify which services may be express services. As set out above, the Assessment concluded that introducing new services under the Proposed Franchising Scheme would not be appropriate on day one due to the size and scale of change that would already be required and because the Proposed Franchising Scheme should instead reflect the commercial network at that time. This means that it is not proposed that any new express services would be franchised upon the introduction of the Proposed Franchising Scheme. However, consideration could be given to matters once franchising was properly established and running smoothly, as, under the Proposed Franchising Scheme, TfGM would be able to enhance its network of franchised services in order to respond to customer need and demand. This could include provision of more express services.

16.2.32 Section 123A(3)(a) of the Act requires an authority to *"identify the local services that they consider appropriate to be provided…"*. The services in the Proposed Franchising Scheme have been identified based on their routes. Describing the times at which each bus might run or how swiftly any journey might be completed under the Proposed Franchising Scheme is not necessary for the purposes of section 123A(3)(a), and it would be over-prescriptive. It would also require GMCA to vary the Proposed Franchising Scheme in accordance with section 123M of the Act before making any change. Identifying services with such detail is not required under the Act and would involve unjustified expense and delay.

16.2.33 It is, therefore, proposed that the services to be franchised should continue to be identified in the current manner proposed subject to the changes mentioned above (if a decision is taken to make the Proposed Franchising Scheme).

Question 4: Do you have any comments on the proposal that the Proposed Franchising Scheme would be split into three Sub-Areas and on the other arrangements for the purposes of transition?

16.2.34 Section 6.4 of Ipsos MORI's June 2020 Consultation Report shows how those who commented on the proposed arrangements for transition during the first consultation, including the proposal to split Greater Manchester into three sub-areas. There was a fairly even split between those who made a favourable comment and those who made an unfavourable comment, with 192 and 173 comments, respectively.

16.2.35 Many consultees agreed with the proposed arrangements. OneBus said that "*the splitting into sub areas is sensible however this increases the challenges where services in one area are either de-regulated (operating commercially or with TfGM support) or within the franchise or operate on a service permit basis*". This is exactly why GMCA has proposed to except some specified services from regulation temporarily (which are set out in Annex 4 of the Proposed Franchising Scheme) for the purposes of transition. The purpose of those exceptions is to ensure that those existing commercial services can continue to operate in and out of those sub-areas without needing a service permit. Taking an example, this would allow the Wythenshawe – Sale – Stretford – Eccles service in Annex 4 to operate from Sub-Area C and to go into Sub-Area A and to be excepted from the Proposed Franchising Scheme until franchising becomes effective in Sub-Area C when that service could be replaced by a franchised service.

16.2.36 The view that the proposed arrangements were sensible was also shared by the members of the public during the first consultation. The majority of the favourable comments received from members of the public were generally supportive of the proposals. For example, one person said that *"I believe this phased approach is the only way to ensure there is a smooth* transition".

16.2.37 However, Ipsos MORI also found that 83 of the 202 suggestions made by the public during the first consultation were that the Proposed Franchising Scheme should be introduced uniformly across Greater Manchester with no sub-areas. Section 6.4.3 of Ipsos MORI's June 2020 Consultation Report highlights how 28 comments were received from members of the public who said it would be unfair to make changes in one area before rolling it out to other areas. For example, one person said, *"No, I don't think this should happen; just get on with it the whole of Greater Manchester should be treated as a whole and equally and by setting up sub-areas that just leaves it open for delays and potential unfair treatment of different areas"*.

16.2.38 The consultation document for the first consultation explained that the reason for introducing Sub-Areas was to allow the bus market to move smoothly and efficiently to a new way of operating, meaning that one area has to go first and one area has to go last. It is unavoidable that the phased introduction of the Proposed Franchising Scheme will mean that some passengers will enjoy the benefits of franchising before others. The way phasing is being introduced has been structured exclusively around operational and other practical considerations designed to make the transition as effective as possible. There has been no preferential consideration given to one segment of the travelling public being allowed to benefit before any other segment does so. The alternative would be to introduce the Proposed Franchising Scheme across the entirety of Greater Manchester at once, which would not be appropriate due to the size and scale of change. Ipsos MORI's June 2020 Consultation Report found that this seems to have been supported by many of the statutory consultees, including Go North West, who said, *"in order to manage risk and minimise disruption, it is paramount that any franchising scheme is implemented in a staged manner"*.

16.2.39 Section 6.4.2 of Ipsos MORI's June 2020 Consultation Report notes a suggestion that "*Interim compensatory arrangements (for example in relation to fares) would be desirable in those areas which come later in the scheme*". No reasons were given as to why compensation should be given to those travelling in Sub-Areas before the Proposed Franchising Scheme takes effect, and it is also unclear what this could include and how it would work.

16.2.40 Salford City Council suggested including Irlam and Cadishead into Sub-Area A instead of Sub-Area C. This appears to be so all services operating in and out of Salford would be in the same sub-area; however, as set out in this sub-section, it is not proposed that the Sub-Areas or any of their boundaries would change.

16.2.41 Go North West did, however, say that *"the timeframe for the implementation of the Scheme in sub-areas A, B and C does not represent a genuine trial…"*. This is correct because it is not proposed that the Proposed Franchising Scheme, if made, would be introduced only on a trial basis. Whether it should be has been addressed above.

16.2.42 One of the main challenges that consultees raised during the first consultation was that the timescales for implementing the Proposed Franchising Scheme were unrealistic. Similar comments were made during the second consultation, and all of these have been considered elsewhere in the Commercial Case response Section 6.9 of this report. As that section sets out, it is thought that the original proposals were appropriate at the time and that such dates would be changed depending on if and when any decision is taken to introduce the Proposed Franchising Scheme. Some consultees also suggested that GMCA should instead consider a route-by-route franchise model and those suggestions are considered at sections 6.9.83 to 6.9.98 of this report.

16.2.43 In addition to this, there were some comments made by consultees that the map used in Annex 5 of the Proposed Franchising Scheme lacks sufficient detail. As far as we are aware, no statutory consultees sought provision of a more detailed map during the first consultation, and no statutory consultees said that they were unable to understand the Proposed Franchising Scheme owing to lack of detail in the map itself.

16.2.44 In June 2020, it was proposed by TfGM that, in light of the responses to the first consultation, a more detailed version of the map would be published online and also made available by TfGM on request. This was made clear within the Proposed Franchising Scheme itself and in particular, in the footnote of Annex 5 which provided that *"Please note that a more detailed version of this map will be made available online and copies will be made available upon request to TfGM".* A more detailed version of the map was published online and made available as part of the other consultation materials.

16.2.45 In response to the second consultation, Go North West commented that the *"map delineating the boundaries of the sub-areas A, B and C is unclear and these boundaries are significant for operators".* As set out at section 6.9.52 of the Commercial Case section of this report, TfGM does not accept that the boundaries of the sub-areas should present any problems for operators provided that appropriate provision is made for services operating in more than one Sub-Area. TfGM have reviewed the time at which services listed in Annex 1 to the Scheme are to be franchised in the light of these comments and are proposing changes as explained in the Commercial Case section of this Report: see sections 6.9.53 and 6.9.54. These changes will also have consequential effects on the services temporarily exempted from regulation under the scheme listed in Annex 4. In order to render the boundaries clearer and to avoid any ambiguity as to whether the map that defines the Sub-Areas is that attached to the Proposed Franchising Scheme or available elsewhere, however, it is proposed to amend the Proposed Franchising Scheme to specify that the map in Annex 5 is for illustrative purposes only and that the map that defines the Sub-Areas is a larger scale version that will be deposited at TfGM's offices at 2 Piccadilly Place, Manchester, M1 3BG. It will also be available for inspection online.

Question 5: Do you have any comments on the services which have been excepted from regulation under the Proposed Franchising Scheme?

16.2.46 A small number of consultees answered Question 5 during the first consultation, which asked for comments on the services which are proposed to be excepted from regulation under the Proposed Franchising Scheme. For those who did comment, it appears that there was a focus on Scholars Services, which are the only class of services that would be excepted permanently under the Proposed Franchising Scheme. This is different to the services listed in Annex 4 of the Proposed Franchising Scheme, which consultees did not express any concerns about, which would only be excepted for the purposes of transition and to minimise the disruption of services operating between sub-areas.

16.2.47 Section 6.5 of Ipsos MORI's June 2020 Consultation Report notes how 105 of the 249 responses to this question were favourable comments, 58 of which were from members of the public who were generally supportive of the proposals. In addition, 60 of the 121 members of the public who commented on the question suggested that all bus services should be included in the scheme, with no exceptions. Assuming that the public means all local bus services, then that would appear to be largely consistent with the current proposals that the entire existing commercial network of services run by operators would be franchised. Any other services which GMCA did not want to include in the Proposed Franchising Scheme but which an operator may want to provide in the future would need to obtain a service permit from GMCA to operate.

16.2.48 Eleven consultees also commented that Scholars Services should not be excepted. The proposal for excepting Scholar Services is based on the fact that those services are not registered local services, which are open to the public for use, and are instead closed services usually arranged privately on by the school or college. It was, therefore, considered that it would therefore not be appropriate to franchise those services.

16.2.49 During the first consultation, Go North West again queried how services would operate during transition between sub-areas. In order to avoid the need for services to obtain a service permit during the transitional period before they are to be franchised, some services have been temporarily excepted and listed in Annex 4. The list of these services has again been reviewed in the light of Go North West's response to the second consultation and corrections proposed, as explained in the Commercial Case section of this Report at 6.9.53 to 6.9.54.

16.2.50 In summary, many consultees agreed with the proposals and no material comments were raised by consultees during either consultation, which gave rise to the need to consider any other services being excepted. As a result of this, it is proposed that the services which were proposed to be excepted from regulation, i.e. Scholars Services and those excepted temporarily, as listed in Annex 4, would continue to do so should the Proposed Franchising Scheme be made and the additions referred to in the Commercial Case section of this Report would be added.

Question 6: Do you have any comments on the date on which the Proposed Franchising Scheme is currently proposed to be made?

16.2.51 During the first consultation, consultees were also asked for any comments about the date on which the Proposed Franchising Scheme was proposed to be made. Section 6.6 of Ipsos MORI's June 2020 Consultation Report notes how the majority of comments to this question were favourable. This appears to be primarily from members of the public who were generally supportive of the proposed date and said that the Proposed Franchising Scheme was long overdue.

16.2.52 A small number of members of the public (19 of the 337 responses) did say, however, that this date would be too soon. This was a view shared by some of the bus operators (such as Go North West and Arriva) who commented that the proposed date of 6 March 2020 would be too early. Go North West said that the date would be too early because *"GMCA cannot meaningfully take into account response to this consultation and make any changes necessary to the Scheme in less than two months …"*, before saying that *"GMCA does not appear to have taken into account the obligations and associated timescales for Greater Manchester bus operators to comply with CAZ (Clean Air Zone)"*. The CAZ is an entirely separate proposal, which is subject to its own requirements and will be developed irrespective of whether or not the Proposed Franchising Scheme is introduced. It is therefore not accepted that GMCA and the bus operators would be required to focus on any CAZ obligations before any decision can be taken to make the Proposed Franchising Scheme.

16.2.53 Rotala expressed a similar concern on the amount of time available to GMCA to consider the consultation responses because they said, *"it would be premature for GMCA to take the decision on the Proposed Franchising Scheme as early as 6 March 2020 – unless of course GMCA has been persuaded that the Proposed Franchising Scheme is not the best option"*. It is accepted that it is important to ensure that sufficient time is given to consider the consultation responses, regardless of whether any decision is taken to make the Proposed Franchising Scheme. Supporters of the proposals have an equal right to ensure that their voices are duly heard before any final decisions are made. Accordingly, Rotala's point that the proposed date of 6 March 2020 would have been acceptable only if there was a decision not to make the Proposed Franchising Scheme is not accepted.

16.2.54 The first consultation proposed that the Proposed Franchising Scheme would be made on 6 March 2020. That indicative date was identified in the consultation document and included in the Proposed Franchising Scheme to inform consultees about how GMCA intended, at that point, to reach its decision concerning whether or not to make the Proposed Franchising Scheme and how the Proposed Franchising Scheme would work. The date of 6 March 2020 was the earliest possible date for any Mayoral decision, based on GMCA's understanding of how long it might take to consider the consultation responses following closure of the consultation period. The consultation document explained that this date may change, and that sufficient time would be allowed for full consideration of all the consultation responses to be given before any decision could be reached. Ipsos MORI note at section 6.7.2 of their June 2020 Consultation Report how OneBus acknowledged how that date may change and is consistent with TfGM's proposals.

16.2.55 No decision has yet been taken to introduce the Proposed Franchising Scheme, and after the first consultation, TfGM concluded that all dates should be removed from the Proposed Franchising Scheme. During the second consultation, a modified version of the Proposed Franchising Scheme was published, and that version did not specify any of those dates. Instead, a covering sheet was inserted to the Proposed Franchising Scheme, which described what those dates would be if a decision was made to introduce the Proposed Franchising Scheme on 2 April 2021. As explained in that covering sheet, those dates were simply provisional and were included only for the purposes of consultation.

16.2.56 During the second consultation, some consultees agreed with the reasoning behind the dates being removed from the Proposed Franchising Scheme. For example, Manchester University NHS Foundation Trust said that *"we agree with the agreed modifications in the consultation, including the removal of any specific dates on the launch of the bus franchising scheme due to the ongoing pandemic"*. OneBus also said that *"it is accepted that the dates are provisional"*.

16.2.57 In summary, it is therefore proposed that dates are only included if a decision was taken to introduce the Proposed Franchising Scheme with the dates inserted consistent with the timing of that decision.

Question 7: Do you have any comments on the dates by which it is proposed that franchise contracts may first be entered into?

16.2.58 Sections 6.9.7 to 6.9.21 of the Commercial Case response section of this report considers the responses from consultees on this question. In a similar manner to the date for making the Proposed Franchising Scheme, those dates were removed and would instead only be specified in the Proposed Franchising Scheme if a decision was taken to introduce franchising.

Question 8: Do you have any comments on the nine month period that is proposed will expire between entering into a franchise contract and the start of a service under such a contract?

16.2.59 Sections 6.9.56 to 6.9.69 of the Commercial Case response section of this report considers the responses from consultees on this question.

Question 9: Do you have any comments on the proposals for how GMCA would consult on how well the Proposed Franchising Scheme is working?

16.2.60 Question 9 of the first consultation asked for comments on the proposals for how GMCA would consult on how well the Proposed Franchising Scheme is working.

16.2.61 Section 123A(9) of the Act provides that a franchising scheme must include a description of an authority's plans for consulting such organisations appearing to the authority to be representative of users of local services as they think fit in order to seek their views on how well the scheme is working once it is operational. Consideration was given to this in the Assessment where it was proposed that GMCA would consult such organisations immediately after the expiry of the first franchise contracts, and as appropriate thereafter. In broad terms this meant that the first consultations on how well the Proposed Franchising Scheme was working would take place in 2031.

16.2.62 Section 6.9 of Ipsos MORI's June 2020 Consultation Report notes that the majority of the comments received to this question were suggestions (254 of the 397 responses received) and this appears to be broadly consistent across both statutory consultees and non-statutory consultees. Section 6.7 of Ipsos MORI's June 2020 Qualitative Research Report also found that some participants were keen to express their thoughts that the Proposed Franchising Scheme should be reviewed as it progresses.

16.2.63 Some consultees did not comment on this question during the first consultation. This included Rotala, Stagecoach and OneBus. Bus Users UK also did not comment on the proposals, although they did challenge the timing of this consultation and also said that it thought *"a detailed passenger and potential passenger consultation to identify the specific needs of local people"* would improve the Proposed Franchising Scheme, which is partly what we understand the primary purpose behind this consultation would be.

16.2.64 Some consultees commented that GMCA should consult sooner, possibly as early as a few weeks after implementation, and should not wait until all the first franchise contracts had expired. This included comments from Arriva and Cheshire West and Chester Council, whom Ipsos MORI also identify at section 6.9 of their June 2020 Consultation Report as having raised these concerns. One of the primary reasons behind this was that there may be lessons that GMCA may be able to learn sooner, for example, during the introduction and transition of the Proposed Franchising Scheme, which if consulted upon may inform the rollout of services during transition and beyond. First made a comment that GMCA should consult sooner because the plans did *"not offer a credible opportunity to learn, reflect and amend and will result in the region being irrevocably committed to franchising, without opportunity to reassess this decision if it proves not to be in the interests of passengers and the wider community".*

16.2.65 Other consultees said that any consultations should be simpler, particularly in light of how complex this consultation was TfGM agrees with that view.

16.2.66 Having considered the responses to the first consultation, TfGM considered two options which would allow GMCA to consult sooner on how well the Proposed Franchising Scheme was working. After the first consultation it was proposed that the original description of GMCA's plans to consult within the Proposed Franchising Scheme would be modified 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. These changes were made to the version of the Proposed Franchising Scheme which was reported to GMCA on 26 June 2020 and consulted upon during the second consultation.

16.2.67 During the second consultation one member of the public said that "*Franchising problems are going to happen some predictable some not. Therefore consultation when operational is vital*". This is consistent with the proposals in that the plans would allow GMCA to consult when the Proposed Franchising Scheme was operational in all sub-areas.

16.2.68 In response to the second consultation, Wigan Council said that *"As in our response to the previous consultation, it is imperative that Wigan Council is consulted ... Ward Members should also be involved as they will have a good feel for bus service issues within their Wards, a situation replicated throughout GM"*. Similar comments were made by some consultees during the first consultation as they suggested that others, not just organisations appearing to represent users of local services, should also be consulted. Ipsos MORI's June 2020 Consultation Report notes that TravelWatch NorthWest said that it believes it should be consulted. TravelWatch NorthWest said, *"as a statutory consultee to this consultation, TWNW would expect to be consulted on how well the scheme is working"*. Bolton Council also asked how such consultations were to be conducted and whether any support would be required from local authorities.

16.2.69 TravelWatch NorthWest made a similar comment during the second consultation as they said that *"We cannot find any specific reference to passenger representation in the consultation other than in connection with consulting user organisations on how well the franchising scheme is working throughout its life. In this connection there is a requirement to consult organisations "representative of users of local services"…TNWN would, subject to appropriate funding, be well placed to undertake this role on an ongoing basis. Under this regime, TWNW would also be able to seek passenger views and contribute to any changes to services, fares etc., as and when they occur"*.

16.2.70 TfGM can see the value of making any consultation as wide in practice as is reasonable in the circumstances and to determine who to consult in addition to organisations representative of users in the light of the circumstances prevailing when the consultation takes place. It is, however, not proposed that the Proposed Franchising Scheme is modified to identify specific organisations to be consulted. This is because the Act simply requires a "*description of the franchising authority's or authorities' plans for consulting such organisations appearing to the authority or authorities to be representative of users of local services as they think fit…*" to be provided as the relevant organisations may change over time, it would be better for GMCA to consult those whom it considered to be representatives of users at the time of any consultation, instead of specifying those organisations now.

16.2.71 During the first consultation, Ipsos MORI also found that one of the main suggestions by members of the public was that passengers should also be consulted. There are ways in which GMCA could obtain feedback from passengers and that includes engaging with customers shortly after new services start, potentially through the use of surveys and online channels, where passengers could provide feedback on matters such as fares and ticketing and how effectively the incoming operator has taken over the service. This learning from passengers would be fed back into future tranche mobilisations and would be in addition to any consultation undertaken by GMCA with those organisations who appear to be representative of users of local services.

16.2.72 As a result of this it is proposed that the description of those plans for consultation, as proposed to be modified after the first consultation, remain appropriate as they would allow GMCA to consult sooner than originally proposed and at an appropriate time when lessons can be learnt from the roll out of the Proposed Franchising Scheme.

Question 10: Do you have any comments on GMCA's plans for allowing small and medium- sized operators the opportunity to be involved in the Proposed Franchising Scheme?

16.2.73 Sections 6.9.111 to 6.9.164 of the Commercial Case response section of this report considers the responses from consultees on this question.

Question 11: Do you have any comments on the proposal that it would be appropriate for GMCA to provide depots to facilitate the letting of large franchise contracts under the Proposed Franchising Scheme?

16.2.74 Section 6.3 of the Commercial Case response section of this report considers the responses from consultees on this question.

Question 46: Are there any changes that you think would improve the Proposed Franchising Scheme? Please provide further details as to the changes you think would improve the Proposed Franchising Scheme

16.2.75 Question 46 of the first consultation asked for comments on whether there were any changes that consultees thought would improve the Proposed Franchising Scheme.

16.2.76 The majority of those who answered this question said that they either did not know if there were any changes which could improve the Proposed Franchising Scheme or said that there were no changes that they thought could be made.

16.2.77 Around a quarter of responses to the first consultation did propose changes that consultees thought would improve the Proposed Franchising Scheme. Section 5.1 of Ipsos MORI's June 2020 Consultation Report summarises those suggestions and explains how the majority of them were suggestions which had already been proposed or considered. For example, Warrington's Own Buses suggested how SMEs should be able to bid for large franchise contracts. These type of suggestions have been considered by TfGM in reviewing the consultation responses but are not proposed to be adopted and, in this example, Section 6.9.146 clarifies that SMEs are not restricted from being able to bid for large franchise contracts but would instead have to meet certain financial tests to provide it would be able to operate a large franchise.

16.2.78 In response to the first consultation Abellio suggested delaying the proposed timetable to give GMCA enough time to provide depots for large franchises. This is considered in detail at section 6.7.10 to 6.7.11 of this report.

16.2.79 Arriva also suggested that "*more should be done to ensure operators do not suffer significant financial harm as a result of the introduction of franchising … and that the timescales proposed should be re-considered as they seem somewhat unrealistic given the unprecedent change a scheme would require, if it is to be successful*". There is no requirement to compensate operators under the Act and the impact of the Proposed Franchising Scheme on operators is considered below.

16.2.80 Go North West suggested during both consultations that the Proposed Franchising Scheme should include cross-boundary services. As set out above from section16.2.24, that is what has been proposed in many cases insofar as such services are operated within Greater Manchester. It was also suggested by Go North West that the Proposed Franchising Scheme should operate on a route-by-route basis, that GMCA should not provide large depots and that the proposed timetable should be changed to allow for depot provision. All of these matters are considered at section 6 of this report. Go North West also suggested during the first consultation that the Proposed Franchising Scheme could be limited to franchising routes which *"in GMCA's view are in need of the additional 30 bus resource".* Given the failures affecting the bus market as a whole, the view that any intervention should apply to the whole of Greater Manchester to promote consistent change and improvement, the difficulties in route franchising referred to above and the delay involved in progressing a new franchising scheme, it is not clear what the benefits to or effects of that approach would be nor is it likely to bring the same benefits as the current proposal and it is not recommended.

16.2.81 Go North West also suggested, again in response to both consultations, that the Proposed Franchising Scheme should be implemented on a trial basis only for Sub-Area A and that following a further consultation it could be determined whether the Proposed Franchising Scheme should be rolled out to other areas. This was considered above, at sections 16.2.7 to 16.2.23, in response to the comments on Question 2 of the first consultation.

16.2.82 During the first consultation Belle Vue suggested that grants or subsidies should be provided to smaller to medium-sized operators. Such support is considered to be unnecessary and could in any event raise state aid and/or procurement issues, which would be avoided under the Proposed Franchising Scheme. As set out at sections 6.9.111 to 6.9.164 of this report, the Proposed Franchising Scheme has been structured in a way that allows those operators to participate should they wish.

16.2.83 Other suggestions from consultees during both consultations have been considered. Some of those suggestions have been considered and adopted, whereas others have not been adopted. For example, Cheshire East Council's suggestion that any future consultations on how well the Proposed Franchising Scheme is working should take place during and before the expiry of the first franchise contracts was considered alongside other similar suggestions at section 16.2.60 of this report.

16.2.84 During the first consultation Blackburn and Darwen Borough Council suggested that it should be involved in the decision-making process for the service permit scheme. This point was repeated by the Council in its response to the second consultation as it said that *"The Council would want to be part of the decision making process (under the 2000 Act) in relation to permitting, and the granting of a permit, either through a benefit to passengers making journeys within the Franchise Area or not impacting adversely on local Franchised services…"*. However, while the Assessment considers how GMCA could engage with applicants before a service permit is applied for, the Act requires any decisions on whether or not to grant a service permit to rest with GMCA only. For this reason it would not be appropriate for Blackburn and Darwen Borough Council, or any other local authority, to be part of the decision making process because section 123P of the Act provides that those decisions are for the franchising authority only to take.

16.2.85 The second most cited suggestion of those made by non-statutory consultees to the first consultation as set out at section 5.1.3 of Ipsos MORI's June 2020 Consultation Report relates to providing free travel to particular groups (such as young people). This was also a key theme which came out of Ipsos MORI's qualitative research findings (see section 5.5 of Ipsos MORI's June 2020 Qualitative Research Report). This was also expressed by some academic institutions and by other consultees during the second consultation. For example, the Caribbean and African Health Network said, *"Please make free travel passes for kids under 16 years old in full time education"*. Such a concession could be introduced under all options although it may be easier to implement under the Proposed Franchising Scheme. It could be delivered in the future alongside other 'Phase 2' interventions.

16.2.86 There were some suggestions to allow bicycles on buses and to increase the provision of cycle lanes. Such proposals would also not affect the content of the Proposed Franchising Scheme.

16.2.87 It was also suggested during both consultations that more consideration should be given to cross-boundary services. Such services were considered in the Assessment and again in this report. It is considered that sufficient consideration has been given to them for the purposes of considering whether or not to make a franchising scheme, given the final impact on them will depend on further actions, including the operation of the service permit regime.

16.2.88 Introducing more express routes and/or services which operated 24 hours a day has been considered above and would also not impact on the Proposed Franchising Scheme insofar as they operate on the routes already identified in the Proposed Franchising Scheme. Introducing new express services on routes not currently included in the Proposed Franchising Scheme would require the Proposed Franchising Scheme to be modified now or varied if the Proposed Franchising Scheme was made. This would be possible but, as already discussed at section 16.2.31, it was considered that introducing new services under Proposed Franchising Scheme would not be appropriate on day one due to the size and scale of change that would already be required.

16.2.89 During both consultations some consultees also suggested that bus companies should be publicly owned and/or nationalised. However, this is not what franchising involves and would require further legislation.

Question 47: If you oppose the introduction of the Proposed Franchising Scheme, how likely would you be to support it if the changes you suggested in your answer to the previous question were made?

16.2.90 Having asked consultees during the first consultation whether there were any changes that they thought would improve the Proposed Franchising Scheme, this question asked if they had opposed the Proposed Franchising Scheme, how likely they would they be to support it if the changes they suggested were made.

16.2.91 Section 5.2 of Ipsos MORI's June 2020 Consultation Report shows how a total of 485 consultees responded to that question and that consultees were broadly split in their view. This is because nearly 35% of consultees said that they would be either extremely likely or quite likely to support the Proposed Franchising Scheme if their suggested changes had been made, whilst 37% of others said that their view would not (or would be unlikely) to change.

16.2.92 In summary, and looking at some of the responses from the bus operators, Stagecoach did not directly address the substance of question 47 in its response to the first consultation. Rotala simply said that they *"would support the introduction of a partnership option"*. OneBus also said they would still be unlikely to support the Proposed Franchising Scheme because *"the suggested changes above would be unaffordable*" but it is unclear they were referring to and is not accepted that, as OneBus suggested, the Proposed Franchising Scheme fails to achieve GMCA's objectives and would not be affordable to GMCA (even in light of Covid-19 as considered in the Financial Case section of this report at section 7.5). Go North West also said something similar, albeit they did also submit that *"if the improvements suggested in the answer to Q46 above were made* (as set out by TfGM at sections 16.2.80 to 16.2.81 of this report)*, GNW would consider the further proposal of GMCA carefully …"*.

16.2.93 By contrast, First did answer the question during the first consultation but commented that they were neither likely nor unlikely to support the Proposed Franchising Scheme if its proposed changes were made. Arriva had previously said that *"we feel more should be done to ensure operators do not suffer significant financial harm as a result of franchising … and that the timescales proposed should be re-considered"*. Whilst both of these are common themes that have been raised by consultees and have been considered in detail in this report, Arriva did not say whether or not those changes would change its view on the Proposed Franchising Scheme.

16.2.94 During the first consultation Bus Users UK said that *"Passengers generally neither know nor care what the ownership and control structures are",* and that *"We would support a scheme that provides a rounded picture of improvement for all those who need or want to use a bus".* This point was made again in its response to the second consultation as Bus Users UK said that *"Bus Users has no view on the framework nor the regulatory structure that delivers bus services. We do know what is important to passengers, however, and that is reliable, affordable and efficient services, regardless of who runs them"*.

16.2.95 During the first consultation Derbyshire County Council said *"Whilst DCC neither supports nor oppose the proposals, if changes were made in relation to minimising the impact of the scheme on bus services outside the franchise zones and on cross boundary services, it would certainly improve the schemes viability …"*. In the second consultation Derbyshire County Council went on to say that it had *"more concerns about the long term financial viability of the proposals*". The Assessment concluded that the Proposed Franchising Scheme would be the option most likely to improve services to passengers and to also arrest the projected decline in patronage. As set out at section 4.8 of this report, it is accepted that the Proposed Franchising Scheme would have an impact on cross-boundary services. That impact is only thought to likely adversely impact on a small number of services. Derbyshire County Council's concern about the financial viability of the Proposed Franchising Scheme is considered in more detail at section 7.4.19 of this report.

Question 8 from the second consultation: Do you consider that the Proposed Franchising Scheme would not require any further modification beyond those already contemplated and included in the draft scheme?

16.2.96 Section 7 of the Covid-19 Impact Report considers the potential impacts of Covid-19 on the Proposed Franchising Scheme and whether any further modifications to that scheme may be needed. It was considered that other than the changes that were recommended to be made in light of the responses to the first consultation, no further changes to the Proposed Franchising Scheme were needed.

16.2.97 The only exception to this was noted in section 2.132 of the Second Consultation Document and also by GMCA in its report dated 27 November 2020. The report noted at section 3.21 that *"the draft scheme failed to state that the period of 9 months that was to expire between the making of a local service contract and the provision of a local service under it in each sub-area was the "minimum period". It is recommended that the draft proposed scheme should be amended accordingly"*.

16.2.98 Section 13 of Ipsos MORI's March 2021 Consultation Report notes that 536 consultees answered this question during the second consultation. Table 13.1 of that report noted that 322 consultees commented that no further modifications were required, 140 commented that the Proposed Franchising Scheme required further modifications and that 73 consultees commented that the scheme may require modification.

16.2.99 Ipsos MORI's report notes some examples of the modifications proposed by consultees. Some suggested that under the Proposed Franchising Scheme, GMCA should *"Increase the mileage operated in order to provide the increased services the Proposed Franchising Scheme promises to passengers*". The Proposed Franchising Scheme does not specify the mileage of any franchised service and as explained above at section 16.2.31, it is proposed that on day one GMCA would not introduce any new services. Ipsos MORI also note that some consultees suggested franchising the entirety of GM at once and this is considered further at sections 16.2.37 to 16.2.38 of this report.

16.2.100 Stagecoach also commented that *"We are concerned that the GMCA has been overly optimistic as to its ability to adapt the franchising scheme once implemented through variations. In particular … it cannot be right for the GMCA to be confident that it will be able to meet future requirements "no matter what happens in the market""*.

16.2.101 Further information on GMCA's ability to flex the franchising operating model is contained in sections 8.8.6 to 8.8.11 of the Management Case section of this report. As described in Section 7 of the Covid-19 Impact Report, section 123I of the Act allows the GMCA to postpone the dates on which a local service contract in any sub-area may first be provided under such a contract and any variations to the scheme itself are subject to the process prescribed in section 123M of the Act. TfGM considers that careful consideration has been given as to how implementation of the Proposed Franchising Scheme may need to change in the future. This is different to saying that "GMCA has been overly optimistic" in terms of its ability to vary the Proposed Franchising Scheme or its implementation. As set out at sections 8.8 and 8.9 of the Management Case section of this report, there are cases where GMCA would be able to flex the model without needing to formally vary the Proposed Franchising Scheme. GMCA already bears the residual risk that the market does not provide the services required for the people living and working in Greater Manchester and typically meets these needs efficiently where operators do not. Stagecoach have not given any concrete justification for their claim that GMCA has been overly optimistic.

16.3 TfGM's review of other key themes

16.3.1 The purpose of this section is to set out TfGM's analysis of other key themes raised by consultees during both consultations. This includes comments made by consultees concerning the process adopted by GMCA in considering the Proposed Franchising Scheme – for example, in relation to the preparation of the Assessment and the Covid-19 Impact Report, in the auditor's review of both of those documents and the fact that GMCA has undertaken two consultations on the Proposed Franchising Scheme.

16.3.2 There was broad consistency between the findings of both Ipsos MORI's June 2020 Consultation Report and its March 2021 Consultation Report and the themes identified by TfGM from a legal and procedural perspective.

16.3.3 The following key themes have been identified and considered in this section:

- Concerns that the correct process (both in the lead up to and during both consultations) was not followed;
- Concerns that any decision to introduce the Proposed Franchising Scheme at this stage would be unreasonable and/or irrational; and
- Concerns on the potential impacts of the Proposed Franchising Scheme and partnerships on operators and their possessions.

16.4 Theme 1: Correct processes not followed

16.4.1 During both consultations a number of consultees (mainly bus operators) made comments concerning the lawfulness and/or reasonableness of the process followed by GMCA (and TfGM on its behalf). These comments are summarised below.

Flaws in the Assessment

16.4.2 At section 4.1.1 of its first consultation response, Stagecoach's legal advisors Herbert Smith Freehills LLP (HSF) (and for the purposes of this report any references to Stagecoach, where appropriate, include HSF's response) asserted that there were flaws in the Assessment process which, when taken together, meant that the Assessment does not comply with the requirements of the Act. It claimed that:

- The analysis of the current market in the Assessment is incomplete;
- The Economic Case vastly overestimates the benefits of franchising, making significant accounting errors, using assumptions that have not been rigorously stress-tested and a methodology for calculating wider economic impacts that raises significant concerns and lacks transparency about how the benefits have been calculated;
- There is no accurate and comprehensive description of the effects of the Proposed Franchising Scheme on bus users and operators as required by section 123(B)(2) of the Act; and
- Neither the Assessment nor the consultation document provides a rigorous and detailed breakdown demonstrating that the proposal is affordable or VfM.

16.4.3 TfGM is satisfied that the Assessment which was prepared pursuant to GMCA's obligations under section 123B of the Act, was developed in a manner which had careful regard to the statutory guidance issued by the Secretary of State. As the auditor found, in all material respects due regard had been had to the guidance issued under section 123B in preparing the Assessment.

16.4.4 It is inevitably the case that different views may be held about the matters with which any assessment of any Proposed Franchising Scheme prepared under section 123B of the Act deals, on the adequacy of the methods and depth of analysis it contains and on whether or not there are omissions in it. For that reason, Parliament provided that it should be independently audited and the subject of consultation before any decision is taken on whether or not a franchising scheme should be made. Insofar as the points made by Stagecoach criticise the contents of the Assessment, their merits have been considered in the previous sections of this report. But in any event, it is considered that the Assessment was one that can reasonably be described as such having regard to the requirements of the Act with which it had to comply and one on which GMCA was entitled to proceed to have it audited and consulted upon.

16.4.5 Thus, for example, Stagecoach refer to section 123B(2) of the Act, which requires an assessment to *"describe the effects that the proposed scheme is likely to produce",* and contends that the requirement was not met as, in their view, *"there appears to be no accurate and comprehensive description of the effects of the scheme on bus uses and operators".* These matters are set out in detail in the Assessment and were summarised, for example, in respect of passengers (between Sections 61.1.3 to 63.1.18) and operators (between Sections 61.2.7 to 61.2.13 of the Assessment). Further, given the difficulties of ascertaining the likely effects on individual operators, the consultation invited a response not only on the Assessment's view of the likely impacts on operators but also what positive or negative impacts the Proposed Franchising Scheme might have on their business that any person currently operating local bus services in Greater Manchester anticipated. Apart from making a generalised assertion of non-compliance, Stagecoach has failed to advance any material arguments or comments in their consultation response to justify their position on this point.

16.4.6 Stagecoach appeared to suggest, in respect of the affordability of the Proposed Franchising Scheme, that the Assessment had not had regard to paragraphs 1.62, 1.59, and 1.61 of the Secretary of State's guidance.

16.4.7 It is not clear why Stagecoach considered that the analysis of value for money in the Assessment was legally flawed as, again, apart from making an assertion to that effect they have provided no supporting explanation for it. But, if it is intended to be suggested that regard was not had to the paragraphs of the Secretary of State' guidance (referred to in their response at paragraph 3.3.3(E), that is incorrect.

Flaws in the audit process

16.4.8 Some of the operators also made comments relating to the auditor's review of the audit of the Assessment. Those comments are considered in section 9 of this report.

Flaws in the consultation process

16.4.9 During both consultations some operators commented that the consultation approach taken by GMCA was flawed. For example, consultees commented that:

- GMCA did not publish all of the required documents with either consultation;
- GMCA did not allow sufficient time for either consultation; and
- GMCA may have closed its mind to all other alternatives other than franchising, or there is a real risk that GMCA has refused to meaningfully consider viable alternatives.

16.4.10 These issues are considered in more detail below.

Claims that GMCA did not publish all of the required documents with its consultation

16.4.11 In response to the first consultation, OneBus and some of the incumbent operators raised concerns and challenged the fact that GMCA did not publish some of the models which had been used to inform the Assessment. Further detail on the points raised by those consultees and what information was published during the first consultation is set out in the Economic Case Response Themes section of this report and at section5. As further explained in those sections, sufficient information was published to enable those operators to give proper consideration of, and to provide an intelligent response to, the proposals without needing access to the models requested by OneBus or others they claimed in their responses to need.

16.4.12 OneBus did not raise similar concerns in its response to the second consultation that GMCA had failed to publish all of the information necessary for it to respond.

16.4.13 In response to the second consultation Rotala said that GMCA's consultation was unlawful and that *"This response is made on the basis of the inadequate and/or incomplete information which has been provided by or on behalf of GMCA and in the face of a refusal to provide all the necessary information requested by us on behalf of our client and by one other consultee (Stagecoach)".*

16.4.14 During the second consultation, Stagecoach and Rotala both requested further information from TfGM that they said was required to enable them to respond to the second consultation. These requests are summarised below.

16.4.15 Stagecoach requested copies of the models used in the Assessment and the Quantified Risk Assessment undertaken in the Assessment and as also updated in the Covid-19 Impact Report. Stagecoach also asked for other documents and put various requests for clarification to GMCA. As well as sharing the requested information with Stagecoach, TfGM hosted an online session to brief Stagecoach on what was being provided and to answer any other questions. TfGM also answered additional clarification questions from Stagecoach that were raised after that session.

16.4.16 Rotala also requested further information from GMCA in the form of copies of the models and various documents relating to the auditor's review of the Covid-19 Impact Report. This information was shared with Rotala.

16.4.17 On 6 January 2021 Rotala submitted an additional request, stating "*We understand that you have provided data/information to other consultees and should be grateful if you would confirm this is the same data/information you forwarded to us…and if it is not then please forward that data/information to us by return*". TfGM understands this to have been a reference to the further information which had already been provided to Stagecoach (as described above). This additional information was provided to Rotala by GMCA on 14 January 2021. In its covering letter GMCA stated "*It is not possible to attach and send all of the models referred to in the annex due to the size of some files. We would propose, therefore, that the information is sent via a secure file transfer from TfGM. Please ask your clients to contact… TfGM…to arrange for the files to be shared securely and for the technical a sessions to be arranged, if required*". Notwithstanding this offer, no contact was made with either TfGM or GMCA to arrange for the models to be shared. TfGM does not accept that GMCA refused to provide information to Rotala where it requested it prior to submitting its response to the second consultation.

16.4.18 In response to the second consultation Stagecoach commented that the models should have been disclosed as part of the first consultation. Stagecoach said "*While our client is grateful that the models have now been provided (albeit belatedly), it is wholly unclear why the GMCA did not do so when access to the models was first requested over a year ago, in particular where no or minimal changes have been made to the models then*". Stagecoach make the further point that they made a complaint that the models had not been disclosed in their response to the first consultation. As explained in the Economic Case Response Themes section of this report, however, it was only OneBus who requested access to two of the models during the first consultation period; no operators made any such requests. If Stagecoach had requested all of the models during the first consultation period then that request would have been reviewed as appropriate by GMCA. Stagecoach also said that since further information had been provided to it by GMCA, that information ought to be published so that all other consultees could review that material. In particular, Stagecoach said that:

- "we remain of the view that there were deficiencies in the First Consultation. In order to rectify those deficiencies, all consultees must now be given an adequate opportunity to comment on the material which has now been disclosed to Stagecoach"; and
- "In order to avoid repeating its errors from the First Consultation and to ensure that the Second Consultation is procedurally fair, the GMCA should publish the information that it has disclosed to Stagecoach and provide additional time for all consultees (including

Stagecoach, which has only had the required information for a very short period) to review and respond to that information."

16.4.19 No other consultees apart from Stagecoach and Rotala requested additional information during the second consultation. TfGM therefore considers that sufficient information was provided as part of both consultations to allow all consultees to give intelligent consideration to both consultations and, as stated above the additional information provided on request was not necessary to enable a response to the consultation to be made and it was not therefore necessary to publish it more widely.

Claims that GMCA did not allow sufficient time for the consultation

16.4.20 During the first consultation, Stagecoach asserted that insufficient time was allowed for the consultation process because GMCA allowed less than three months for the consultation and that the length of the consultation itself was disproportionate compared with the amount of time it had taken TfGM to prepare the Assessment and for the auditor to provide its audit report on the Assessment.

16.4.21 The Act does not make any provision specifying the length of time that should be afforded to consultees in a consultation under section 123E. Determining the parameters of a consultation exercise under the Act, save as for requirements that are expressly required under the Act, is a matter for the judgment of the consulting authority. As with all such judgments, it must be exercised in a manner that is lawful, not irrational, and otherwise consistent with the principles of administrative and public law .

16.4.22 The general position under common law is that the length of time which a consulting authority is required to allow consultees to prepare and provide their responses must be sufficient to allow for an intelligent response. There is an understandable inability to impose, in abstract terms, general rules as to what amounts to a sufficient length of time, because the length of time that is reasonable will vary depending on the circumstances of any given consultation. Instead, each consultation must be considered on a case-by-case basis. Whilst previous versions of the Cabinet Office's Consultation Principles suggested that the time provided for responses to consultation might typically vary between 2 and 12 weeks, the latest version of these principles from 2018 makes it clear that any consultation period should instead last for a proportionate amount of time.

16.4.23 GMCA decided the first consultation should last for a period of 12 weeks and 3 days, while acknowledging that the period would fall over Christmas. This period allowed consultees more than three months to prepare and provide their consultation responses. This was consistent with previous major consultations undertaken by GMCA and, having specific regard to the Assessment and the consultation materials and questions, it was considered to be a proportionate amount of time.

16.4.24 Whilst some bus operators raised concerns regarding the period for consultation in their responses to the first consultation, it is of note that no consultees (including Stagecoach) complained about the length of time during the consultation process. In addition, none of the operators nor indeed any other statutory consultees (with the exception of the CMA) asked for further time to complete the consultation. No consultee brought a legal challenge to the consultation process on the basis that it unfairly permitted too short a period for response. Had any requests for further time been received by GMCA prior to the end of the consultation period, they would have been considered on their merits and responded to in an appropriate manner (as was the case with the CMA).

16.4.25 It is also considered relevant to note that Jacobs was able to produce a first draft of its report on 27 November 2019 and complete its report on 20 December 2019 (54 pages), having been able to undertake a second review of its report (including reviewing comments from OneBus and perhaps the operators also) on 4 December 2019, even though the consultation period was to end on 8 January 2020. In addition to this, Stagecoach was able to provide a detailed response (in the time allowed) comprising its covering letter (2 pages), its statutory consultation response (25 pages), its alternative proposal (60 pages), its solicitors' detailed legal opinion (17 pages) and Jacobs' economic review. Similarly, Go North West was able to provide its solicitors' covering letter (1 page), and its detailed 52-page formal response to the consultation.

16.4.26 A similar complaint was also raised by OneBus and Stagecoach in their responses to the second consultation. OneBus and Stagecoach claimed that the period of time should have been longer for the second consultation than the first consultation.

16.4.27 OneBus stated *"More time should be made available for this second round for several reasons:*

- the restrictions on travel in response to the introduction of the Tier system and Lockdown 3 for the entire period of the consultation, will have denied many of those who use buses as their primary mode of travel, any awareness of the proposals and therefore the opportunity to respond.
- The consultation period included the Christmas and New Year Festive Holiday period.
- The initial public consultation was held over a longer period and with more information to be read to enable a comprehensive response to the second consultation, it should certainly be held over a longer and not shorter period."

16.4.28 Stagecoach said that "*the overall time given for the Second Consultation [was] inadequate*" and *"the 8 week period for consultation which included the holiday period [was] insufficient."* Stagecoach also said that *"When publishing the Consultation Document, the GMCA requested that responses be provided on a short timescale of less than two months that included the holiday period around Christmas and New Year".* It asserted that any suggestion that *"consultees should already be familiar with the Original Assessment and TfGM's Consultation Report and would not need to revisit them is clearly unfounded."*

16.4.29 The relevant principles regarding the length of time which a consulting authority is required to allow consultees to prepare and provide their responses are summarised at section 16.4.22 above. GMCA decided the second consultation should last for a period of 8 weeks and 2 days (which is longer than a *"short timescale of less than two months"*, as Stagecoach characterises it). GMCA acknowledged that the period would not only take place over the Christmas period, but also when the country was subject to varying restrictions and lockdowns. Nevertheless, this period allowed consultees more than two months in which to prepare consultation responses.

16.4.30 As set out above, OneBus made the point that people have not been travelling by bus and would therefore not have been aware of the latest consultation. However, there were various ways in which GMCA raised awareness of the second consultation during the Covid-19 pandemic so that members of the public were still aware of the consultation despite the fact that they may not have been travelling by bus. GMCA adopted the same approach with respect to other consultations during this period, including using other channels, such as social media and an online live chat function through which consultees could ask any questions.

16.4.31 Many of those interested, such as OneBus, Stagecoach and Rotala, were already familiar with the issues generally from, and the documentation in, the first consultation. The new analysis and information for the second consultation relating to the impact of Covid-19 was less extensive than that which had been the subject of the first consultation.

16.4.32 It is of note that OneBus did not itself during the consultation process request more time in which to respond. Had it done so, GMCA would have considered the request on its merits and responded to it in an appropriate manner. It is also of note that certain consultees (such as Rotala) were able to submit extensive consultation responses within the time permitted (Rotala's compromising a main response of 20 pages together with two expert reports of 33 and 31 pages respectively).

16.4.33 TfGM is satisfied that the responses demonstrate, as a matter of fact, that consultees were generally provided with an objectively reasonable and proportionate period of time within which they were able to provide detailed intelligent responses engaging with the first and second consultation. This can also be shown by the response rate to the consultation and, as section 3 of this report shows, the small number of responses which were submitted late to both consultations.

16.4.34 Stagecoach were in fact granted an extension of time of two weeks in which to respond to the second consultation on the basis that Stagecoach had informed GMCA that a key member of its team had a serious health issue. Stagecoach stated in their consultation response, that *"While Stagecoach is grateful for the additional two weeks to prepare its response to the Second Consultation, it maintains that insufficient time was given for a full response, in particular in light of GMCA's disclosure of documents throughout January and as late as the 28 January 2021".*

16.4.35 Whilst further information was provided, GMCA considered that this further information was not required for the purposes of responding intelligently to the second consultation for which it was sought. But, in any event, Stagecoach itself had time to submit an extensive consultation response running to nearly 75 pages in total, together with two expert reports.

16.4.36 Stagecoach then went on to say that the consultation period should have been extended by a further 8 weeks, as it had originally requested, in which case consultees could have also *"commented on the alignment between the GMCA's scenario approach and the DfT's forthcoming guidance on scenario planning and addressing uncertainty"*. As explained at section 3.6, it is not yet known when the DfT Guidance/Toolkit will be published. Extending the consultation period so as to enable consultees to consider that guidance would therefore have lengthened the consultation period indefinitely, and it is not yet clear when the guidance will be published.

16.4.37 It is considered, therefore, that consultees had been given a sufficient amount of time to respond to the consultations in an intelligent manner and did in fact do so, as evident from the detailed responses submitted by OneBus, Stagecoach Rotala and some of the other main bus operators as well other consultees.

Claims that GMCA may have closed its mind to all other alternatives other than franchising

16.4.38 During the first consultation Stagecoach's legal submission contended that GMCA had consulted on the basis of an overly optimistic view of how franchising would operate, which is not supported by facts. Their response made substantive observations concerning the Assessment and concluded with an observation that GMCA may have unlawfully closed its mind to alternatives to the Proposed Franchising Scheme, and that there is a real risk that GMCA has refused to meaningfully consider viable alternatives.

16.4.39 There was no basis for these allegations. The fact that, having received the Assessment, GMCA sought an independent audit of the Assessment and subsequently then decided, upon receipt of the auditor's opinion, to consult on the Proposed Franchising Scheme, does not show any apparent pre-determination of the outcome of consultation by GMCA or the Mayor.

16.4.40 In response to the second consultation Rotala also said that *"the new variant and lockdown clearly evidences that scenarios cannot be dismissed at this stage, and to do so creates a flawed and inherently biased process which is strongly suggestive of a pre-determined outcome…"*. Further information on the scenarios can be found in section 3 of this report. Despite the challenges raised by consultees during the second consultation to the scenarios in particular, TfGM considers that it was still appropriate to consider the use of scenarios and to treat some scenarios as potentially being more likely than others. As a result of this, TfGM considers that the use of scenarios was appropriate as that was intended on giving decision makers enough information to understand how the market may look like in the future through those scenarios. Rotala's suggestion that the use of the scenarios is biased and *"is strongly suggestive of a pre-determined outcome"* is therefore unfounded.

The requirements of the Act and statutory guidance

16.4.41 Rotala and Stagecoach have both claimed that the GMCA has acted or is acting in breach of relevant statutory requirements. The GMCA is not in breach of any relevant statutory requirement. It has complied with section 123B of the Act by preparing an assessment (which was completed in June 2019), having had regard to the statutory guidance applicable to its preparation; with section 123D by obtaining an independent auditor's report on that assessment (which was provided on 26 September 2019), and with section 123E (starting the consultation on 14 October 2019).

16.4.42 Rotala contend that *"the GMCA made a decision not to franchise in June 2020, which was the concluding stage of [the existing] franchise process; consequentially the process has come to a conclusion pursuant to section 123"* of the Act which *"does not provide for TFGM/GMCA to undertake a further assessment and run a further consultation in the same franchising process in the event of a material change in the bus market."*

16.4.43 Section 123A(2) of the Act provides that a franchising scheme may not be made unless the franchising authority has complied with sections 123B to 123G. The process envisaged in those sections ends with (i) the publication by the franchising authority (in accordance with section 123G(1) of the Act) of a report, setting out the authority's response to the consultation required by the Act and, in the case of a mayoral combined authority, the Mayor's decision on whether to make a franchising scheme and (ii), if the Mayor's decision is to make a scheme with its making and publication at the same time as the report (in accordance with section 123H(1) of the Act). No such report has been published by the

GMCA in accordance with that section. Moreover the Mayor has taken no decision on whether or not to make a franchising scheme and the GMCA has not yet decided what its response to consultation should be. Rotala assumes that the GMCA made a substantive decision of some description on 26 June 2020. It did not do so. It merely noted a report by TfGM on the first consultation and that a further report will be submitted to members in due course which would consider the potential impact and effects of Covid-19 on the bus market and make recommendations about appropriate next steps. The contention that the existing franchising process had come to an end in June 2020 in accordance with the Act is without foundation.

16.4.44 There is also nothing in the Act which precludes a franchising authority from re-opening the consultation under section 123E after the consultation period has ended or from carrying out any further consultation. The statutory guidance in fact indicates (at [1.95]) that a franchising authority *"may choose to consult again"* after an initial consultation. Indeed, since fairness may require such further consultation, and since having to start the statutory process again would be plainly disproportionate in some cases, there is no reason to infer that Parliament intended to impose any such restriction. Nor is there anything in the Act which precludes any further consultation in the light of some material change in the bus market. The contention in effect that Parliament prohibited any further consultation about the significance of any such subsequent events to enable the authority to be better informed or to treat consultees fairly is without a legal basis.

16.4.45 Stagecoach contends that the GMCA was obliged as a matter of law to prepare a new assessment under section 123B of the Act and, if it wished to proceed with a franchising scheme, to have that new assessment audited under section 123D of the Act. On its logic, if the GMCA wanted to proceed with the scheme, it would then have to consult again under section 123E of the Act. In other words Stagecoach contends, in effect like Rotala, but for different reasons, that the statutory process that the GMCA had been following was, as a matter of law, brought to an end given the Covid-19 pandemic regardless of what the GMCA and the Mayor may or may not decide.

16.4.46 Stagecoach's arguments in support of that contention are threefold: (i) that *"if [the GMCA] wishes to proceed with franchising, it could not lawfully do so in reliance on the Original Assessment…because the scale of the impact of the pandemic on the bus market…and the analysis set out in the Original Assessment mean that the Original Assessment cannot be an adequate basis on which to make a decision to introduce the franchising scheme, and a new assessment was necessary"* (which it believes is something that the GMCA accepts, as it resolved, so Stagecoach says, to conduct further work in the light of the pandemic "rather than rely solely on the Original Assessment"); (ii) *"as a matter of fact the GMCA has reopened the Original Assessment"*: the Covid-19 Impact Report is an *"updated Assessment"*; it *"updated its analysis of affordability and value for money"*; and (iii) that it is not lawful for the GMCA to have conducted such further work *"to a materially less robust standard than that set out in the legislation and the statutory guidance"*, as it would defeat the policy and objects of the Act for the GMCA to take a less rigorous approach at this stage, and the Covid-19 Impact Report fails to meet those standards in material respects.

16.4.47 These arguments have materially different consequences: the first contends that any reliance on the Assessment cannot be lawful given the effects of the pandemic and, therefore, that the statutory process must be restarted and the second, whether or not that is so, is that in fact the process has been restarted and must this be followed; the third, however, does not necessarily entail that result: it is merely to the effect that Covid-19

Impact Report is not of a sufficient standard by reference to which a decision on franchising may lawfully be made.

16.4.48 There is no requirement that a decision on franchising must be based "solely" on an assessment prepared under section 123B of the Act. If the only matter that may be taken into account in any decision on whether or not to make a franchising scheme is an assessment and an independent auditor's report on it, that would exclude consideration, for example, of representations made in response to consultation (which Parliament plainly did not intend to exclude from consideration given that it requires the franchising authority to provide a response to them). Indeed, if there were any such requirement, the GMCA could not lawfully consider alternatives to the Proposed Franchising Scheme submitted during consultation, such as OneBus' proposal for Partnership Plus and Stagecoach's own proposal for a partnership, and compare them with the Proposed Franchising Scheme without starting the statutory process again (something that Stagecoach has never suggested). Nor could it take into account any representations that the Assessment is flawed in some respects but that a decision to make the Proposed Franchising Scheme might nonetheless be justified by reference to matters not in the Assessment.

16.4.49 The contention, that any reliance on the Assessment would be unlawful, because the scale of the impact of the pandemic on the bus market and the analysis set out in the Assessment mean that the Assessment cannot be an adequate basis on which to make a decision to introduce the Proposed Franchising Scheme, begs the question that the Covid-19 Impact Report seeks to answer.

16.4.50 The Covid-19 Impact Report considers the extent to which the Assessment of the Proposed Franchising Scheme remains valid in the light of Covid-19 and the uncertainties associated with it. It does so principally by considering whether the conclusions in each of the cases in the Assessment might be affected in a range of potential outcomes as to what the bus market may look like in future given potential changes as a result of Covid-19.

16.4.51 The GMCA has not prepared a new or updated assessment of the Proposed Franchising Scheme. The Covid-19 Impact Report did not update the Assessment or the analysis of affordability or value for money in it. Stagecoach are aware that there were a number of models used in preparing the Assessment and were informed that *"the inputs, model structure and logic of each of these models have not been updated since the Assessment and nor has there been any systematic refresh of the model inputs."* The Covid-19 Impact Report did not *"update"* the Assessment's analysis of affordability and value for money. As Stagecoach themselves note, *"the conclusions of the Original Assessment are used as the starting point for"* the Covid-19 Report.

16.4.52 Those conclusions in each of five cases in the Assessment will obviously be used as a starting point in a report considering whether or not they may be affected by the uncertainty associated with the potential effects of Covid-19 on the bus market. It is true that the base year for the reference case in the Assessment was 2016-2017, but not, as Stagecoach suggest, that the data relied on to inform the Assessment did not include data from any subsequent year. Given that there were no dramatic changes to the market before the Covid-19 pandemic, the Assessment gives an appropriate picture of the bus market prior to the impact of the Covid-19 pandemic. Whether it is reasonable to use the analysis of value for money in the Assessment, for example, as a starting point for considering the potential impacts of Covid-19 on the bus market is addressed in the Economic Case section of this report from section 5.8.

16.4.53 The Covid-19 Impact Report indisputably contains further analysis that is not contained in the Assessment to ascertain whether or not the conclusions in it may be affected by the uncertainty associated with the potential effects of Covid-19 on the bus market. But there is no statutory requirement that any further analysis that a franchising authority may undertake after an assessment has been prepared and audited, including, for example, any further analysis prepared after any consultation, must involve the preparation of a new assessment under section 123B of the Act, comply with the statutory guidance in respect of how such an assessment should be prepared, and be followed by a new audit under section 123D of the Act. OneBus and Stagecoach never suggested when proposing partnerships in the first consultation, for example, that, if the GMCA carried out any further analysis to consider the merits of those proposals and how they compared with the Proposed Franchising Scheme that any such further analysis would have such consequences.

16.4.54 Given that the GMCA was not required to prepare a new assessment under section 123B if it considers after a period of consultation further analysis that is not contained in the Assessment, it was not required to have any audit of it conducted under section 123D. Stagecoach's criticisms of Grant Thornton's review of the Covid-19 Impact Report, however, are considered at considered at section 9.3 of this report.

16.4.55 Stagecoach further contend, however, that in any event it is not lawful for the GMCA to have conducted any such further work *"to a materially less robust standard than that set out in the legislation and the statutory guidance"*, as it would defeat the policy and objects of the Act for the GMCA to take a less rigorous approach at this stage, and the Covid-19 Impact Report fails to meet those standards in material respects.

16.4.56 Although any decision whether or not to make a franchising scheme must be based on material on which a reasonable authority may make such a decision, there is no statutory requirement that any further analysis that a franchising authority undertakes must meet a *"standard"* that is not *"materially less robust"* than that set out in the Act and statutory guidance. In fact the Act does not itself specify any specific *"standard"* of robustness which an assessment prepared under section 123B of the Act must meet. An assessment prepared under section 123B must describe the effects that the proposed scheme is likely to have and compare its making to one or more other courses of action, giving consideration to a number of specified matters (including the scheme's contribution to local transport policies, its value for money and affordability and its practical operation). The Act accordingly simply describes what the content that an assessment prepared under section 123B of the Act must have. The Secretary of State has power to issue guidance concerning the preparation of such an assessment to which a franchising authority must have regard. The statutory guidance provides (at [1.28]), for example, that *"the level of detail that should be included in an assessment is the same as the level of detail that would usually be included in an Outline Business Case."* But the franchising authority is not obliged to follow the statutory guidance slavishly when preparing an assessment and it may depart from it if it considers that it is appropriate to do so in the circumstances. The object of the guidance relating to the preparation of the assessment is to ensure, as it states (at [1.22]), that *"the assessment of the proposed scheme contains sufficient detail to enable an informed decision to be taken."*

16.4.57 Stagecoach's argument appears to be based on provisions of the statutory guidance at [1.22] and [1.28] referred to above from which they seek to infer that any further analysis must be carried out in a way that is consistent with what would be expected in an Outline Business Case or at least not to a *"materially less robust standard"* or in a way that in its view is *"insufficiently rigorous"*.

16.4.58 Specifically, however, in respect of uncertainty (which is what Covid-19 creates), the statutory guidance suggests (at [1.56]), as Stagecoach notes, that, in preparing the assessment in respect of the economic case, that *"the authority…should...perform a number of sensitivity tests, to provide a range of results around the options to account for uncertainty and optimism"* (suggesting, in non-statutory advice, that the Green Book *"could be a useful starting point to develop appropriate methodology"*). In respect of the financial case it also states (at [1.62]) that the assessment should include *"a sensitivity analysis, reflecting the range of financial risks"*. The statutory guidance does suggest (at [1.24]) that a franchising authority "*should consider the relevance of the Green and Aqua Books to their particular circumstances and use them, as far as appropriate as a reference source.*" But there is no statutory guidance on any *"standard"* that any sensitivity analysis to deal with uncertainty must meet other than that they should *"provide a range of results around the options to account for uncertainty"* nor how any such sensitivity analysis must be conducted.

16.4.59 It may be noted that NERA (on whom Stagecoach rely) stated in its report at 3.2 that *"the appropriate way of analysing the impact of Covid-19 on franchising and partnership options in a way that is consistent with the Act is uncharted territory."* Instead NERA looked, therefore, for precedents *"for carrying out appraisals in the absence of guidance"*.

16.4.60 Stagecoach also refers to other parts of the statutory guidance to support its argument about what would need to be in an assessment prepared under section 123B of the Act that do not necessarily bear on the standard or conduct of any sensitivity analysis about the conclusions on value for money and affordability in the economic and financial cases. There is no requirement to conduct a sensitivity analysis, for example, about the appraisal period for assessing such impacts (the appropriateness of which in the light of the potential effects of Covid-19 is considered at sections 5.2.25 to 5.2.36 of the Economic Case of this report) nor necessarily on the scale of the benefits and impacts on different groups (a matter considered in the light of Covid-19 at section 5.10 of the Economic Case of this report). Stagecoach also relies on the advice in paragraph [1.39] of the statutory guidance, on conducting a detailed assessment of each of the shortlisted options and determining the extent to which each option would meet the GMCA's objectives, to complain that no effort was made to appraise *"likely partnerships available"*. Partnerships that were available have been considered in the Assessment and in sections 10 to 12 of this report. Stagecoach does not explain, for example, why the conclusions in the economic case relating to the Operator Proposed Partnership (which was one of the shortlisted options) should not have been considered in any sensitivity analysis, nor why unspecified *"likely partnerships"* should instead have been considered, having regard to that guidance on the shortlisted options. Some of the other points raised, relying on paragraphs [1.54] and [1.76] of the statutory guidance, appear to be based on the misapprehension that the scenarios are demand forecasts based on evidence rather than projections to provide a range of potential outcomes that are judged to be suitable for the purpose of testing the robustness of the conclusions based on judgment. The assumptions about future demand used for that purpose are stated in the Covid-19 Impact Report.

16.4.61 It is not the case that there is any requirement in the Act that any further analysis that is carried out by a franchising authority after any consultation has to comply with any statutory guidance relating to the preparation of the assessment even if relevant. Covid-

19 is in any case an event having potential consequences of a character not directly addressed in the statutory guidance. How appropriately to assess the uncertainty about the potential impacts of Covid-19 on the conclusions of the economic case in an assessment about value for money involves judgement. Whether the scenarios provide an appropriate basis for providing a *"range of results around the options to account for uncertainty"* is addressed in the section on the use of scenarios at section 3 of this report. Whether the 'what if?' tests in the Economic Case provide for appropriate range of potential outcomes in the circumstances to test the robustness of the conclusions on value for money in the Assessment is addressed at section 5.10 of this report.

16.4.62 The question whether the information available is such as to enable an informed decision to be made now is addressed in a section within the conclusions to this report.

16.5 Theme 2: Comments that any decision to introduce the Proposed Franchising Scheme at this stage would be irrational

16.5.1 In response to the second consultation, some consultees commented that it would be irrational if any decision was taken to implement the Proposed Franchising Scheme. The following points were raised by consultees on this point:

- The first point raised, for example, by Stagecoach is that "the superficial analysis which the GMCA has conducted…is not a sufficient basis on which to make a properly informed long-term decision, in particular in the circumstances of the present level of uncertainty." The irrationality of basing a decision of this magnitude and expense on the analysis in the Covid-19 Impact Report is also made by Rotala.
- It cannot be lawful or rational to make the Proposed Franchising Scheme when there is a risk of a huge and unaffordable loss (Rotala).
- The potential mitigations identified that may need to be invoked in the event of an additional downturn and difficulties in implementing the scheme lack sufficient detail: (a) the effect of network reductions on staff levels, redundancy costs and the local economy have not been considered and the costs savings could be minimal; (b) TfGM have not considered the potential impact of changes to fares on patronage; and (c) there is a lack of analysis of the links between the different mitigations and the wider effects they may have (Stagecoach).
- The second point is that the GMCA should await publication of the DfT's guidance on scenarios to capture additional uncertainties associated with Covid-19, that was due to be published in February 2021. Given its resources and expertise as a Government Department, the DfT is better placed to prepare these scenarios which it may not align with TfGM's.
- The GMCA has a duty to carry out a sufficient inquiry prior to making its decision. A 'recovery partnership' would allow the GMCA to meet its short term aims and allow sufficient time for a full and fair assessment of the scheme against realistic partnership options once more data is available and the impact of Covid-19 on the bus market in Greater Manchester is clearer (Stagecoach). Rotala also contend that it would be irrational to make a decision to franchise now without any knowledge of the partnership proposal that will be possible once the pandemic is over and without greater certainty as to how transition, implementation and management of each option would take place or until the long term impact of Covid-19 on the bus market is known.
- It would be disproportionate to introduce franchising when viable alternative options exist that would be of less detriment and disruption to existing operators given the uncertainty about the impact of Covid-19, the lack of evidence underpinning the scenario planning and the possibility of a 'recovery partnership' in the short term (Stagecoach).

16.5.2 In response to these points:

- The relevant legal question for the purposes of irrationality is whether a reasonable authority could now take a decision to make a franchising scheme now on the information it has. The question whether there is sufficient information on which to make a decision to make a franchising scheme is addressed in section 17.2.

- the risk if potential downside scenarios occur is addressed and potential mitigations considered in section 7.5.
- the points raised about the potential mitigations proposed mentioned by Stagecoach are respectively dealt with in relation to (a) network reductions at sections 6.9.269 and 7.5.51; (b) fares at section 7.5; and (c) links at 5.10.87.
- the legal question whether the GMCA is obliged to await publication of the DfT guidance depends on whether no reasonable authority would take a decision in its absence. Whether the GMCA should await it is addressed in section 17.2.
- the legal question whether the GMCA must await the presentation of a new partnership offer or offers or until more information becomes available likewise depends on whether no reasonable authority would take a decision in their absence. Whether the GMCA should await the development of such offers or until there is greater certainty is addressed in section 17.2.
- the relevant legal question for the purposes of irrationality is whether a reasonable authority could now take a decision to make a franchising scheme now on the information it has. There is, however, no currently viable long term alternative other than the Do Minimum as the operators effectively recognise by suggesting the GMCA should defer a decision until such a partnership offer can be proposed.

16.6 Theme 3: Potential impacts on operators.

16.6.1 The Assessment considered the potential impacts of the shortlisted options, including the Proposed Franchising Scheme and the partnership options, on different groups in society. This included the potential impacts on incumbent operators and the potential benefits to new operators wanting to enter into Greater Manchester bus market.

16.6.2 Section 9.6 of the Covid-19 Impact Report also considered how the Covid-19 pandemic may affect those conclusions. The rest of this section 16.6, as set out below, will consider the responses from consultees to both consultations on how the options may impact on operators.

Question 37: Do you have any comments on the impacts of the Proposed Franchising Scheme on operators as set out in the sub-section on impacts of the different options?

16.6.3 Section 17 of the Assessment sets out the potential impacts of the Proposed Franchising Scheme on operators (including incumbent operators, those not currently active in Greater Manchester and also operators of different sizes) and in doing so, accepted the fact that the Proposed Franchising Scheme would be the option which would have the greatest effect on those operators who predominantly operate commercial services. This is because it would change how local services could be provided in Greater Manchester. Such services could only be provided under a local service contract or with a service permit if not excepted from regulation under the Proposed Franchising Scheme. Moreover, in relation to services provided under a local service contract, it would be GMCA, and not operators, who would take revenue risk and who would determine the network, fares and service quality.

16.6.4 The exact nature of the likely impacts would depend on the outcomes from the tendering process and the profitability of each operator's existing business but, in the first instance, incumbent operators would not be able to continue to operate their existing services. Whilst this could have a negative impact on incumbent operators, it could increase competition between all operators and give new entrants greater opportunity to participate and to enter into the market.

16.6.5 Question 37 of the first consultation and Question 7 of the second consultation asked for any comments on the impacts of the Proposed Franchising Scheme on operators. As section 12.3 of Ipsos MORI's June 2020 Consultation Report sets out, only 161 consultees provided comments on this question during the first consultation and in broad terms there was a mix of favourable comments, unfavourable comments and suggestions given by consultees.

16.6.6 The majority (i.e. 137 out of the 161) of responses to Question 37 were from members of the public. Some commented that the Proposed Franchising Scheme would level the playing field for smaller operators and some commented that the Proposed Franchising Scheme would prevent a monopoly or drive competition, thus showing how the Proposed Franchising Scheme would have a positive impact on some operators.

16.6.7 Section 12 of Ipsos MORI's March 2021 Consultation Report sets out the response to Question 7 of the second consultation. There were 175 consultees who made comments to this question and 121 of those made positive comments about the conclusions in the Covid-19 Impact Report and how Covid-19 was not likely to change how the Proposed Franchising Scheme would impact on operators. For example, Ipsos MORI noted some comments that bus operators would benefit under the Proposed Franchising Scheme. This is correct as it would give them greater certainty, sustainability and as they would not be taking revenue risk on services under franchising.

16.6.8 Only 27 consultees made negative comments and not all of these related to whether Covid-19 was likely to change how the Proposed Franchising Scheme would impact on operators. For example some commented that operators would require support under the Proposed Franchising Scheme. This is correct but operators would require support under any of the other options too as operators have been reliant on CBSSG (including CBSSG Restart (CBSSG-R) and any future Government funding allocation(s) that may replace CBSSG) throughout the pandemic.

16.6.9 The main potential impacts of the Proposed Franchising Scheme which were raised by consultees during both consultations included:

- Change in how the bus market would operate in Greater Manchester and potential impacts on operators adversely affected;
- Potential for stranded assets; and
- Potential impact on pension liabilities.

16.6.10 In addition to this, some consultees also said that due to Covid-19 there was too much uncertainty to consider how the Proposed Franchising Scheme would impact on operators and that these impacts would not be known until there was greater certainty on how the market will recover. For example, Stagecoach commented that *"it is too early to draw any conclusions about the impact of options on each of the groups"* and OneBus said that "*There is no doubt that all parties are likely to be impacted by the effects of Covid-19 and will continue to be until there is certainty about the economy and patronage find its new level. This will take time..."*. Rotala further commented that, *"It is impossible for GMCA to say, with any accuracy, what the permanent effects of Covid-19 will be on the options (franchising partnership and do minimum) and groups (passengers, operators, GMCA and wider society) specified in the question until those long-term effects have been established".* Whilst it is accepted that there is some uncertainty as consultees have suggested, the Covid-19 Impact Report did address how the main types of consequences for operators of the Do Minimum option and franchising were not changed as a result of Covid-19 but that the effects for these options may be different in various ways under the different scenarios: see sections 9.6.6 and 9.6.8 of that report. The effect of any partnership on operators is as a result more difficult to assess as stated in 9.6.7 of the Covid-19 Impact Report. The decision on whether it would still be appropriate to make a decision is considered in section 17.2 of this report.

16.6.11 During the first consultation, Abellio said that "*under the Proposed Franchising Scheme, there would be significant impact on incumbent operators as a result of the change in market structure and a possible loss of business if they failed to win a sufficient volume of work in the franchised market*". This is accepted and has been considered in detail in the Assessment. It is, however, also relevant to note that Abellio went on to comment in their response to the first consultation that the Proposed Franchising Scheme would have a positive impact on operators as it "*would allow operators currently not present in the Greater Manchester local bus market to bring their knowledge and expertise …*". Abellio also said that it would "*involve rigorous competition between operators …, through a cost-effective tender process*", and that it would "*allow operators to make appropriate financial returns*", thus showing how the Proposed Franchising Scheme could have various positive impacts on smaller operators and new entrants by allowing them to access the market and to do so with certain returns.

16.6.12 OneBus' response to the first consultation on this topic was mixed because it made comments on the potential impacts of the Proposed Franchising Scheme on both incumbent operators and new entrants. OneBus noted that *"There are other operators who will look forward to spending time and resource bidding for contracts in the hope of winning work as a new operator in Greater Manchester*". Whilst identifying that this could have a negative impact on incumbent operators, it is also consistent with how the Assessment considers that the Proposed Franchising Scheme would afford potential new entrants an ability to enter into the Greater Manchester bus market, and therefore would have a positive impact on them.

16.6.13 Transdev commented during the first consultation that *"We also recognise the opportunity to expand through successful bids",* which again shows a potential positive impact of the Proposed Franchising Scheme for some operators as it would allow them to expand their business if they wished to participate and were successful in bidding for contracts under the Proposed Franchising Scheme.

16.6.14 Manchester Community Transport also made favourable comments in a similar manner to Abellio. It also thought that the Proposed Franchising Scheme would be a proportionate measure as during the first consultation it said, *"This does mean that incumbent operators may lose business but if this happens as a result of increased competition bringing farer fares and better services, this can only be seen as a positive"*.

16.6.15 Sections 6.8.85 to 6.8.90 of this report considers the position on stranded assets and considers how GMCA proposes to mitigate the risk of adverse impacts from stranded assets and the position for operators who do not want to take advantage of the offers made in respect of strategic depots and their fleets. It also considers suggestions that other depots should also be acquired and their potential uses.

16.6.16 During the first consultation, Transdev said that *"Many of the vehicles we use are on fixed-term leases and thus not covered by the residual value matrix and if we cannot redeploy them, we will be left with lease commitments that cannot be serviced by revenue*". It is accepted that this could create a potential adverse impact on some operators. The nature of any impact, however, will depend on the terms of the lease and as Transdev said, whether the fleet could be redeployed.

16.6.17 Rotala commented during the first consultation that it "*would like to make it clear that it considered there to be a real risk that implementation of the Franchising Scheme will result in operators exiting the market and losing their business. This will result in costly litigation for both GMCA and the operator which could delay introduction of the Scheme. Ultimately, incumbent operators and GMCA need to behave in a constructive and supportive way for the Scheme to be a success which, in its current format, simply will not happen*". It is unclear why "*costly litigation*" should necessarily result for operators and GMCA if the Proposed Franchising Scheme is made but it is accepted that the Proposed Franchising Scheme would result in a significant change to the market and that this could result in some operators exiting the market (including choosing to do so voluntarily) or losing all or part of their business in Greater Manchester.

16.6.18 Rotala also went on to say during the first consultation that GMCA *"may want to consider purchasing the businesses/depots of incumbent operators in order to avoid the inevitable litigation"*. It is unclear whether purchasing the businesses from operators as Rotala suggested would be legal given significant limitations on the statutory power for GMCA to carry it on.

16.6.19 In the first consultation Arriva said that "N*otwithstanding the RV mechanism and acquisition of strategic depots, an operator may still be let with stranded assets, a depot for which it has no use and employees for whom there is no work. The current proposals offer no form of compensation or mitigation for this loss and risk placed on operators. This could result in significant redundancies or the closure of bus operator's businesses*". First said something similar in that "*The mitigation measures proposed – for instance at para 4.195 of the consultation – do not offer a robust "safety net" for such operators and depend upon the offer that TfGM might – or might not – be prepared to make in respect of any given asset at any given time, and furthermore there remains no opportunity for such a business to retain its operational cash flow and future business prospects …".*

16.6.20 Go North West also said during the first consultation that the risks for operators under the Proposed Franchising Scheme were "*very grave*" and that "*GNW agrees with the articulation of the impact on operators as set out in the Consultation Document from paragraph 4.193 onwards and that of all the options, the Scheme would have the most significant impact on operators*". It is accepted that the Proposed Franchising Scheme would have the most significant impact of all the options on operators. Go North West went on to give some reasons for this, including how there could be a risk of stranded assets. This is accepted but proposed to be largely mitigated by the proposals for GMCA to acquire the strategic depots and by the introduction of the proposed RV mechanism whereby an operator could upon the introduction of the Proposed Franchising Scheme elect to put its fleet into the mechanism and therefore reduce the risk of having any stranded vehicles in Greater Manchester.

16.6.21 Go North West also said in its first consultation response that "*There is therefore a risk of an operator which has been awarded a franchise contract becoming insolvent, and as noted elsewhere, this would disrupt the implementation of the Scheme and may lead to GMCA incurring significant cost in making alternative arrangements*". Similar points were also raised by Go North West in its response to the second consultation. This was considered in the Assessment and is not seen to be likely as it is not common for operators to become insolvent in the current market. It is accepted that Covid-19 may increase the risk of operators becoming insolvent. However, that risk is considered to be low if CBSSG funding continues and if any additional funding is made available to operators and local authorities, either through 'recovery partnerships' or other arrangements. It should also be noted that under the Proposed Franchising Scheme, operators would have to take part in a competitive procurement process before being awarded a franchise contract, which would reduce the risk of a contract being awarded to an operator without the capability to perform to those standards and therefore become insolvent. In any event and should there be any disruption to the Proposed Franchising Scheme in such circumstances, section 123O of the Act does make provision for GMCA to let interim service contracts.

16.6.22 During the second consultation, Go North West also commented that the Proposed Franchising Scheme would have an adverse impact on operators if there is an extended implementation period. This is because operators would have to put any investment plans on hold and operators may have to withdraw services.

16.6.23 Some consultees commented during the first consultation that the Proposed Franchising Scheme could have an adverse impact on pension liabilities. For example, Stagecoach said that *"this could precipitate additional exit funding in the range of £30-£60m, which under the current arrangements or a partnership model would not be necessary"* (which is considered further at section 8.6 of this report). OneBus said that *“there will also be implications on pension liabilities which is noted in para 4.196 which should not be considered lightly”* but provided no evidence concerning what those pension impacts may include. First also noted that *“The pension implications would vary considerably dependent upon the circumstances at the time of any market closure …”* but importantly do not raise the potential impact of an exit debt on itself.

16.6.24 In response to the second consultation, Stagecoach commented on the impact the Proposed Franchising Scheme would have on its pension liabilities and said that “*The GMCA has stated that historic pension costs will remain with the operators but those with defined benefit schemes may need to provide greater contributions to them if the Proposed Franchising Scheme is implemented. Whilst ongoing funding of liabilities would be calculated on a basis set by the local administering authority of the pension scheme, the magnitude of the funding step-up that could be required on a discontinuance basis even for one operator could be considerable”*. It may be the case, as Stagecoach suggest, that those operators with defined benefit schemes may need to provide greater contributions. The Assessment, however, noted that the Proposed Franchising Scheme could have an impact on operator’s pension liabilities but noted that the Proposed Franchising Scheme does not create a new requirement for operators to fund their pension schemes and, at most, impacts on when and how an operator may be required to pay such deficits.

16.6.25 In its response to the second consultation, Stagecoach commented on how Covid-19 has changed how the Proposed Franchising Scheme would impact on operators. The first point made by Stagecoach was that franchising would *“entail significant costs…which they can ill-afford at this time”*. In particular, Stagecoach said this may involve costs associated with needing to invest in new buses, the costs associated with bidding for franchises and the increased risk of SMEs going out of business. Whilst it is accepted that Covid-19 has had a significant impact on revenues, operators have been reliant on CBSSG funding throughout the pandemic. This shows that operators may not be able to manage any risks associated with a drop in patronage and highlights the fact that in many cases, it is the local authority (and in the case of CBSSG, central Government) who ultimately bears the risks associated with a drop in patronage as it has to step in and support services where they are not capable of being operated on a commercial basis by operators.

16.6.26 Stagecoach commented that a 'recovery partnership' option would help in the short-term by avoiding any disruption caused to the market when CBSSG comes to an end. TfGM agrees with this point but it should be noted that this is not relevant to how the Proposed Franchising Scheme may impact on operators. The proposed 'recovery partnership' is therefore considered at section 13 of this report. Stagecoach also commented that the Proposed Franchising Scheme would have a disproportionate impact on its assets given the goodwill it has built up over many years. This is considered at section 16.6.70 of this report.

16.6.27 In its response to the second consultation Abellio noted that during the Covid-19 pandemic operators have been reliant on Government funding to keep services running and that there is a risk that services would be deregistered if that funding is withdrawn. As set out at section 6.2.64 of the Covid-19 Impact Report, TfGM agrees that this is a risk; however, it should be noted that this is a risk with all options and is not only a risk that operators may face if the Proposed Franchising Scheme is introduced.

16.6.28 The responses from consultees from both consultations on the potential impacts of the Proposed Franchising Scheme on operators appear to be consistent with the findings of the Assessment. In summary, it is accepted that the Proposed Franchising Scheme would be the option which would have the greatest impact on operators and while many of the larger incumbent operators commented on how the Proposed Franchising Scheme could adversely impact on their businesses, others did acknowledge some of the positive impacts in allowing other operators to compete and/or to enter the market. Whilst it is accepted that there is some uncertainty as to what the market will look like in the future as a result of Covid-19, many consultees have been able to consider how the Proposed Franchising Scheme would impact on operators and it is not considered that Covid-19 would necessarily change how the different options would impact on operators.

Question 38: Do you have any comments on the impacts of the partnership options on operators, as set out in the sub-section impacts of the different options?

16.6.29 The Assessment considered that the potential impacts on operators of the partnership options would depend in large part on the level of ambition of the partnership and the governance arrangements used.

16.6.30 Under the Operator Proposed Partnership considered in the Assessment, some aspects of the partnership would still be up for operators to decide and as demonstrated in other markets, both the benefits and impact on operators may reduce over time. No significant network changes were considered likely but, if there was increased marketing of multi-operator and multi-modal tickets, that could potentially lead to more competition and revenue.

16.6.31 The Ambitious Partnership option would have a greater impact on incumbent operators as that option would include an Enhanced Partnership Scheme (EPS). This would allow GMCA to define greater changes to the network and could include greater targets and requirements for operators to comply with. It would also have an impact on new entrants to the market and operators running cross-boundary services through the partnership area, particularly if any frequency or route requirements were set. The Assessment noted the uncertainty as to how effective any frequency or route requirements could be and that there could be a risk of service de-registrations.

16.6.32 As well as asking for any comments on the potential impacts of the Proposed Franchising Scheme on operators, question 38 of the first consultation and question 7 of the second consultation also invited comments on the potential impacts of the partnership options on operators.

16.6.33 Section 12.4 of Ipsos MORI's June 2020 Consultation Report shows that only 77 consultees provided comments to this question during the first consultation, the majority of whom were members of the public. They were broadly split between those who were supportive of the partnership options and those expressing a preference for the Proposed Franchising Scheme. Bolton Council, for example, agreed in broad terms with the conclusions of the Assessment that *"the Partnership options will have a limited impact on the operators as they will continue to run services and retain farebox profits".*

16.6.34 Section 12 of Ipsos MORI's March 2021 Consultation Report found that the majority of responses (as set out in section 16.6.7 above) were favourable comments about the conclusions reached in the Covid-19 Impact Report in respect of whether Covid-19 had changed how the options would impact on certain groups. Section 12.2 of Ipsos MORI's March 2021 Consultation Report notes how some of the local authorities agreed with those conclusions. Ipsos MORI's March 2021 Consultation Report also noted some other relevant comments, such as a comment by The Christie NHS Foundation Trust that GMCA would be taking a transfer of risk under franchising which would be avoided under a partnership.

16.6.35 During the first consultation, some of the operators provided comments but in broad terms their view of the potential impacts were mixed. Abellio and Manchester Community Transport both seemed to make similar points during the first consultation that the partnership options are unlikely to impact on operators due to the lack of change those options would deliver. Abellio said that *"As the scale of those commitments is within the gift and control of the operators, it is unlikely that they would be significantly disadvantaged"*, while Manchester Community Transport said that *"The operator partnership proposal requires little of operators and as a result the impacts – are likely to be minimal"*.

16.6.36 Stagecoach as part of its first consultation response asserted that it would not be able to comment fully as the Ambitious Partnership option had not been tested with them. Stagecoach could have commented in its response, however, on what impacts that option could have and in a similar fashion could have commented on the potential impacts of the Operator Proposed Partnership, which it had been involved in the negotiations and discussions of the same throughout the development of that option with operators. This was not commented on further by Stagecoach in response to the second consultation and instead, and as set out at section 11.8.2 of this report, Stagecoach commented that it was not at this stage able to develop any *"reliable partnership"* offer but that consideration instead should be given to a 'recovery partnership' as a short-term option to assist with the recovery of the bus market.

16.6.37 During the first consultation Go North West and other operators said that, with a partnership, *"the major costs and risks are borne by bus operators and GMCA is sheltered from major cost and risk"*. The Assessment recognised that a partnership would involve GMCA incurring less cost and risk than the Proposed Franchising Scheme. This point from Go North West is, however, no longer accurate given the impacts of Covid-19 and how operators have been reliant on Government funding throughout the pandemic. It is therefore not correct to say that GMCA is *"sheltered from major cost and risk"* as it has been local authorities, through central Government, who have been supporting services throughout the pandemic and this would continue to be the case under any 'recovery partnership'.

16.6.38 First in its first consultation response said that under the Operator Proposed Partnership operators "*have indicated their willingness to voluntarily reduce their ability to take unilateral decisions* …". Go North West went on to say that "*Operators would be subject to obligations and would face financial penalties if these were not met. Operators would commit considerable resource and investment (including capital expenditure) to delivering GMCA's obligations and would face increasing public scrutiny of their performance".* What obligations any operator undertook, and the resources and investment required to comply with them, would depend on the commitments agreed to in any partnership and whether it participated in it. These commitments are currently unclear because as explained at sections 10 and 11 of this report, both Stagecoach and OneBus have said that they are not able at this time to put forward any detailed partnership proposals.

16.6.39 During the first consultation, Rotala said that a partnership would have positive impacts on operators "*since … it would give rise to an improvement in services, materially increase bus patronage, and enable bus operators to allow price to reflect costs in a competitive environment".* It is accepted that a partnership option could have a positive impact on operators as Rotala seem to suggest but it is not considered that it will materially increase bus patronage.

16.6.40 In summary, while the majority of responses to these questions on the impacts of a partnership on operators were from members of the public, none of the operators seemed to disagree with the findings of the Assessment that the impacts on operators of a partnership option would depend in large part on the level of ambition of any partnership and the governance arrangements used. During the first consultation none of the operators appeared to comment on the potential impacts of the Ambitious Partnership option and some used that opportunity to express their view that a voluntary partnership would be preferable. It should also be noted that during the second consultation, operators commented that they would not be able to propose any detailed partnership proposals. Instead and as set out at section 13, many operators have suggested that a 'recovery partnership' should be considered by GMCA. Whilst it is accepted that this would be a useful short-term option to help reduce the impacts of Covid-19 on the bus market in GM, it is not clear what might be included in any such partnerships or how they may impact on operators.

Question 39: If you currently operate local bus services in Greater Manchester, do you anticipate any positive or negative impacts that the different options may have on your business? If so, please explain what you think those positive or negative impacts may be.

16.6.41 During the first consultation, operators were specifically asked at Question 39 if they anticipated any positive or negative impacts that the different options may have on their business. Section 12.5 of Ipsos MORI's June 2020 Consultation report notes that nine consultees responded to this question, five of whom chose the answer that they did not know whether the options would have any positive or negative impacts on their business.

16.6.42 As set out at section 12 of Ipsos MORI's March 2021 Consultation Report, some operators also responded to Question 7 in the second consultation and set out what impacts the different options may have on their businesses. Ipsos MORI note that Go North West commented that franchising would cause disruption for passengers, create uncertainty for employees of bus operators in relation to the terms and conditions of their employment contracts and would result in increased bus fares. These points are considered in sections 8.4, 8.7 and 7.5.67 of this report. Rotala also said that it was not possible to say what the effects of Covid-19 would be at this stage and that because of this, no decision should be made now. This is also considered separately in section 17.2 of this report and in the context of whether a decision to introduce the Proposed Franchising Scheme should be taken

16.6.43 Section 17 of the Assessment considered the potential impacts of the options specifically on current incumbent operators. As well as the potential impacts on assets and pension schemes as described above, it found that under the Proposed Franchising Scheme there could be a change to the market share and profit margins for the current large incumbent operators.

16.6.44 For smaller operators, the Assessment did not assess the profitability of their services and whether they could be expected to increase or decrease their profit margins under the Proposed Franchising Scheme. Instead, it was considered that smaller operators would still be able to participate in the Proposed Franchising Scheme by bidding for smaller franchises which could provide an opportunity for the current incumbent smaller operators to operate on a similar scale to that on which they operate currently.

16.6.45 The consultees who answered this question during the first consultation and who said that they did anticipate positive or negative impacts on their business were Go North West, Transdev, OneBus and Arriva.

16.6.46 Go North West, Transdev and Arriva all asserted that the Proposed Franchising Scheme would have a negative impact on their assets. It is accepted that the Proposed Franchising Scheme could impact on the assets of incumbent operators, however, measures have been proposed to reduce any risk of such assets being 'stranded'. In Transdev's case, their Rochdale depot was not considered to be a strategic depot for the purposes of the Proposed Franchising Scheme (as explained at section 6.3.23 above) and it is also not proposed that any of the services operating from that depot would be included in any of the large franchises. This means that it is possible that Transdev could continue to operate services from its Rochdale depot – either through successfully bidding for small franchise packages or through obtaining service permits for such services.

16.6.47 During the first consultation, both Go North West and Arriva claimed that the Proposed Franchising Scheme could result in a significant number of redundancies. As explained at section 8.5 above, there could be a small number of roles that might become redundant as a result of the Proposed Franchising Scheme being implemented but the majority of staff are expected to be transferred either between operators or to TfGM.

16.6.48 Section 123X of the Act provides that staff can be transferred not only in the steady-state but also upon the introduction of the Proposed Franchising Scheme. This was made clear through the Guidance which at paragraph 1.108 provided that "*In recognition of the fact that it is not entirely clear whether the Transfer of Undertakings (Protection of Employment) Regulations 2006 would apply to the franchising scenario, particularly when franchising is first introduced, the Act makes specific provision for TUPE to apply to these situations. This should protect existing staff working on the affected bus services, help reduce the burden of redundancy payments for operators who have to cease trading or downsize because of franchising while ensuring that there is a workforce ready to provide the new franchised services*".

16.6.49 It is not, therefore, accepted that the Proposed Franchising Scheme could lead to the redundancy of a significant number of employees as both Go North West and Arriva suggested during the first consultation because the current workforce would largely be required to operate services under the Proposed Franchising Scheme, and the Act makes specific provision for transfer.

16.6.50 During the first consultation Go North West also identified various other potential negative impacts that the Proposed Franchising Scheme would have on its business. It said:

- "The rigid terms of franchise contracts would dampen and discourage innovation and market responsiveness";
- "The control of the bus network by GMCA which is implicit in the Scheme is likely to lead to less-focused scrutiny and improvement in the market since GMCA's time and resource is subject to other demands. This is by comparison to the scrutiny which is undertaken by operators because of commercial incentives"; and
- "There is no assurance that under the Scheme GMCA will prioritise growth in the bus network and there is a risk that it could instead prioritise the tram network, or prioritise funding to other aspects of its social duties, such as social care, healthcare and education. Currently, funding of the bus network is not a risk from competing local authority demands, but it would be under the Scheme".

16.6.51 The nature of franchising would mean that operators would not enjoy the same level of control over the network as they did at the point that they responded to the first consultation, meaning the Proposed Franchising Scheme would impact on operators' influence over market changes. That being said, innovation and control of the market would be the responsibility of GMCA, and operators would be in a position to suggest innovations and market responses that could be adopted in the wider network. This could be beneficial to operators in promoting innovation that is consistent across the whole of the bus network. It should also be noted that the specifications in the franchise contracts would be primarily focused on outcomes and this would provide operators with a level of flexibility about how to achieve them. However due to the impacts of Covid-19, operators have not benefitted from the same level of control than they had previously as they have been reliant on additional funding through CBSSG to keep services running to certain standards. It is not clear how long this remain the case for and what requirements may be attached to any further funding that may be made available by Government.

16.6.52 In relation to the second point raised by Go North West, GMCA would have more scrutiny and involvement in the market than it did at the time of the first consultation if the Proposed Franchising Scheme was made. In particular, TfGM and GMCA will occupy an important position in ensuring that the network is developed, improved and maintained in a way that generates a collective improvement in the effectiveness of the network. It is accepted that this would have an impact on operators as they would subsequently have less control of the market than they did at the time of the first consultation (noting that TfGM and GMCA currently have temporarily more control in the bus market as a result of the Covid-19 pandemic) for example through the administration of CBSSG payments within Greater Manchester. Concerning competing demands for funding allocation, TfGM is satisfied that the Financial Case under the Assessment will support the funding requirements for TfGM to run the Proposed Franchising Scheme and that this would not adversely impact operators.

16.6.53 Go North West also said that some of these impacts could be mitigated by a route-by-route franchise. This point was repeated by Go North West in its response to the second consultation and this has been considered at sections 6.9.83 to 6.9.98 of this report.

16.6.54 During the first consultation Transdev were of the view that the Proposed Franchising Scheme could have a positive impact on its business as it would allow it to potentially expand its operations. It said "*Should franchising be adopted we would be a* willing *bidder, committed to delivering great customer service. We also see the opportunity for our growing cross boundary services from Lancashire and Blackburn to continue to flourish and grow further".* This is consistent with the Assessment, which found that the Proposed Franchising Scheme would allow operators not currently active in Greater Manchester, including SME operators, to participate and compete with the other operators.

16.6.55 OneBus, whilst not an operator, answered this question during the first consultation but did not identify any positive or negative impacts that any of the options could have on operators in its response to Question 39. Instead, OneBus said that it was *"of the firm opinion that the best option is partnership. The benefits of faster delivery with no risk to the public purse outweigh the fact that the proposed Franchising Scheme has political support*". Consideration has been given to the partnership options, including the proposals which were submitted by operators during the first consultation and despite the fact that OneBus have confirmed that its Partnership Plus proposal is now longer available. The 'recovery partnership' option which many operators suggested during the second consultation, have been considered in this report and whilst GMCA has decided to proceed with the consideration of the Proposed Franchising Scheme, it has not closed its mind to other alternatives.

16.6.56 In relation to partnerships, Transdev did not comment during the first consultation on whether it thought the partnership options contained in the Assessment would have a positive or negative impact on its business but did say that *"We expect to continue our strategy of growing patronage through strong marketing, branding and good customer service. We would also actively influence the wider partnership to deliver similar outcomes"*.

16.6.57 Go North West said as part of its first consultation response that a partnership model would have positive impacts on its business because it would give certainty to its operators, it would offer more stability and security to its staff and would allow it the same level of flexibility that operators currently enjoy in being able to change the network to reflect demand. A partnership option would not have the same scale of change as the Proposed Franchising Scheme and would, therefore, have many of the same benefits from an operator's perspective as the current market does. This may no longer be accurate given the impacts of Covid-19 on the bus market and the fact that Covid-19 has had a significant impact on operators and that while there is uncertainty as to what the bus market will look like in the future, operators have been able to continue to run services throughout the pandemic due to the funding which central Government has made available through CBSSG. There would, however, be certainty to operators under the Proposed Franchising Scheme as operators would no longer take revenue risk on any services they were able to successfully bid for. This is similar to how the market has operated during the Covid-19 pandemic since operators have been reliant on Government funding throughout the pandemic, meaning they have effectively not been taking the revenue risk on any services during that time. Franchising would also giving a level of stability and security to staff who would know that they had a job for as long as that franchised service was contracted.

16.6.58 In considering the above and the other potential impacts identified by consultees in response to Questions 37 and 38 of the first consultation and also the responses to Question 7 of the second consultation which related to the impacts on operators, it is clear that some incumbent operators believe that the Proposed Franchising Scheme would impact how their businesses operate and could result in some negative impacts including redundancies of staff and some assets being stranded. Measures have been proposed to reduce the risks of those particular impacts materialising and as noted above, the Proposed Franchising Scheme would allow other operators to enter the market, expand on their current market share and increase their profit margins.

Convention Rights

16.6.59 Section 6 of the Human Rights Act 1998 makes it unlawful generally for a public authority to act in a way which is incompatible with Convention rights. One such right is conferred by Article 1 to the First Protocol to the Convention on Human Rights (A1P1). That article provides that *"Every natural or legal person is entitled to the peaceful enjoyment of his possessions. No one shall be deprived of his possessions except in the public interest and subject to the conditions provided for by law and by the general principles of international law. The preceding provisions shall not, however, in any way impair the right of a State to enforce such laws as it deems necessary to control the use of property in accordance with the general interest."*

16.6.60 The introduction of franchising has the potential to involve an interference with, or a practical control of the use of, the possessions of those providing bus services in Greater

Manchester. The Assessment included consideration of the potential effects that the Proposed Franchising Scheme is likely to produce, particularly on operators of various sizes. In order to consider the lawfulness of any franchising scheme, the consultation sought responses not only on that part of the Assessment but also specifically on the potential impacts that the Proposed Franchising Scheme could have on the businesses of those currently operating bus services in Greater Manchester. The responses to those questions have been summarised above.

16.6.61 Stagecoach argued during both consultations that the Proposed Franchising Scheme, if proceeded with, was likely to breach their rights under A1P1. First also made similar comments during the first consultation but without direct reference to their rights under A1P1. None of the smaller operators made such representations.

16.6.62 During the first consultation, Stagecoach submitted that franchising would interfere with the business and possessions of Greater Manchester Buses South Limited, the legal entity for Stagecoach, which has operated in Greater Manchester since early 1996. They argued that, absent compensation, the drastic effect of franchising, wiping out the goodwill built up by that company and potentially rendering their depots and fleet useless, would involve a disproportionate interference with its possessions absent any compensation mechanism. In any event, they claimed the Proposed Franchising Scheme would be a disproportionate interference as (i) its benefits are insufficient to justify the adverse effects on operators and (ii) partnership has the potential, which has not been adequately tested, to provide superior or equivalent benefits to the Proposed Franchising Scheme. A franchising scheme that was incompatible with A1P1, they argued, would entitle operators to seek damages equivalent to the destruction of goodwill in their existing businesses and for other losses flowing from its imposition, such as additional pension liabilities.

16.6.63 These submissions were repeated in Stagecoach's response to the second consultation. In it, it argued the deprivation of its goodwill, like any other possession, could only be justified in the absence of compensation in exceptional circumstances, of which no indication has been provided and that the interference with its goodwill and its physical assets would be disproportionate. The benefits of the scheme in the majority of scenario would be reduced and its value for money would be low or even poor. Given the lack of compensation and the availability of alternative, less intrusive means of achieving the same ends indicate that introducing the proposed franchising scheme would be disproportionate.

16.6.64 The possessions identified by Stagecoach with which it was claimed that the Proposed Franchising Scheme would interfere were its fleet and depots. Stagecoach said:

"For instance, GMCA accepts that it will "seek to take control" of strategic depots (para 4.85, Consultation), and that market change could potentially "expose operators to a risk of stranded assets" in terms of fleets and deports [depots]. Consequently, we consider that A1P1 will be engaged".

16.6.65 Stagecoach also claimed that its goodwill is also a possession for the purpose of A1P1, with which the Proposed Franchising Scheme would interfere. Stagecoach commented:

"As a starting point, the effect of the proposal would be wipe out (sic) the goodwill built up by operators in the existing businesses. For Stagecoach, this goodwill has been generated by the operation of a successful business for over 20 years, and is clearly a result of a successful branding strategy and customer loyalty on the routes it currently operates on with customer satisfaction levels of 89% for Stagecoach services in 2018. The proposal effectively introduces a "blank slate" across the region, and means that Stagecoach stands

to suffer considerable loss in value. While the physical assets deployed on these routes may well be redeployed elsewhere and/or sold, the value attributable to goodwill in the business will be destroyed".

16.6.66 First, who did not specifically refer to A1P1, stated during the first consultation that:

"Franchising has the effect of closing the market and can result in business confiscation. An operator with a current operation in Greater Manchester might find that under a Franchised regime, not only is it prevented from maintaining its current operations as the deregulated market is suspended, it is undercut in its bid to provide the same (or indeed another network of) services by a newcomer to the market or another incumbent. That operator then faces the issues of what to do with redundant assets such as staff – whilst drivers and maintenance staff may have the opportunity to transfer to the new operator under the TUPE provisions, the same is far less likely to apply to its management and support staff, and stranded assets including vehicles (which may still be within a fixed term lease, or be owned and retain considerable residual value which may or not be realised dependent on the prevailing state of the second-hand bus market) and depots, not to mention the essential element of any commercial business, "goodwill". The mitigation measures proposed – for instance at para 4.195 of the consultation – do not offer a robust "safety net" for such operators and depend upon the offer that TfGM might – or might not – be prepared to make in respect of any given asset at any given time, and furthermore there remains no opportunity for such a business to retain its operational cash flow and future business prospects. The pensions implications would vary considerably dependent upon the circumstances at the time of any market closure – including wider economic considerations."

16.6.67 It also indicated that the ultimate impact of the Proposed Franchising Scheme on it would depend on *"what contracts were successfully won and the scale and nature of these compared with the existing business"*. This is correct and the Assessment was clear in stating that the potential impacts of the Proposed Franchising Scheme on operators would depend on both their appetite and ability to successfully bid for contracts under the Proposed Franchising Scheme.

16.6.68 The concept of "*possessions*" in A1P1 has an autonomous meaning which is not limited to the ownership of land or physical goods: certain other rights and interests constituting assets can also be regarded as "*property rights*", and thus "*possessions*" for the purposes of this provision. Rights akin to property rights have been recognised in cases where persons have built up a clientele or goodwill which have a certain worth in their own right. A1P1 does not protect the current value of a business which merely reflects its capacity to earn profits in the future. But the accrued capacity to attract or retain further clients or customers can be a possession that A1P1 protects.

16.6.69 In this case the Proposed Franchising Scheme does not involve the expropriation of any depots or fleet, or any other property used in providing or supporting local services in Greater Manchester that any bus operator may own or lease. It has, however, the practical effect of limiting the use to which they may be put in providing or supporting such local services for the purpose of the business in which they are now employed.

16.6.70 The scheme will also effectively deprive any operator of any goodwill it has built up in respect of such services in Greater Manchester if it is unable to provide them under its brand. During the first consultation none of the operators provided any detailed estimate of the amount of the goodwill that it contends it would lose as a result of franchising. In its response to the second consultation, Stagecoach again did not give any estimate of the amount of goodwill which it contended it would lose as a result of franchising. It did, however, argue that in circumstances where it would be "*deprived*" of its goodwill rather subject to any control of use, franchising would need to be justified by exceptional circumstances in the absence of compensation. It also stated, "*The question of how to calculate that goodwill bears on how much compensation to give (which should be reasonably related to market value), not whether to give any compensation at all* ".

16.6.71 It is difficult for TfGM to estimate any reliable estimate of any goodwill that any operator may have previously acquired or now have. The extent and value of any such goodwill is not included in financial statements and it is difficult to estimate, given that customers may be motivated primarily by the availability of services for the journey that they may wish to make and its cost, rather than by any loyalty that any particular operator may have earned by its efforts. The relevance of this issue is not limited – as Stagecoach contends – to the amount of compensation which it says should be given. It is also relevant to the question of whether there has been any interference with a possession at all and if so to what extent. But it cannot be assumed that there is no goodwill that may represent an asset to an operator.

16.6.72 The Proposed Franchising Scheme will involve a control of use for the purpose of A1P1. Although TfGM has said an operator may effectively "deprive" an operator of any goodwill it may have built up in respect of its services in Greater Manchester, it does not consider that any interference would be treated as a deprivation or expropriation within the meaning of the first paragraph of A1P1; rather, the Proposed Franchising Scheme will involve a control of use of property. For that control to be lawful, the Proposed Franchising Scheme must be otherwise lawful, and it must pursue a legitimate aim. It is considered that the aims that franchising seeks to achieve are legitimate. To be compatible with A1P1, however, any interference must also strike a 'fair balance' between the demands of the general interest of the community and the requirements of the protection of a person's fundamental rights. There must be a reasonable relationship of proportionality between the steps taken and the aim sought to be realised. Alternative means of achieving the same aims that do not involve such an interference are relevant when considering the relationship of proportionality. A fair balance between the general interest and a person's rights will not be found if the person concerned has had to bear an individual and excessive burden. The availability of compensation, or the lack of it, may be material to the assessment of whether any measure respects the requisite fair balance or whether it imposes an individual and disproportionate burden.

16.6.73 It is difficult for TfGM to estimate any reliable estimate of any goodwill that any operator may have to be acquired. The extent and value of any such goodwill is not included in financial statements and it is difficult to estimate, given that customers may be motivated primarily by the availability of services for the journey they may wish to make and its cost, rather than by any loyalty that any particular operator may have earned by its efforts. The relevance of this issue is not limited – as Stagecoach contends – to the amount of compensation which it says should be given; it is also relevant to the question of whether there has been any interference with a possession at all and if so to what extent. But it cannot be assumed that there is no goodwill that may represent an asset to an operator. The Proposed Franchising Scheme will involve a control of use for the purpose of A1P1.

16.6.74 Although TfGM has said an operator may effectively "deprive" an operator of any goodwill it may have built up in respect of its services in Greater Manchester, it does not consider that any interference would be treated as a deprivation or expropriation within the meaning of the first paragraph of A1P1; rather, the Proposed Franchising Scheme will involve a control of use of property. For that control to be lawful, the Proposed Franchising Scheme must be otherwise lawful, and it must pursue a legitimate aim. It is considered that the aims that franchising seeks to achieve are legitimate. To be compatible with A1P1, however, any interference must also strike a 'fair balance' between the demands of the general interest of the community and the requirements of the protection of a person's fundamental rights. There must be a reasonable relationship of proportionality between the steps taken and the aim sought to be realised. Alternative means of achieving the same aims that do not involve such an interference are relevant when considering the relationship of proportionality. A fair balance between the general interest and a person's rights will not be found if the person concerned has had to bear an individual and excessive burden. The availability of compensation, or the lack of it, may be material to the assessment of whether any measure respects the requisite fair balance or whether it imposes an individual and disproportionate burden.

16.6.75 The reasons for the introduction of franchising and the suggested alternatives to it designed to achieve the same aims have already been considered, including the partnership options developed with and by operators and the possibility of 'recovery partnerships'. TfGM does not consider that the alternatives suggested and examined will secure that the aims that franchising seeks to achieve will be achieved to the same extent; that they fall substantially short of doing so for the reasons given; and that the introduction of the Proposed Franchising Scheme, rather than any partnership, is in the public interest.

16.6.76 Although the use that may now be made of any depot, fleet and other property used to provide or support bus services in Greater Manchester may be limited if franchising is introduced, as described above, land now used as a depot, the fleet and any other property affected remain the operators'. They may be used to support any bid for a local service contract that the operator may make when franchising is introduced, although there is no guarantee that the operator would necessarily win contracts that would enable them to be fully used. But in any event GMCA proposes to offer to acquire strategic depots at market value and to provide an option to incumbent operators to sell their suitable existing vehicles at their residual value. Land now used as a depot by any operator and its vehicles and other affected property may also be capable of valuable use for purposes other than the provision by that operator of bus services in Greater Manchester.

16.6.77 It cannot, therefore, be assumed that the introduction of the Proposed Franchising Scheme will deprive the depot, fleet or other affected property of any operator of all their value. But franchising may cause some operators a not significant loss in relation to their ability to exploit such assets for the purposes of providing the services that they currently provide, notwithstanding the mitigation available in respect of strategic depots and their fleet, and it will involve the loss of any relevant goodwill that it can be shown that the operator now has which it has earned in relation to its existing business in providing local services in Greater Manchester which it can no longer provide under its own brand. It may well also involve operators in other costs, such as those that will be involved if employees are made redundant, and pension scheme exit payments are made.

16.6.78 In summary, like many schemes to regulate markets that have not hitherto been regulated, the legislation providing for franchising does not include any provision for the compensation of any person adversely affected by the introduction of such regulation. GMCA and the Mayor will need to consider, therefore, whether, in the absence of such provision, such are the benefits of franchising in the public interest given the alternatives, that, having regard to the proposals for acquiring strategic depots and the fleet of bus operators and the opportunity they will have to bid for local contracts under the Proposed

Franchising Scheme, the interference with their possessions is nonetheless justified and does not impose an individual and disproportionate burden on any of them. GMCA and the Mayor will need to be satisfied that it is.

16.7 Conclusion

16.7.1 This section has considered the responses to both consultations that related to the Proposed Franchising Scheme. This was done by reviewing the replies to the questions on the Proposed Franchising Scheme (see Section 16.2) and by reviewing some other substantive points that were raised by consultees outside of questions included in the consultation document (see Sections 16.4 to 16.6). This included the responses from OneBus and the incumbent operators, who during both consultations opposed the introduction of the Proposed Franchising Scheme and challenged the legal process undertaken by GMCA, as well as saying that the Proposed Franchising Scheme would have a disproportionate impact on its business and A1P1 rights.

16.7.2 In general, there was a lot of support for all aspects of the Proposed Franchising Scheme from both statutory consultees and others. Section 16.2 above looks at some of the unfavourable comments and suggestions put forward by consultees and considers whether any aspect of the Proposed Franchising Scheme should be modified. For example, some consultees thought that the Proposed Franchising Scheme should not apply to the entirety of Greater Manchester and should instead apply to a smaller area; however, in order to meet GMCA's objectives and to reduce any consequences from having competing models within Greater Manchester, it is important that any intervention applies consistently across the entirety of Greater Manchester.

16.7.3 Go North West and First also suggested during the first consultation that the Proposed Franchising Scheme should effectively be trialled in a smaller area first. First reiterated that suggestion during the second consultation however for similar reasons as set out above, it was not considered appropriate to propose that the Proposed Franchising Scheme should be introduced on a trial basis only.

16.7.4 During both consultations Go North West commented on the proposed Sub-Areas in the Proposed Franchising Scheme and that they would cause problems for cross-boundary services. The Proposed Franchising Scheme included a map which illustrates these Sub-Areas. It is proposed to amend the Proposed Franchising Scheme, however, to specify that the map in Annex 5 is for illustrative purposes only and that the map that defines the Sub-Areas is a larger scale version in which the boundaries are more clearly delineated that will be deposited at TfGM's offices. It is also proposed that the list of services in the Proposed Franchising Scheme is updated to ensure that they reflect the existing services and to ensure that they are appropriately classified in the scheme.

16.7.5 Many consultees commented that the proposed timescales for introducing franchising and the proposed nine-month mobilisation period in the Proposed Franchising Scheme were unrealistic. Those issues were considered in the Commercial Case at sections 6.9.7 to 6.9.69. This section did consider the responses to the question on the proposed date for making the Proposed Franchising Scheme and as set out above at section 16.2; if a decision was taken to introduce the Proposed Franchising Scheme, it is proposed that dates are inserted consistent with the timing of that decision.

16.7.6 During the first consultation, some consultees also commented on GMCA's plans for consulting on how well the Proposed Franchising Scheme is working and suggested that GMCA should consult sooner than originally proposed. It was found that consulting sooner would have benefits. After the first consultation the Proposed Franchising Scheme was modified for the purpose of the second consultation to provide that GMCA would consult sooner and in particular, within 12 months of franchising being operational in all sub-areas.

It is recommended that such modification should be made. During both consultations some consultees commented that certain groups should be specifically mentioned in the Proposed Franchising Scheme. Whilst there may be benefits in consulting those groups, it would be for GMCA to decide at the time of any such consultation who it would be appropriate to consult. As the choice of such groups may change it would not be appropriate to specify them in the Proposed Franchising Scheme now.

16.7.7 As well as these questions, some consultees, mainly OneBus and some of the incumbent operators who opposed the Proposed Franchising Scheme, made comments about the process undertaken by GMCA so far. They claimed that there were flaws in the Assessment, in the audit and in the consultation process. They also commented on the process undertaken by TfGM in preparing the Covid-19 Impact Report and by the auditor in reviewing the same. These claims are considered in detail at section 9 above. Having carefully considered the consultation responses and having undertaken its own detailed assessment of the lawfulness, propriety and reasonableness of the procedural matters discussed, TfGM is confident that the criticisms addressed by consultees are not well founded.

16.7.8 Consideration was also given to the potential impacts of the options and how the Proposed Franchising Scheme may impact on operators. Some commented that the Proposed Franchising Scheme would result in a significant change in how the market operates and that it could lead to operators having stranded assets (such as depots and vehicles) and/or outstanding pension liabilities. Consideration of these issues and the potential mechanisms proposed by GMCA to reduce some of these issues, such as through the proposed RV mechanism and by GMCA proposing to acquire strategic depots from operators, have been given.

16.7.9 Stagecoach’s consultation response also made the case that the Proposed Franchising Scheme would impact on its property (or A1P1) rights and that it would be a disproportionate intervention by GMCA. Detailed consideration of this issue was given between Sections 16.6.59 to 16.6.78 and TfGM has set out its understanding of this particular issue to inform GMCA’s determination on it when it makes its final decision.

16.7.10 It is recommended that, if the Proposed Franchising Scheme is made, the draft included in the second consultation should be modified to define the Sub-Areas by reference to a deposited map and to adjust the Annexes as explained and for the reasons given above. Although the Mayor has always been the person who has to decide whether or not to make a franchising scheme, the draft need also to be amended so that any scheme is made by him on behalf of the GMCA (as that is a function under section 123H of the Act exercisable only by him given article 4 of, and paragraph 3(i) of Schedule 1 to, the GMCA (Functions and Amendments) Order 2019).

17. Overall Conclusion

17.1 Introduction

17.1.1 This conclusion is divided into four sections:

- A consideration of whether it is appropriate for GMCA to take the decision on whether to implement the Proposed Franchising Scheme now;
- A short summary of support for and opposition to the Proposed Franchising Scheme among respondents to the consultation;
- Conclusions reached on issues raised by responses to each section of the consultation, taking into account both the first and second consultations; and
- A final conclusion and recommendation, drawing out the key issues for decision-makers.

17.1.2 Whilst TfGM were in the process of reviewing the consultation responses to the first consultation there was an outbreak of Covid-19 across the country which amongst other things, had a significant impact on the bus market in Greater Manchester. A Covid-19 Impact Report was prepared, and a second consultation was undertaken to understand the extent to which the Covid-19 pandemic might change any of the conclusions previously reached. This report reflects the views of stakeholders and the public expressed in both consultations on the Assessment of the Proposed Franchising Scheme.

17.2 Considerations on taking the decision on the Proposed Franchising Scheme now

Introduction

17.2.1 The second consultation set out some considerations on whether the decision to implement the Proposed Franchising Scheme should be taken at the present time, given the fact that there is continuing uncertainty about the recovery from Covid-19. In the second consultation on the effect of Covid-19 pandemic, respondents were asked the following question:

Question 10: Taking everything into account, do you have any comments on the conclusion that this is the right time to make a decision about whether or not to proceed with the Proposed Franchising Scheme?

17.2.2 A number of respondents commented on this issue. In particular three of the incumbent bus operators in Greater Manchester argued that the decision should be delayed and that it would be inappropriate to make a decision at the present time.

Support for taking the decision now

17.2.3 There were many expressions of support for taking the decision on whether to implement the Proposed Franchising Scheme now. The Ipsos MORI report on the second consultation demonstrated that the majority of the public were in favour with moving forward with a decision with more than twice as many comments received in support of the conclusion to move forward with the decision than to delay the decision.

17.2.4 Most of these comments simply stated that Covid-19 and its impact should not delay the decision and now is the right time to proceed. Others provided further detail that the decision is long overdue and should be moved forward as soon as possible. Some thought that proceeding now may help the economic recovery of Greater Manchester and the current uncertainty surrounding a decision benefit nobody.

17.2.5 Ipsos MORI's qualitative research on the second consultation also found there was support for proceeding with a decision on franchising now. during the qualitative discussions, some participants thought that the current climate would be a good time to begin to transition to and implement the Proposed Franchising Scheme due to quieter services because of travel restrictions. This could mean less short-term disruption for passengers as initial problems with implementation could be resolved before the network returned to capacity.

"If they were to start it now, given the fact that less people are on the network, any issues that might arise, early teething problems, can be ironed out before the network gets back to normal capacity and can run smoothly when under pressure." Male, 42, Bury

17.2.6 Others referenced the lengthy time period of implementing the Proposed Franchising Scheme, so proceeding now would be important so that benefits could be realised more quickly.

17.2.7 The Ipsos MORI report on the second consultation also showed that there was support from stakeholder organisations in proceeding with a decision now.

- Greater Manchester Transport UNISON stated that the decision should be taken now and should proceed without delay to the Proposed Franchising Scheme.

- Manchester UNISON Branch felt that the decision was long overdue and should not be delayed further.
- TravelWatch NorthWest considered that appropriate timing is always difficult to determine, but with normality or near normality ahead this year, it would be appropriate to look ahead now at ways to address the future challenges facing public transport.
- UNISON North West concluded that the decision should proceed without further delay.
- Manchester Metropolitan University thought that the pandemic had provided "a clear opportunity for ambitious projects such as the Proposed Franchising Scheme to be implemented".
- The Community Transport Association felt that the conclusion of the Assessment to proceed promptly was correct in order for GMCA to manage future changes and challenges.
- The Centre for Cities concluded that a quicker decision would make for a quicker solution, which was preferable in its eyes to achieve a London-style service.
- Oxford Road Corridor agreed with the conclusion that acting now is more important than ever to achieve wider ambitions as set out in the Greater Manchester Transport Strategy 2040, and as a "*key component to build back better post-Covid-19*".
- Recovery Republic CIC concluded that that threat of Covid-19 makes it important now more than ever to act.
- Manchester University NHS Foundation Trust stated that despite uncertainty around Covid-19, now is the right time to make a decision due to risks associated with declining patronage and other mitigation measures at the disposal of operators currently.
- The Northern Care Alliance NHS Group concluded that a decision is required now in order to guide the rebuilding of services across Greater Manchester due to the changes experienced across the market as a result of Covid-19.
- The Christie NHS Foundation Trust felt that the intervention during such uncertainty was needed.
- The Association of British Commuters believed it vital to act as quickly as possible as any delay would waste time, money and momentum at a time when deregulation and Covid-19 impacts are delaying the inevitability of the Proposed Franchising Scheme being implemented.
- Steady State Manchester felt that there was urgency to move towards a publicly controlled network with the environmental impact and disadvantaged communities in mind. It concluded that there was no time to waste in making these decisions for cleaner, greener and more accessible buses that bus companies have not delivered to this point.

17.2.8 The majority of Local Authorities also supported the decision being made now. For instance, Oldham MBC responded in their answer to Q10 that "*Oldham Council agrees that this is the right time to make a decision about whether or not to proceed with the Proposed Franchising Scheme – the potential for future uncertainties in the bus market make it even* *important that GMCA is able to manage the bus network in a co-ordinated way as part of a fully integrated public transport system.*" Similar points were made by Manchester CC, Wigan MBC, Trafford MBC, Bury MBC, Salford MBC. Some authorities from outside Greater Manchester also supported taking a decision now – Chorley and Blackburn with Darwen.

17.2.9 Some operators support a decision being made now. Transdev state in their answer to Question 10, "*There is a significant risk making a decision at this time but failure to make a decision will prolong uncertainty*", and thus the decision should be taken now.

17.2.10 Abellio argue that the Covid-19 pandemic creates more impetus to take a decision, because the jumping-off point for the implementation more closely resembles a franchised market because of the current level of public support and lack of competition: "*with CBSSG and CBSSG Restart all revenue risk currently lies with the state and will do so for the foreseeable future.*" (Question 2). Abellio also state that delaying the decision would be to reduce benefits because to delay further would push them farther into the future.

Reasons for delaying a decision

17.2.11 Ipsos report that some respondents opposed a decision being made at the present time. There were also a number of comments submitted by the public that had the view that Covid-19 should delay the timing of the decision, and that now is currently the wrong time to proceed. Participants suggested that due to Covid-19, the decision should be delayed until immunisation and vaccinations are successfully completed; until the true long-term impacts of Covid-19 are known; until bus usage and transport trends can be re-assessed post-pandemic; to achieve better VfM; and that partnership options should be reconsidered.

17.2.12 A number of comments from members of the public were received regarding more specific potential timescales for such a delay including later in 2021, until 2022, after the Mayoral election or until the Proposed Franchising Scheme could be profitable. There was also concern that periods of uncertainty may lead to errors or make errors more likely.

17.2.13 A number of operators and operator-based organisations set out a number of reasons that they considered meant that the decision should not be taken now.

17.2.14 OneBus say that the base data used in the Assessment is now nearly four years out of date and travel patterns, revenue and demand models have changed significantly over the last twelve months at least. They assert that the time is not right to consider any economic assessment of bus reform given that there is now so much uncertainty surrounding the continuing timeline of the pandemic and the medium-term impact it will have on bus patronage recovery. It would be better to wait until there is certainty over the infection rates of Covid-19, the success of vaccination and the removal of all travel restrictions and social distancing. Only then will there be sufficient evidence and confidence to determine the future economics of the bus industry. That will allow for a constructive comparison with alternative options. They also say that it is also wrong for GMCA to commit to a franchising scheme given the risk that franchising could become unaffordable.

17.2.15 Stagecoach say that there is no good reason to rush such a long-term and irreversible decision as franchising now, committing public finances for the future at a time of competing demand and uncertainty around funding. The position is inherently too uncertain to make a credible decision at this stage. There has also been no meaningful analysis done as to whether the objectives that GMCA set in February 2017 remain valid and appropriate for the post-pandemic world. GMCA is wrong to suggest that the challenges for the bus market set out in the Assessment remain largely relevant: Covid-19 has brought an entirely new set of challenges, greater in magnitude and impact that those set out in the Assessment. The data for making any decision is also unreliable: it is out of date and the superficial shortcut analysis which GMCA has conducted is not a sufficient basis to make a decision. As this early evidence shows, the level of and the nature of demand for public transport are expected to change. It is not easy to predict the future demand for bus after the pandemic because we do not yet know how individuals will evaluate alternative modes of transport which means the elasticities used in demand model will change. Thus it cannot be sufficient to rely on past modelling—based on 2016/17 data with forecasts and specific outdated assumptions about how demand responds to changes in a wide range of parameters—to make decisions. The scenarios which were designed very early in the pandemic have already been shown to be false and cannot be relied on. Moreover, they are only short-term and assume unrealistically a return to pre-Covid levels of demand beyond 2026 (though patronage is reduced in three out of four scenarios). GMCA can have no confidence that its approach will comply with the DfT's guidance on scenario planning once issued, NERA's analysis suggests that it will not and it would be prudent for its approach to be revisited once that guidance is published as the DfT is better placed to prepare these scenarios given its resources and expertise. Just as bus operators are unable to commit to a long-term partnership now, so equally GMCA ought not to commit itself to long-term franchising scheme: the uncertainty is too great. A 'recovery partnership', an initiative Stagecoach suggest is supported by the DfT, could instead be introduced quickly as a bridging measure to realise benefits for bus users in the short term and to allow sufficient time for a full and fair assessment of franchising and realistic partnership options in accordance with the statutory provisions once more data is available and the impact of Covid-19 on the bus market in Greater Manchester is clearer. GMCA has a duty of inquiry and a decision now to make the Proposed Franchising Scheme would be irrational.

17.2.16 Go North West state that it is clear that now is not the right time to take a decision. The pandemic will have longer term impacts on the demand for travel, the time of travel and mode choice that are as yet unknown and that further structural changes to the bus market are inevitable. At a time when public finances are under wider significant pressures due to the impact of the Covid-19 pandemic, it is unclear why GMCA should seek to multiply them by accepting the significant and unprecedented financial, service and reputational risks that will accompany the structural change franchising will involve. The absolute priority now should be to give passengers confidence in using the network again. A recovery of patronage is critical to the VfM and affordability appraisals on which the proposals are based. Passenger growth can be delivered in the short term (1–2 years) through a 'recovery partnership' which would provide GMCA with a stronger input in the planning of bus services and enable a more viable bus network to enter the franchising process. A 'recovery partnership' should be followed by a package of direct award 'franchise contracts' (to give operators and GMCA a common objective of ensuring the success of the move to franchising) and then a review of the case for the proposed scheme when the impacts of the pandemic and baseline are more certain to ensure VfM with a fair and equitable comparison against alternative models. This would provide GMCA with a much more solid basis, including a financial basis, on which GMCA can make franchising decisions and it would help protect the long-term sustainability of the proposed scheme through maximising competition for future schemes. A passenger recovery plan, which will need collaboration between GMCA, operators and stakeholders to market bus services as part of the city region recovery, should not be hindered by a focus on regulatory issues. The proposed approach if franchising is implemented will hinder recovery. It is unrealistic to base franchising plans on a one-year extension to the timetable (by which it is presumed they mean the timetable has been pushed back by a year (as is the case) rather than extended. It will almost certainly be delayed by the need to secure the additional funding required to address the increased risks. Meanwhile passengers will be faced with a less secure network and less innovation of the type that requires a longer payback period; the incentive for operators to invest will be undermined and they may reduce mileage more quickly than would otherwise be the case, putting jobs at risk and GMCA will incur additional costs.

17.2.17 Abellio also propose a similar interim approach, suggesting that the step from the current market to a franchised market would be made more straightforward: "*Abellio currently sees a time-limited opportunity to avoid the risk of services being deregistered if GMCA via TfGM were to consider any formal agreement in the form of 'Direct Award' of proto-franchises, perhaps utilising the state aid provided via CBSSG Restart in order to secure stability of the network during transition to franchising. (Q10) This arrangement should have a sunset clause to ensure that a competitive market could be created as soon as possible.*"

17.2.18 Rotala state that now is obviously the wrong time to make a decision on whether or not to proceed with the Proposed Franchising Scheme when the country is amid a pandemic with restrictions expected to last, to varying degrees, for all of 2021. It considers that, optimistically, it will be in a position to assess the long-term impacts of Covid on the bus market in 2022 but it already certain that its long-term impacts will be profound and will change the bus market completely. There is already a clear indication that travel patterns will change due to less office working and online shopping becoming more prevalent. GMCA's previous analysis of the bus network is no longer reliable (if it ever was). The uncertainty as a result of the impact of the pandemic means that the advantages and disadvantages of any proposed intervention in the bus market cannot be considered with any degree of certainty. GMCA's approach in developing and implementing the Scenarios is inherently and fundamentally flawed and it was irrational to have developed them without first having considered the DfT's proposed guidance for this type of uncertain situation. It would be irrational to base a decision of this magnitude and expense on such a rushed and potentially biased analysis that does not provide an accurate and fair assessment of the likely scenarios. To make a decision to franchise the bus network at this time or until the effects of Covid-19 on the bus market are known. Whilst the impacts of Covid-19 are ongoing, GMCA is not able to reach any reasonable conclusion as to whether the Proposed Franchising Scheme is likely to represent VfM. It would also be irrational to do so without any knowledge of the partnership proposal that will be possible once the pandemic is over. GMCA should also have waited until it was in a position to provide an updated central forecast of bus demand and precise funding requirement which will readily be available once the long-term effects of Covid-19 on the bus market are established. Reliance on the scenario analysis put forward is fundamentally flawed as would be any decision based on it. A decision to do make the scheme that imposes an initial cost of £135m on the taxpayer would be irrational. Doing so will simply create uncertainty and division at an already very uncertain time and would consequently prolong the time and cost of the region's recovery from Covid-19.

17.2.19 First Manchester and First West Yorkshire say that, if the initial stages of the pandemic and the requirement of a national lockdown were reason to produce the Covid-19 Impact Report, the uncertainty following subsequent developments must equally require further assessment and a deferral of any decision to make such fundamental changes. They ask how GMCA can sensibly plan for the medium to long term when so many of the building blocks are either missing, uncertain or in flux. The "partnership" working during the pandemic has generally worked very well. To embark on franchising would not only be slower and more costly than developing a partnership but would be a retrograde step. Greater Manchester would be held back by debate and uncertainty. That will become increasingly apparent when the Government decides on its approach to ending CBSSG and what it requires from the industry going forward. The local partnership set out in their letter in January 2020 remains the best option going forward and certainly warrants a trial.

17.2.20 The CPT repeat some of the material that they submitted in support of partnership from the first consultation, and argue that implementing franchising would distract from implementing 'recovery partnerships' and create a more sustainable framework for the bus industry.

17.2.21 Other than operators, Passenger Focus also pose the question as to how 'recovery partnerships' might be used to "*Give Greater Manchester the best opportunities during the transition to franchising?*" (p.5)

Responses to challenges to any decision being taken now on the Proposed Franchising Scheme

17.2.22 There are a number of common themes in the representations as to why a decision should not now be made to make a franchising scheme. In summary these are that:

- There has been no meaningful re-analysis of the challenges facing the bus market and of GMCA's objectives and whether they remain valid and appropriate for the post pandemic world.
- The information on which such a decision can or ought reasonably to be made is not available: the data in the Assessment is out of date; there is too much uncertainty about the future; the Scenarios and their uses in the Covid-19 Impact Report are flawed; any analysis should be based on the guidance on scenarios that the DfT produces; the analyses of VfM and affordability are flawed; and it would be wrong to assume the financial risks involved now given the extent of the uncertainty and the financial pressures on public funds.
- There is no pressing need to take an irreversible decision now and it would be better not to do so: there are no pressing reasons why a decision has to be taken now; the priority should be to help the bus market to recover, something best achieved with a 'recovery partnership' and something which the decision now to make such a structural change would hinder; delaying any decision to make a franchising scheme would also enable that decision to be based on better information, providing a clearer view of the financial risks and VfM of such a scheme and enabling a full and fair comparison to be made between franchising and a longer term partnership; it would also lower the risks to public funds and would enable a more viable bus network to enter the franchising process.

No meaningful re-analysis of GMCA's objectives and the challenges facing the bus market

17.2.23 The Covid-19 Impact Report concluded that while the context of the Covid-19 pandemic was different, the objectives for improving the bus service in Greater Manchester remained valid and are appropriate for a post-pandemic world. A revised version of the Transport Strategy 2040, the Local Transport Plan, was recently adopted by GMCA in the light of Covid-19 (January 2021) that contained the same high level objectives (the Vision for Bus) for the bus market as in the original (published in 2017). Neither Go North West nor Stagecoach suggest any alternative specific objectives other than a general point of helping the bus market to recover. Whilst recovery will be part of the activity of TfGM, hopefully undertaken in co-operation with operators, it is not separate from objectives of maintaining or improving the quality of the network or the simplicity or VfM of fares. These are the elements that will support any recovery no matter what the starting level of patronage is. The objectives set out in the Assessment remain the right ones for GMCA, even though recovery could arguably be described as an 'objective' in itself.

17.2.24 In contrast to the statements by operators, particularly Stagecoach, there has been analysis of the bus market and the challenges facing it through the use of scenarios. Work has been done to prepare for recovery of the market and potential partnership arrangements (such as 'recovery partnerships') taking advantage of funding from DfT (on this see just below on the 'recovery partnerships', section 13).

17.2.25 As set out in the Strategic Case response above at section , the Scenarios set out in the Covid-19 Impact Report make clear that the challenges of changes in patronage and the need to rebuild trust in public transport when it is safe to do so have not been ignored by TfGM in their analysis. They form some of the context for the consideration of whether to implement the Proposed Franchising Scheme. Sections 2.2.21 to 2.2.25 of the Covid-19 Impact Report refer to the Scenarios and the further challenges to the bus market noted there, including a lack of certainty and the potential for reductions in patronage. Section 2.2.25 noted the challenge to operators capital programmes (Go North West criticise this as 'unsubstantiated' but then note that fleet and depot investment plans are being revised' (Question 2)). The Strategic Case section of the report concludes that the reasons for reforming the bus market remain; the additional challenges of Covid-19 do not change that.

Lack of information on which a decision can or ought reasonably to be taken

Timeliness of data and effects of uncertainty

17.2.26 OneBus and Stagecoach argue that the data in the Assessment is out of date and hence a decision cannot be made at this point. TfGM recognise that, while much of the data is not as old as OneBus assert, the starting point was from the last full year for which full information was available before the Assessment was completed (2016/17). Given that were no dramatic changes to the market before the Covid-19 pandemic, this gives an appropriate picture of the bus market prior to the impact of the Covid-19 pandemic. It can therefore act as an appropriate starting point for any analysis of how the market may develop over time: see also section 5.10 of the Economic Case of this Report. Covid-19 has changed the bus market and, as the Covid-19 Impact Report points out, it means that there is a higher degree of uncertainty about the central estimate presented in the Assessment. To update the data to a more recent year unaffected by the pandemic – 2018/19 – would not decrease the level of uncertainty to a sufficient extent to justify further delay (full data including financial information is not yet available for 2019/20).

17.2.27 TfGM in their Covid-19 Impact Report recognise the uncertainty about the future and the fact that there will be long-term trends as Stagecoach suggest which will affect the bus market, and may in turn affect the how the modelling (including the Demand and Revenue model) might work reliability produce a central forecast. This lay behind the decision to adopt a scenario-based approach to identify a broad range of outcomes based on a judgment to assess the validity and robustness of the conclusions in the Assessment and to enable decision-makers to understand how the scheme might perform under a wider range of potential circumstances.

17.2.28 Both First Manchester and First West Yorkshire suggest that recent developments have increased uncertainty and mean that important information for decision-makers is missing, and Rotala suggest that uncertainty will continue through 2021 and GMCA should wait until 2022 to make a decision. There will always be some uncertainty about the future of the bus market. The scenarios presented in the Covid-19 Impact Report recognise there will be longer term trends that are currently difficult to predict with certainty, and there will never be a perfect time to take decision. Short term developments, such as particular variants of Covid-19 or vaccines, do not necessarily indicate where the longer-term trend will be for the transport system and the bus service in particular. It is wrong to suggest a particular point in time will be 'right' for a decision, and decisions of this type will necessarily be taken with a degree of uncertainty – this does not make them wrong or irrational.

17.2.29 As the work cited by Stagecoach from TfN and TfL shows, many organisations are having to make decisions in a period of uncertainty, and have adopted means to make decisions despite the uncertainty that exists. The Scenarios presented and the analysis of their potential consequences if they were to materialise are designed to allow decision-makers to take a view of the consequences of different potential futures, both in terms of strategic needs and the economic and financial consequences, and thus enable them to take a decision while the specific direction of the market retains a considerable degree of significant uncertainty.

Use of Scenarios

17.2.30 The Oxera report, commissioned by Rotala noted that forecasting should not be based on a central estimate approach and that, to take account of the long-term effects of the pandemic, a scenario-based approach is appropriate.

17.2.31 Stagecoach and others suggested, however, the Scenarios developed were inappropriate – in terms of being too short-term, too unreliable because of very recent events, and not following guidance – both that current published by the Government Actuary's Department or that potentially forthcoming from DfT. A detailed response to points made by operators is set out at section 3.5 on the 'Specific criticisms of the Scenarios' and also sections 5.9 on the 'Application of the Scenario Analysis to Value for Money' and section 5.10 on 'The use of the 'what if?' analysis' in the Economic Case. Whether a decision should be postponed until after any DfT guidance is published is dealt with below. There exist different and legitimate approaches to using scenarios to help decision-makers understand uncertainty. It is considered that there are good reasons why the approach adopted by TfGM is appropriate in the circumstances, even if others may recommend or themselves develop scenarios in a different way. TfGM's approach to developing and using scenarios attracted support from a very wide group of stakeholders.

17.2.32 A number of other operators criticised how TfGM approached the construction and use of scenarios. Section 3 on the 'Use of Scenarios' and also sections 5.9 on the 'Application of the Scenario Analysis to Value for Money' and section 5.10 on 'The use of the 'what if?' analysis' in the Economic Case set out the arguments adduced by operators and the response. The main points are:

- In contrast to the suggestion that how the Scenarios and the demand projections were developed was not explained in the Covid-19 Impact Report in a transparent way and were biased, the method used was set out clearly in that Report. The outputs of the process were in fact checked for coherence and consistency. Recent developments (either positive or negative) do not affect the validity of the Scenarios as they are dependent on longer term factors. There has been no suggestion that there is a wider specific range of possibilities should have been considered. The wide range of potential scenarios TfGM set out remain appropriate for the purpose for which they were devised and means that decision makers can be confident there are not plausible outcomes that have not been considered.

- Whilst operators have pointed to one piece of guidance – the GAD guidance that suggests scenarios should be developed through quantifying inputs and modelling quantified outputs for each with a quantified uncertainty for each, this does not mean this is the only, or the best, way to approach scenarios in current circumstances. Exercising judgment over a range of complex inputs and relationships is no more robust or transparent that doing so on an appropriate range of outputs – in this case bus patronage figures.
- TfGM have not followed a markedly different approach to deriving the Scenarios themselves to that taken by other organisations such as TfN or TfL, even though they have quantified inputs to make modelled projections from that basis. The existence of other approaches doesn't mean that TfGM's approach is the wrong on or lacks the robustness necessary to test the options for bus reform. TfGM's most pessimistic downside scenario is far more pessimistic than TFL or TfN, or any of those seen used by operators in informing their shareholders of expected performance. Stagecoach themselves, in their interim results published in December 2020, cite 'severe' and 'plausible' downside scenarios which have commercial revenue at 75% and 85% of pre-Covid levels in the year ending 30 April 2022 respectively, which would indicate patronage considerably higher than TfGM's Scenario 3.
- It is legitimate to regard Scenario 3 as less likely or an 'outlier'. The use of that language does not imply it is being used in a strict statistical sense. The reasoning laid out in the Covid-19 Impact Report why it is less likely than others remains sound, and recent developments (such as new variants or the vaccination programme) adduced by operators do not invalidate it.

17.2.33 The most important consideration in looking at the derivation of the Scenarios is whether they are sufficiently broad to encompass a sufficiently wide range of potential circumstances, so that the validity and robustness of the conclusions in the Assessment the conclusions can be fairly tested. Whilst NERA say they are not able to say whether range is appropriate, it is notable that none of the operators actually suggested a different, wider range of outcomes should be tested. The alternatives cited as better practice, TfL and TFN, have narrower ranges of outcomes for public transport. It is considered that TfGM's Scenarios provide a good basis for considering the sensitivity of the conclusions in the Assessment to the uncertainty associated with Covid-19.

Economic and financial analysis

17.2.34 Part of the critique of TfGM's approach to scenarios is that the economic and affordability analysis based on the Scenarios is also flawed.

17.2.35 As set out in the Economic Case section (Section 5.9), however, the approach taken to using scenarios to test the conclusions in the Assessment on value for money was appropriate rather than being too superficial. The length for the appraisal chosen in the Assessment remains appropriate. Whilst the future make-up of the bus travel market is likely to be different in character as well as volume, the aggregate factoring approach taken in the Covid-19 Impact analysis to the benefits identified in the Assessment is appropriate given that the majority of the benefits apply equally to all geographies and times of day. There is some variation between market segments and ticket groups (e.g. free concessions do not benefit from fares reductions or interoperability), but these are not clear cut and there are likely to be factors pulling different elements of the benefits in different directions. Other criticisms of the 'what if?' tests are not supported. The conclusion in the Assessment that the Proposed Franchising scheme is likely to provide VfM is likely to be robust to the uncertainty created by Covid-19 in all reasonably likely Scenarios.

17.2.36 The Proposed Franchising Scheme is a regulatory change that effectively sets up a dynamic mechanism for revising the implementation of the scheme in terms of service frequencies, fares and quality on an ongoing basis, which helps to ensure realisation of the benefits and hence assists in achieving VfM and affordability.

17.2.37 The conclusion in the Assessment remains that the Proposed Franchising Scheme is preferable to the Do Minimum and potential partnership options as, on balance, the overall net benefits are positive compared to the Do Minimum and likely to remain higher and more deliverable than a partnership, particularly given the considerable uncertainty surrounding what, if any, partnership options are on offer, also remains valid.

17.2.38 Neither is the analysis on affordability set out in the Financial Case flawed (Section 7.3). This concludes that the proposed sources of funding, including those sources identified as mitigation options, have not been committed to another purpose and that, whilst significant financial pressures were acknowledged in the Covid-19 Impact Report, it is for GMCA determine if it wishes to prioritise funding for the purposes of bus reform or other alternative uses. It was clear that there could be a funding gap under the most severe scenario (Scenario 3) and that decision-makers needed to be aware that in this circumstance, , whilst the GMCA would face financial pressure in the Do Minimum, it would assume financial risks more directly under the Proposed Franchising Scheme, and should accept the potential requirement for proposed mitigation options of the form and scale identified in the Covid-19 Impact Report.

The Proposed Franchising Scheme & uncertainty

17.2.39 Making a franchising Scheme is a decision to make a long-term change in how the bus market operates in Greater Manchester. In making a decision at a time when future patronage is uncertain, it is important to recognise that the decision to franchise the bus market was not based solely on a particular central forecast of how bus patronage may evolve. It was based on a strategic need to change how the market is structured to get better outcomes notwithstanding where the market might find itself due to other factors. The Proposed Franchising Scheme aims to give GMCA more control over achievement of its transport policy and increase its ability to best manage it for the benefit of people in Greater Manchester. Uncertainty over the level of patronage or even the scale of that services does not change that logic or the rationale to intervene.

17.2.40 Unless the Scenarios are not sufficiently wide (and operators haven't suggested any broader scenarios) or that the analysis of the potential consequences if they materialise is materially misleading, consideration can be given to whether franchising bus services in Greater Manchester is in the public interest having regard to the whole range of potential outcomes, notwithstanding the uncertainty.

17.2.41 The Covid-19 Impact Report concluded that the case for change remained valid under different scenarios, as did the conclusion that the Proposed Franchising Scheme performed better in terms of achieving GMCA's objectives under the different potential outcomes.

The same is true of the conclusions on VfM and on affordability as set out below. Those remain the conclusions having considered the responses to the second consultation.

17.2.42 The analysis in the Strategic Case of the Covid-19 Impact Report is not, as Stagecoach suggest, superficial. No substantive arguments have been adduced to suggest that the objectives are wrong or that the conclusions are unreliable. The strategic analysis looked at each objective and how the different scenarios might affect previous conclusions that were reached in the Assessment. The economic and financial analysis also looked at the wide range of outcomes and concluded that the original conclusions on VfM and affordability would remain valid in all but the most extreme of circumstances.

17.2.43 It is also important to recognise, when considering uncertainty, the type of scheme that is envisaged and how adaptable it may be when being implemented. Most transport schemes are pieces of fixed infrastructure, such as a new road or rail improvements, that will increase transport capacity in a specific and fixed way. The forecasts of use of such assets, therefore, are very important. In one of the examples quoted by NERA, the Lower Thames Crossing is needed because there is congestion at current crossings and traffic is anticipated to increase. If this does not happen, then the value in both strategic and Economic terms of the intervention is called into question. The Proposed Franchising Scheme is not like this. Whilst it has transition costs associated with it, the key uncertainty is not about those costs, but the scale of the franchised services that will be run and the revenues associated with them over coming years. This uncertainty will affect the bus service in Greater Manchester whether or not the Scheme is implemented (and GMCA will be exposed to difficult financial decisions in terms of the transport system in any event if some downside scenarios, such as Scenario 3, were to materialise). The Proposed Franchising Scheme is itself flexible, and enables a set of decisions about how the service is run to be taken by the GMCA, with the objective obtaining the best service for Greater Manchester within the resources available. Each of these decisions can be taken responding to specific circumstances at the time and for different areas. Taking those decisions with a view to integrating and simplifying fares, creating a single more efficient network and improving customer service will, the Assessment argues, lead to better outcomes over the coming years than the current market structure. It could be argued that uncertainty about the future of the bus service makes the Proposed Franchising Scheme more necessary as it gives GMCA more levers to deal with potential uncertainty over coming years. The Covid-19 pandemic is an example where GMCA has had to intervene, and risk in the market has necessarily rested with the public sector rather than private sector operators, when unexpected events happen.

17.2.44 It is considered that GMCA has sufficient information to enable it to take a rational decision to be taken on whether it is in the public interest to implement the Proposed Franchising Scheme.

Whether there are reasons to take a decision now and whether it is better to wait

Reasons to take the decision now

17.2.45 In contrast to the assertions of operators, there are good positive reasons to take the decision now:

- Public authorities cannot simply stop making decisions or addressing long-term issue that they face because of a period of uncertainty. There are many sources of uncertainty in public decision making, and, while the Covid-19 pandemic is a major event, it should not stop public authorities acting. GMCA had adopted a transport strategy (the Greater

Manchester Transport Strategy 2040) and is currently implementing this strategy for the long-term benefit of Greater Manchester. Whilst Covid-19 is a factor, it does not stop this process. On 29 January 2021, GMCA adopted Our Five Year Transport Delivery Plan (2021-2026), showing the continued need and determination to implement measures to deliver the long-term transport strategy. This sets out not only this consultation process on bus reform, but also a range of other interventions in the bus market on concessions, accessibility, services, school travel and infrastructure interventions such as quality bus transit and rapid bus transit (these types of measures were characterised as 'phase 2' measures in the Assessment). The decision on implementing the Proposed Franchising Scheme is part of a broad framework of action to improve Greater Manchester's transport system and efforts to do this should not simply stop because of Covid-19.

- The Proposed Franchising Scheme if implemented will help to create certainty about the bus market in Greater Manchester. It would provide a framework about the long-term future for the market, whereas currently there is little clarity over how decisions will be taken on recovery or how decisions will be taken on the future of services. While GMCA would pursue 'recovery partnerships' whether or not a decision to implement the Proposed Franchising Scheme is taken, such arrangements are anticipated to be in place for a limited period. Once the Proposed Franchising Scheme is implemented, not only will GMCA have a greater range of levers to support the bus network, but the value for money of spending on interventions – whether that comes from local funding or DfT – would be greater. Making the decision now can therefore promote the longer-term recovery of the bus market in Greater Manchester.
- The Assessment concluded that there was a need to address the challenges facing the bus market in Greater Manchester with urgency. The challenges the bus market faces that have not disappeared but may have increased under Covid-19. The set of Objectives set out in the Strategic Case are still best achieved through franchising so this should be done as soon as possible.
- The Franchising Scheme gives a greater opportunity to address issues of congestion and moving toward a greater share of sustainable modes (such as further spending characterised as 'Phase 2' in the Assessment, including better VfM for such interventions). This may become very important in the medium term, as increased congestion could cause delay to different bus routes, hamper economic recovery, and worsen air quality.
- TfGM would be in a better position to support the bus service in Greater Manchester and make important decisions with the aim of supporting the most social value possible in bus services if the reality was more like the most pessimistic Scenario 3, as GMCA would take social value into account as well as profitability.

17.2.46 A number of reasons have been suggested, however, why it would be better to wait.

Distraction from recovery

17.2.47 Implementing the Proposed Franchising Scheme does not constitute a distraction from supporting the immediate recovery from the Covid-19 pandemic, and there is no evidence that it would retard such efforts. Priority would be given to such efforts in the period before services may be provided under the Proposed Franchising Scheme. Consideration would be given to appropriate publicity campaigns and other measures to encourage use of the bus market and for passengers to return to operators currently active in the market.

17.2.48 Some operators – Stagecoach in particular – suggest 'recovery partnerships' should be pursued instead of the Proposed Franchising Scheme, or before further consideration of the Scheme is undertaken. 'Recovery partnerships' are discussed in detail at section 13. Whilst OneBus and other operators have also suggested the need for 'recovery partnerships', clarification sessions held following the consultation have clarified that they, Stagecoach and Transdev see such partnerships as independent of the Proposed Franchising Scheme or a longer term partnership. Go North West do not see such arrangements as being alternatives to any future model for bus in Greater Manchester but rather a short- to medium-term arrangement to stabilise the market, and recover patronage. The consideration they suggest in 'stage 3' is, they subsequently clarified, intended to refine the commercial model for implementation rather than revise the decision. Whilst there are no concrete proposals from DfT on how any arrangements for support for the bus service once CBSSG has finished, section 13 on 'recovery partnerships' sets out TfGM's position on how they might be used.

17.2.49 The idea of a 'recovery partnership' (or some similar arrangement) is dependent upon funding from central (and/or local) government. TfGM would expect any requirements to be the same or similar whether any longer-term proposals were for partnership or franchising. In each case, the proposals would be focused on returning patronage on buses to levels reflective of the position pre-Covid. This highlights the fact that in any event the short-term funding risk for bus services under such arrangements rests primarily with the public sector, either at local or national level. Crucially, implementation of such an approach would mitigate some of the risks identified as a result of Covid-19 for all options, so these arrangements could be put in place in the lead up to either a stronger partnership or the Proposed Franchising Scheme. There is no reason to believe they would be weaker or less effective if they were used as a precursor to franchising (as Abellio and Go North West have suggested). Implementation of such an arrangement would therefore improve the benefits of any of the options considered in the Assessment compared to such an arrangement not being implemented. There is no reason to believe that the provision of Government funding to support the bus industry building back would only be capable of implementation to support a longer-term partnership model, and operators have not provided any compelling evidence that this is the case in their response to the second consultation.

17.2.50 TfGM are very aware of the need for support to be provided to operators to aid recovery from the impacts of Covid-19. TfGM have already held some initial discussions with operators on how 'recovery partnerships' might work, independently of the decision to implement the Proposed Franchising Scheme. In particular OneBus have clarified that they consider 'recovery partnerships' to be needed regardless of the future model for bus in the future. They see the primary objectives of any such partnerships as being to provide stability in the bus market, and to operators and to encourage passengers back onto the bus network. They also recognise the need for TfGM to work with all operators collectively to develop a local solution to maximising the impact of future Government funding. TfGM agrees with this position and is establishing a working group with OneBus (and the operators they represent) in order to develop plans for the period post the withdrawal of CBSSG in areas such as network design. This demonstrates GMCA's commitment to the bus market and the fact that these arrangements should not be seen as alternatives to the Proposed Franchising Scheme.

17.2.51 ‘Recovery partnerships’ would not, as First suggest, be a continuation of the ‘partnership’ that currently exists during Covid-19 pandemic. These are arrangements for Government to fund private sector operators for a limited period. GMCA would hope co-operation would extend into the period of a ‘recovery partnership’. But this does not mean a long-term partnership is the appropriate choice for the Greater Manchester bus market.

Further information becoming available

17.2.52 A number of operators have suggested delaying any decision to make a franchising scheme would also enable that decision to be based on better information, providing a clearer view of the financial risks and VfM of such a scheme and enabling a full and fair comparison to be made between franchising and a longer-term partnership.

17.2.53 Delaying a decision may enable a new partnership proposal to be put forward later. However, this does not mean that a decision on the Proposed Franchising Scheme should wait until operators have formulated a new partnership as an alternative. Whilst it is appropriate for TfGM to explore viable alternatives to the Proposed Franchising Scheme, but, if these do not exist, there is no obligation to wait an indefinite amount of time for operators (some of whom oppose the scheme) to agree a new proposal. It might be different if there were good reason to believe that a delay would yield a partnership that would outperform the Proposed Franchising Scheme and better achieve TfGM’s objectives, but this is not the case. There is no reason to believe that a new partnership proposal developed in a post Covid-19 world would prove superior to those proposed previously. In fact, given the financial effects of Covid-19 pandemic operators may not be in a position to agree a partnership proposal as good as previous ones. TfGM has previously considered two partnership proposals from OneBus covering the whole of Greater Manchester as well as partial proposals from Stagecoach and First, and, in each case, they have not been judged to have outperformed the Proposed Franchising Scheme or to have achieved GMCA’s objectives. It would therefore not be appropriate to wait an indefinite amount of time for a partnership proposal which has very little likelihood of showing itself to be a stronger alternative than those previously considered.

17.2.54 A number of operators have also suggested waiting until the longer-term effects of Covid-19 are known or knowable. OneBus have suggested waiting until events such as a vaccination programme have played out before making a decision, and Rotala suggest waiting it is possible to work on the basis of a central forecast which they state would be in 2022. As set out above (1.4.5-9) while there is uncertainty, this does not mean that a decision should not be taken. Further information would always become available over time. But it is important to consider when the information available would be materially improved and the extent to which this would significantly change the basis on which a decision may be made. Go North West suggest, for example, that 2026 is too *soon* to consider the effects of the pandemic to have played out. Uncertainty about the future market may remain for a considerable period of time. It should be noted that the Scenarios (and the effects of Covid-19 on the bus market) are not restricted to the immediate events of the pandemic, but are based on longer term trends. A short delay is unlikely to bring any greater certainty over long-term trends, such as attitudes to working at home and leisure pursuits or the economy and employment which will affect the demand for bus services, and it would not be appropriate to delay decisions indefinitely on how to improve the market until a theoretical point when much greater certainty will be possible.

17.2.55 A number of the consultees mentioned that the Department for Transport are currently reviewing their guidance in the area of allowing for Risk and Uncertainty in business case development (the 'Uncertainty Toolkit') and so questioned whether TfGM should wait for this guidance before considering the effects of Covid-19.

17.2.56 It is likely that when the guidance appears, it will represent an evolution of both sensitivity testing and the use of scenarios. The evolution of scenarios could well explore structural trends of national importance, as set out by DfT in Jul-21 in their 'route map', when it stated their intention to create scenarios looking at specific national trends, with forecasts being developed after February 2021.

17.2.57 Any new DfT scenarios may still pivot round a central national projection. They may be more akin to sensitivity tests of particular drivers of uncertainty (such as technology changes e.g. high electric vehicle take up, or behavioural factors e.g. changing trip rates), rather than narratives that explore the interaction of these drivers into coherent and plausible scenarios. If so, they would not create the diverse range of plausible futures that TfGM considers that scenario planning for franchising requires for assessing the potential impacts of the uncertainty introduced by Covid-19 on the conclusions within the Assessment in a way that is relevant, informative and transparent to local decision-makers. If so, TfGM consider that while such scenarios would be helpful, they are not likely to be as appropriate for the consideration of the impact of Covid-19 on the robustness of the conclusions in the Assessment regarding the VfM of the Proposed Scheme. But what the final form of any guidance may be will not be known until it is published. It is recognised that TfGM's approach may well not align with it.

17.2.58 The question is whether the advantages gained (in terms of information by awaiting the guidance and then using it to assess whether or not the conclusions in the Assessment remain valid given the uncertainty Covid-19 creates) outweigh the disadvantages of delay. It is considered that to delay further would not necessarily provide materially better information enabling a substantially better decision about whether franchising is in the public interest to be made, given the wide range of outcomes against which the conclusions of the Assessment can be tested using the Scenarios. But further delay would postpone the structural reform of the bus market in accordance with the GMCA's strategic policies which is required to best meet the challenges it faces in any event and it would reduce the GMCA's ability to plan for the long term future of the bus market, and the fullest recovery from the Covid-19 pandemic.

17.2.59 On balance it considered that the disadvantages of delay outweigh its possible advantages in terms of gaining further information, whether by use of the DfT guidance once published or from an offer of a new, longer-term partnership.

Taking Financial Risk

17.2.60 In response to points made by OneBus, Stagecoach and Rotala that the uncertainty means that this is the wrong time to take on financial risk, the points made above with regard to the flexibility of the Proposed Franchising Scheme are significant. As set out above at 1.418, the Proposed Franchising Scheme is not a fixed intervention such as new road, but a change in how the bus market is structured and how decisions are taken. The implementation of the Scheme can be adapted to the direction in which the bus market moves in the future. This means that, if a more extreme downside scenario did occur, in which there was a funding gap for the bus service, mitigations would be available. It is recognised that mitigations such as fare increases or cuts to the network would have detrimental effects on passengers, but, if the Scheme were not implemented, then private sector operators would be in the same position and have to implement similar measures. GMCA would then also face a similar decision on whether to intervene and use further public funding to protect bus services in Greater Manchester. Under the Proposed Franchising Scheme, however, this could be done in a more efficient and coherent way.

17.2.61 In fact, the Covid-19 pandemic has shown that, when extreme downside scenarios do occur, it is actually the public sector that takes much of the risk in order that the level of services can be retained. Without the Proposed Franchising Scheme, some risk would still rest with the public sector but with more limited controls over whether it was VfM or an efficient spend. GMCA taking responsibility for financial risk in the bus market does not fundamentally change the challenges it faces but the levers it has to carry out its responsibilities. It could be argued that there is greater reason for GMCA to take on this risk at an uncertain time rather than otherwise, because the network may be more in need of intervention. The flexibility in its implementation that the scheme permits means that doing so would not create undue risk for GMCA.

Alternative implementation methods

17.2.62 Two operators, Go North West and Abellio have proposed alternative implementation processes for franchising in Greater Manchester.

17.2.63 Go North West has criticised current implementation plans as an ‘extension’ (by which it appears they mean that the previous implementation plan remains in place but merely delayed because of Covid-19) and propose ‘recovery partnerships’ being followed by the direct award of franchise contracts before a longer-term consideration of the Proposed Franchising Scheme (the nature of this consideration is clarified above). The advantages of this, it is claimed, would be a protection of the network, the chance to gather data and to refine the franchise model so that it can become more successful, and to ensure affordability. There is, however, currently no legal and factual basis for the direct award of contracts without competition, much less franchise contracts without a franchise scheme being made.

17.2.64 Abellio also propose an interim approach characterised by direct award, to overcome some of the difficulties of transition to franchising. Again, there is currently no legal basis for direct award of all franchise contracts which means it would not be possible to take this proposal forward.

Conclusion

17.2.65 Whilst there is substantial support for taking a decision at the present time – from local authorities, stakeholders and academic institutions and from members of the public, there are also suggestions from OneBus and a number of operators that a decision should be delayed. Despite these criticisms the case for making a decision now remains strong:

- The Covid-19 Impact Report acknowledged the new challenges arising from Covid-19, but it was right to conclude that GMCA’s objectives for the bus service in Greater Manchester remain the right ones.
- A scenario-based approach enables the validity and robustness of the conclusions in the Assessment to be tested, enabling decision-makers to understand how the scheme might perform under a wide range of potential circumstances and to consider whether franchising is in the public interest despite the uncertainty of the current situation.
- Recent developments (either positive or negative) do not affect the validity of the scenarios as they are dependent on longer term factors. There has been no suggestion that there is a wider specific range of possibilities should have been considered. The

wide range of potential scenarios TfGM set out remain appropriate for the purpose for which they were devised and means that decision makers can be confident there are not plausible outcomes that have not been considered.

- The COVID-19 impact report concluded that the case for change remained valid under different scenarios, as did the conclusion that the Proposed Franchising Scheme performed better in terms of achieving GMCA's objectives under the different potential outcomes. The same is true of the conclusions on value for money and on affordability as set out below. Those remain the conclusions having considered the responses to the second consultation.
- The Proposed Franchising Scheme is a flexible intervention whose advantages are evident in a variety of scenarios. The financial risk for GMCA of taking a decision now has been clearly laid out for decision-makers, and where there are risks of a shortfall in the most extreme scenario, the Scheme remains flexible and mitigations are available.
- A decision now to make the Proposed Franchising Scheme would not distract TfGM from efforts to support recovery, and it would not be incompatible with the use of 'recovery partnerships' to support the market in the shorter term.
- There are reasons to take the decision now. Further delay would postpone the structural reform of the bus market in accordance with the GMCA's strategic policies which is required to best meet the challenges it faces in any event and it would reduce the GMCA's ability to help the long-term recovery from COVID-19.
- On balance it considered that the disadvantages of further delay outweigh its possible advantages in terms of gaining further information, whether by use of the DfT guidance once published or from an offer of a new, longer term partnership.
- Despite the arguments for delay, it is considered desirable, therefore, to make a decision on whether the Proposed Franchising Scheme is in the public interest now.

17.3 Support for and opposition to the Proposed Franchising Scheme

17.3.1 There was a high level of engagement with the first consultation process, supporting information and the Proposed Franchising Scheme evident in the engagement and awareness activity which supported the consultation. There were over 50,500 visits to the consultation webpage, as well as the responses received from members of the public and also from bus operators, academic institutions, charities and other bodies active in Greater Manchester. There was general support for the Proposed Franchising Scheme among respondents to the consultation. As Ipsos MORI's June 2020 Consultation Report sets out (4, p. 1), of those who completed a questionnaire and answered the question 'To what extent do you support or oppose the introduction of the Proposed Franchising Scheme' (5,978 participants), the vast majority (83%) were supportive of the introduction of the Proposed Franchising Scheme, whilst far fewer (8%) were opposed.

17.3.2 Most of the organisations that completed a questionnaire were also supportive of the introduction of the Proposed Franchising Scheme, and in terms of overall support, there was very little difference between statutory consultees and non-statutory consultees (87% and 86% were in support of the Proposed Franchising Scheme respectively). The exception to this was incumbent bus operators who mostly opposed the Proposed Franchising Scheme, as set out below. Respondents to the consultation supported the arguments set out in the consultation that planning the bus network as part of an integrated public transport system would bring benefits and efficiencies to Greater Manchester; that integrated, simplified and reduced fares would be positive; and that high standards of customer service would be beneficial. Respondents shared the vision of an integrated transport system that supports the broader economic, social and environmental objectives of GMCA, and the place of a franchised bus service within that.

17.3.3 The majority of challenges to the Proposed Franchising Scheme came from the incumbent operators in Greater Manchester who have a significant share of the current deregulated market. This is because they would lose the automatic right to run services in Greater Manchester and to do so would need to compete for franchise contracts alongside other operators. Their key arguments concerning the analysis in the Assessment and partnership alternatives are detailed below. Among members of the public, the key issues raised by those that opposed the Proposed Franchising Scheme were around affordability and the potential exposure of taxpayers to costs arising from the Proposed Franchising Scheme.

17.3.4 Ipsos MORI's June 2020 Consultation Report notes that commercial operators not operating in Greater Manchester, such as Abellio, HCT Group (whose subsidiary MCT has been wound up) and Warrington's Own Buses (with some cross-boundary services), were supportive of the Proposed Franchising Scheme and the arrangements to allow open competition for franchises. There was also support from unions, academic institutions and action groups. As with the views of action groups, there was very strong support for the proposal among charitable organisations including Greater Manchester Disabled People's Panel, Dunham Massey National Trust, Whalley Range Community Forum, and the Equality and Human Rights Commission. All of the elected representatives who provided comments were in favour of the Proposed Franchising Scheme. There was also very strong support for the introduction of the Proposed Franchising Scheme from environmental, heritage, amenity and community groups (4, pp. 8-11 of Ipsos MORI's report).

17.3.5 The second consultation also highlighted general support for the Proposed Franchising Scheme, as Ipsos MORI's March 2021 Consultation Report notes that of those who completed a questionnaire and answered the question 'To what extent do you support or opposed the introduction of the Proposed Franchising Scheme' (2,322 participants), the majority (71%) indicated their support for the Proposed Franchising Scheme, whilst far fewer (13%) were opposed.

17.3.6 In response to the second consultation, some operators maintained opposition to the Proposed Franchising Scheme and also argued that it was the wrong time to take a decision. The bus operators representative group for Greater Manchester, OneBus, also expressed opposition, the details of which will be considered below and in section 3 Use of Scenarios. Abellio, an operator from outside Greater Manchester reiterated their support for the Proposed Franchising Scheme (e.g. answers to Questions 2, 6, and 7). Warrington's Own Buses indicated support and noted that the Proposed Franchising Scheme should be implemented as soon as possible (Question 2).

17.3.7 Many local authorities reiterated their support for the Proposed Franchising Scheme in their responses to the second consultation. For instance, Manchester City Council reiterates its support, along with other authorities within Greater Manchester and outside it. For example, Blackburn with Darwen (outside Greater Manchester) say that “"*The Council is supportive of GMCA's proposal to introduce a Franchising Scheme for the Greater Manchester area, in order for GMCA to achieve its strategic objectives in terms of supporting sustainable economic growth, improving quality of life for all, protecting the environment and developing an innovative City Region.*" (Question 2).

17.3.8 Responding to the second consultation, a number of stakeholders repeated their support, such as Unison, MPS (Afzal Khan, Debbie Abrahams, and Councillors from different parts of Greater Manchester. Groups representing passengers such as Travelwatch NW and the Association of British Commuters also expressed support for the Proposed Franchising Scheme. HHS Trust in Greater Manchester (Manchester University NHS Trust; Northern Care Alliance NHS Trust; Christie NHS Trust) also expressed their support, citing their concerns about the network and how it should support patients and staff.

17.3.9 A number of groups and institutions supported the implementation of the Proposed Franchising Scheme in their responses to the second consultation, such as the Trafford Centre, Oxford Road Corridor, Steady State Manchester, Broadheath Community Association, GM Older people's Network, Bruntwood, and Recovery Republic CIC. Manchester Metropolitan University set out their support for the scheme. The Centre of Cities repeated their support, stating “*Franchising is the clearest route to delivering a higher quality bus service at greatest value for the public purse. Duplication can be stripped out of the network, underserved areas subsidised, integration with other modes improved, fares simplified and massive investment in electric vehicles accelerated in ways that the best partnerships cannot.*” (Question 2).

17.3.10 Groups associated with operators – the Confederation of Passenger Transport, the Chartered Institute of Logistics and Transport, continued to oppose the scheme.

17.3.11 Ipsos MORI's March 2021 Consultation Report on the impact of Covid-19 on the Proposed Bus Franchising Scheme for Greater Manchester also showed there was strong support from members of the public for the Proposed Franchising Scheme. Through the consultation, there were over three times as many positive as negative comments from members of the public in response to the conclusion of the Strategic Case (that it is likely to perform better than the partnership option in achieving GMCA's objectives, notwithstanding Covid-19).

17.4 Conclusions reached on issues raised in responses to the Consultation

17.4.1 The following sections (17.5 to 17.18) outline the conclusions reached within each section of this Consultation Report.

17.5 Considerations on TfGM's use of scenarios in the Covid-19 Impact Report

17.5.1 The Oxera report, commissioned by Rotala noted that forecasting should not be based on a central estimate approach, and that, to take account of the long-term effects of the pandemic, a scenario-based approach is appropriate. They and a number of other operators criticised how TfGM approached the construction and use of scenarios. However, they attracted support from a very wide group of stakeholders. Key points in conclusion are

- In contrast to the suggestion that the Scenarios were not developed in a transparent way and were biased, the methodology used was set out clearly in the Covid-19 Impact Report. The outputs of the process (and thus the assumptions made about patronage in each scenario) were checked for coherence and consistency. Recent developments (either positive or negative) do not affect the validity of the Scenarios as they are dependent on longer-term factors. There has been no suggestion that there is a wider specific range of possibilities should have been considered. The wide range of potential scenarios TfGM set out remain appropriate for the purpose for which they were devised and means that decision makers can be confident there are not plausible outcomes that have not been considered.

- Whilst operators have pointed to one piece of guidance – the GAD guidance that suggests scenarios should be developed through quantifying inputs and modelling outputs in each scenario, and quantifying the uncertainty associated with each, this does not mean this is the only reasonable, or necessarily the best, way to approach scenarios in circumstances of uncertainty. Exercising judgment over a range of complex inputs and relationships is no more robust or transparent than doing so on an appropriate range of outputs – in this case bus patronage figures.

- TfGM have not followed a markedly different approach to that taken by other organisations such as TfN or TfL, even though they have quantified inputs. The existence of other approaches doesn't mean in any event that TfGM's approach is the wrong one or lacks the robustness necessary to test the options for bus reform. TfGM's most pessimistic downside scenario is far more pessimistic than that of TFL or TfN, or any of those used by operators in informing their shareholders of expected performance.

- It is legitimate to regard Scenario 3 as less likely or an 'outlier'. The use of such language did not imply that it was being used in a strict statistical sense. The reasoning laid out in the Covid-19 Impact Report on why it is less likely than others remains sound, and recent developments do not invalidate it. Stagecoach themselves, in their interim results published in December 2020, for example, cite 'severe' and 'plausible' downside scenarios that have commercial revenue at 75% and 85% of pre-Covid-19 levels in the year ending 30 April 2022, which would indicate patronage considerably higher than TfGM's Scenario 3.

17.5.2 The most important consideration in looking at the Scenarios is whether they are sufficiently broad to encompass the right range of potential outcomes, to enable reasonable testing of the sensitivity of the conclusions in the Assessment to the uncertainty associated with Covid-19. Whilst NERA say they are not able to say whether the range is appropriate, it is notable that none of the operators have actually suggested a different, wider range of potential outcomes should be tested. The alternatives cited as better practice, TfL and TFN, have narrower ranges of outcomes for public transport. It is considered that TfGM's scenarios provide a good basis for considering the sensitivity of the conclusions in the Assessment to the uncertainty associated with Covid-19.

17.6 Considerations on responses to the Strategic Case.

General Market Update

17.6.1 The General Market Update at section 4.2 demonstrates that the loss of patronage in the Greater Manchester bus market has continued in the latest figures available, from 189.1 million in 2018-19 to a provisional 185.4 million in 2019-20. Commercial mileage run by operators has also declined significantly by a further 5.2% between 2018 and 2019, and subsidised mileage has declined by 2.2% over the same period. This means the bus network in Greater Manchester is nearly 5% smaller than a year previously.

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

17.6.3 An update following the second consultation shows a marked reduction in mileage due to Covid-19 for 2020, and the bus network is now supported by public funding through the CBSSG. Since the Covid-19 Impact Report was published in November 2020, there have been further restrictions imposed across the UK and a national lockdown imposed on 6 January. These interventions have resulted in a decline in bus patronage since November 2020, when recovery was at c.60% of pre-Covid levels, with bus patronage recovery compared to pre-Covid-19 levels falling to c.35% in February 2021.

Responses to the First Consultation

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

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

17.6.6 Whilst there were many stakeholders and members of the public who were supportive of the analysis presented in the Strategic Case, and the conclusion that implementing the Proposed Franchising Scheme would best meet GMCA's objectives, there were also challenges. These principally came from incumbent operators in Greater Manchester. They argued that the main cause of problems with the bus market was not how it functioned but externally from increasing congestion and from competition from the expanded Metrolink service. They concluded from this that the Proposed Franchising Scheme would not solve the main problems with the bus service and so a partnership with operators should instead be implemented, along with a public spending to reduce the effects of congestion on the bus service. The following sections set out the conclusions from the first consultation, noting if the analysis would substantively change because of the Covid-19 pandemic. The section following sets out the conclusions following the second consultation.

Causes of Decline

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

Congestion

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

Metrolink and cuts to subsidised mileage

17.6.9 However, TfGM is confident that is has set out effects of the key factors of congestion and Metrolink abstraction adduced by operators in the Assessment; the figures quoted in the Assessment on abstraction from bus to Metrolink are an overestimate of the likely effect of new lines and increased patronage. Operators' discussions of the role of the expansion of Metrolink, and cuts to funding of subsidised services, do not reflect the scale of those challenges, and the basis of their calculation in this regard is flawed. Cuts in subsidised mileage are far less than those in the commercial network – 1.2 million against 5.9 million. Operators challenge that decline is caused almost entirely by Metrolink expansion and reduction in subsidised mileage do not stand up to scrutiny.

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

Competition, network inefficiency and fares

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

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

Objectives

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

Competition and the change to a franchised market

17.6.14 Some respondents commented on the change from a deregulated to a franchised market, where the public authority takes revenue risk and specifies the service. There was support for a franchised model from a variety of stakeholders and also members of the public. Two reports that argue in favour of a franchised bus model were cited as part of statutory consultee responses. Abellio referenced a report published by Centre for Cities in November 2019, entitled "*Delivering change - improving urban bus transport",* which provides analysis that supports Abellio's view that a franchised scheme would deliver the greatest benefits to GMCA. Unison cited a report by Transport for Quality of Life, "*Building a World-class Bus System for Britain*", which supports their view that franchising enhances service provision through increased public control.

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

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

17.6.17 Some operators criticised the record of London since the market there was franchised rather than deregulated. In fact, over the long-term, London has been the only place in the UK to buck the trend of declining patronage. In recent years, while there have been cuts to the subsidy offered to London, performance has held up. DfT note that between 2008-09 and 2018-19 numbers fell in London by 1.4% whereas in England outside London they fell by 11.9%, contradicting operators' suggestions that the franchised market in London has performed less well than deregulated markets.

17.6.18 Since the COVID-19 pandemic, the support for the bus service from the public sector has changed its character so that competition is arguably reduced. It is not clear how permanent this reduction is likely to be.

Franchising: network

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

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

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

Franchising: Customer service

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

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

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

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

Franchising: Fares

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

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

Cross-boundary Services

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

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

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

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

Consideration of partnership proposals

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

17.6.32 Operators challenged the costs ascribed to partnership in the Assessment, arguing that it could be absorbed as business as usual. However, the governance proposals require a great deal of active participation and engagement in order to work. This is appropriate – to be confident of any benefits arising, a partnership would require commitment of resources. The partnership costs were developed based upon information received from the operators, the proposed governance structure and by following a logical process.

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

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

17.6.35 There have been subsequent (mutually exclusive) partnership proposals, and the potential for these to deliver greater benefit than that considered in the Assessment is considered elsewhere (see Section 10 and Section 11of this report) and none of these proposals were found to bring significantly greater benefits or achieve GMCA's objectives to a much greater extent than the partnership in the Assessment.

17.6.36 Although it is recognised that a partnership could be entered into relatively quickly, there remains doubt over what could be delivered and when. It is not just about delivering change quickly, but also about offering long-term benefits. There is little assurance that the benefits would continue to be delivered over the long term, given the initial term of the partnership would be five years. As set out at section 64.1.4 to 64.1.7 of the Assessment, TfGM were aware that the cost of the Proposed Franchising Scheme is higher, and the associated risk is also higher than the partnership option. It is also the case that the Assessment did not ignore the fact the partnership could be put in place more quickly than the Proposed Franchising Scheme, and this is accounted for in the benefits set out in the Economic Case.

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

17.6.37 Franchising is not proposed as an alternative to 'Phase 2' measures but as a reform of the bus market which will enable a greater variety of 'Phase 2' measures to be implemented. The need for reform demonstrated in the Assessment means that it would not be appropriate, as First suggest, to invest in bus priority measures before considering the Proposed Franchising Scheme. This would be to continue with the current policy of implementing bus priority measures without reforming the market which the Assessment shows has left significant challenges unaddressed. Investment in such measures and reform are complementary measures as the Greater Manchester Transport Strategy 2040 sets out.

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

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

17.6.40 Second, the figure quoted by Stagecoach of the money available (£134 million) does not take account of the costs of the different options over the appraisal period. In cash terms, the partnership would cost GMCA more than franchising over the whole period. On a discounted basis, taking account of the greater value of spending in the near term, there would be a 'saving' of not introducing the Proposed Franchising Scheme in the order of £56 million (ignoring any forecast surplus from franchising after the end of the transition period). This figure is likely to be different following the Covid-19 pandemic, but the difference between the schemes is not represented by the £134 million figure but by their relative performance over the 30 year appraisal period and beyond which does not necessarily favour a partnership option.

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

17.6.42 Fourth, because there is no detailed programme specifying which measures would be carried out and when to appraise, it is not possible to make confident predictions about the value of such schemes. There is no reason to assume, as Stagecoach appears to do, that, when their value is added to that of a partnership, it would exceed the likely value of franchising (this remains the case in the context of three of the four Covid-19 scenarios; under scenario three it will be very difficult to predict the VfM of any interventions in the bus service in quantified terms, given the small number of passengers). Thus, even if the money were spent on schemes that achieved the high VfM set out for such schemes in the Greener Journeys report, the NPV over the appraisal period for the Proposed Franchising Scheme would remain higher than that of the partnership.

17.6.43 Fifth, the VfM of any 'Phase 2' measures taken in conjunction with a partnership is likely to be lower than such measures taken in conjunction with the Proposed Franchising Scheme, as there would be a narrower range of options available for spending and those that could be undertaken under either option would be likely to have poorer VfM with a partnership than with franchising because revenue generation associated with the improved service would not accrue to GMCA to offset investment costs. This would remain true under the Covid-19 scenarios. The assessed NPV over the appraisal period for the Proposed Franchising Scheme is likely, under three of three of the four post-COVD-19 scenarios, to remain higher than that of the partnership over the appraisal period, especially as currently there are very few benefits that can be ascribed to a partnership. Even under Scenario 3, where the monetised benefits of franchising are low, the benefits of any additional scheme would also be very low as they would benefit fewer passengers.

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

Responses to the Second Consultation

17.6.45 There were a variety of responses to the second consultation on the Strategic Case, and the conclusion of the Covid-19 Impact Report. There was support from members of the public and from a variety of stakeholders for the conclusions of the report that the challenges of the bus market remained and should be addressed, and that the Proposed Franchising Scheme still performed better against the alternatives in achieving GMCA’s objectives for the bus market.

17.6.46 In response to the second consultation, most of the responses critical of the Proposed Franchising Scheme focused on the effects of Covid-19 rather than issues of the competition and the analysis of the market set out in the Assessment that were the subject of much attention during the first consultation. They challenged TfGM use of scenarios and the analysis based on that in the economic and financial cases. There were comments on the appropriateness of proceeding now given that public finances are likely to be under greater strain because of the effects of Covid-19.

Challenges for the bus market and GMCA’s Objectives

17.6.47 In response to the second consultation, operators did not challenge the specific accounts given in the Assessment on individual challenges facing the bus market A number of incumbent operators argued in their responses that the impact of Covid-19 meant that the bus market faced a different set of challenges, and hence that the Proposed Franchising Scheme would no longer be an appropriate solution. They argued that there had been a shift in how people travel, and that more significant challenges had emerged such as how to restore public confidence in bus travel. In addition, some point to new challenges such as those to town centres that they say were not fully evaluated in the Covid-19 Impact Report.

17.6.48 Other respondents felt that the previous challenges still remain, such as Manchester City Council, Bolton Council (answer to Question 2) and Salford City Council (response p.1). Manchester City Council point out: “*However, in any scenario that emerges out of our hopeful transition out of the pandemic, the Council considers that all of the pre-existing problems with the current deregulated bus services will require to be fixed.*”

17.6.49 The effects of Covid-19 can be thought of in terms of new challenges – such as the need to persuade potential passengers to use the service again. As set out at section 13, TfGM intend to work with operators and take advantage of any Government support under any market structures available to build back the bus market as strongly as possible. The additional challenges of Covid-19 do not change the need to reform the market to address these challenges. They also make the need to meet existing challenges, such as co-ordinating the netrwok to best effect, more urgent to help the market recover better.

17.6.50 There was support for the conclusion of the Assessment with regard to challenges and objectives in the light of the challenges of Covid-19. Whilst some operators suggested the challenges facing the market were now different, and therefore the objectives should shift, these new challenges do not mean the previously identified challenges are no longer relevant, and nor do they invalidate the objectives identified by GMCA. Whilst the context is different and potentially more challenging, the objectives of improving the network, simplifying fares, and improving customer service and achieving VfM remain the right ones. A revised version of the Transport Strategy 2040 was recently adopted by GMCA in the light of Covid-19 (January 2021) that contained the same high-level objectives (the Vision for Bus) for the bus market as in the original (published in 2017).

The options performance against the objectives

17.6.51 The Covid-19 Impact Report set out some conclusions on the performance of the different options against GMCA's objectives (for network, fares customer service and VfM) under the different scenarios. This section of the Covid-19 Impact Report concluded that 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. The analysis showed that the Proposed Franchising Scheme remains the best way to meet GMCA's objectives.

17.6.52 The partnership option is now less certain (as operators have indicated they can no longer hold to commitments made in previous proposals).

17.6.53 In response to the second consultation, there was some endorsement for the conclusion that the Proposed Franchising Scheme would be better at achieving those objectives from respondents, and that the benfits are still important to achieve. Operators critical of the scheme did not focus on the achievement of these objectives other than (as set out above) to argue that immediate recovery should take precedence: this is addressed in the section considering whether it is appropriate to make a decision now, at section 17.2.

17.6.54 It can be concluded that conclusion of the Assessment that the best option for reforming the bus market in Greater Manchester remains true, and it remains a better option that the Do Minimum.

17.6.55 It is noted that the Economic Case in the Covid-19 Impact Report shows the Proposed Franchising Scheme to be VfM under all but the least likely scenario. While the Proposed Franchising Scheme would increase the risk GMCA would take when compared with a Do Minimum course of action, it would be positive in terms of value for money in three of the scenarios considered, and still deliver benefits to Greater Manchester. In the event that patronage fell to a level similar to that set out in scenario 3, the monetised benefits of the scheme would accrue to a far smaller number of passengers and their value may not exceed the costs. However, in this eventuality it may be beneficial for GMCA to be able to support the market to maintain essential services. Whilst uncertainty affecting the market, as the Financial Case points out, could mean that (particularly in an outcome that looks like Scenario 3) unwelcome mitigations will be necessary, the funding sources identified in the Assessment are still available and thus the Proposed Franchising Scheme remains affordable.GMCA would also face financial risks following a Do Minimum course of action as they may need to intervene in the bus market to support services and deliver on broader objectives..

Cross-boundary Services

17.6.56 In response to the second consultation, some local authorities repeated their support for cross-boundary services and the need to mitigate risks in how GMCA administers the permit regime, to ensure services can run as well as possible, and options can be considered for replacing services if they are withdrawn.

Consideration of partnership proposals

17.6.57 Operators did not submit partnership proposals as part of the second consultation, and in correspondence indicated they can no longer hold to commitments made in previous proposals. As set out above at section 4.11.21operators did suggest that GMCA should wait until such a time as a new partnership option should emerge. However, it would not be appropriate to wait an indefinite amount of time for a new proposal, especially when there is no reason to believe it would represent a significant improvement on previous proposals that were found wanting.

17.6.58 There was criticism that in the Covid-19 Impact Report consideration has not been given to partnership as an option, or that a ‘binary’ assessment had been undertaken. This is, however, not the case – they were considered in the Assessment against objectives in the light of the different Covid-19 scenarios, and TfGM explored alternative options to the Proposed Franchising Scheme. The conclusion of the Assessment on the preferred course of action remains true in the light of the alternative options available to GMCA.

Franchising and the place of further (‘Phase 2’) measures to improve the bus service

17.6.59 Whilst not in the detail of responses to the first consultation, responses to the second consultation argued that there would be competing pressures on public spending. Concerns about local taxation were raised by some operators and also by local authorities.

17.6.60 Local authorities are likely to be facing additional pressures and some reduction in local tax revenues following the Covid-19 pandemic. In this context, district local authorities and GMCA will continue to make spending decisions in the same way as at present, which includes consideration of the strategic, economic and financial aspects of projects or programmes.

17.6.61 In the context of Covid-19, operators have not collectively proposed a specific viable partnership offer for the longer term or any other particular use of any resources that could be assessed in terms of their VfM compared with the Proposed Franchising Scheme. They have proposed that TfGM focus on 'recovery partnerships' instead of franchising. Section 13 on ‘recovery partnerships’ sets out that such measures are not an alternative to any of the options. The measures that might support the bus service in a recovery period would not be different from those Phase 2 measures that would support the service at any other time. The same considerations apply to them in in terms of VfM during a period of recovery as at any other time. Thus, the conclusion set out above, that the VfM of any ‘Phase 2’ measures, taken in conjunction with a partnership, is also likely to be lower than such measures taken in conjunction with the Proposed Franchising Scheme, would remain the case despite the effects of Covid-19 as this would not affect that comparison.

Overall conclusion on the Strategic Case

17.6.62 Considering the responses, including both support for the evidence and arguments presented in the Strategic Case and the Covid-19 Impact Report, as well as challenges and comments from consultees from both consultations, TfGM are confident in the evidence presented in the Assessment and the conclusions it came to. Much of the analysis concerning the challenges faced by the bus network was endorsed by respondents to the consultations – both individuals and statutory consultees - as well as the assessments of how effectively the different options for reform were likely to perform in terms of meeting GMCA’s objectives.

17.6.63 The greatest challenge came from incumbent operators, who in the first consultation argued that TfGM had underplayed the importance of congestion in terms of the current decline in bus services, and consequently should have given greater consideration to partnership options, accompanied by greater spending on anti-congestion measures. Partnership does not achieve GMCA's objectives, however, as effectively as the Proposed Franchising Scheme. This does not change even considering the higher cost of the Proposed Franchising Scheme and its opportunity cost – this is included within the VfM assessment. Rather, while partnership would help to improve the efficacy of some measures to reduce the effects of congestion on bus services, more and greater value could be achieved together with the Proposed Franchising Scheme. In the second consultation such operators challenged TfGM's objectives for the bus service and argued that GMCA should enter into a 'recovery partnership' and wait for further partnership options to emerge before making a decision in order to improve recovery of the bus market and make a better comparison to the Proposed Franchising Scheme. However, they did not offer an alternative longer-term partnership nor did they provide sufficiently strong arguments showing why the conclusion of the Assessment, that the Proposed Franchising Scheme would achieve GMCA's objectives better than the alternatives, should not stand.

17.7 Economic Case Conclusion

Responses to the First Consultation

17.7.1 The Assessment concluded that the Economic Case for investment and reform was strong, with both partnership and franchising options representing high VfM. The Assessment further concluded that the Proposed Franchising Scheme was preferable because it created more economic value (as defined by an 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.

17.7.2 From the first consultation on the Assessment, most responses from members of the public regarding the Economic Case were favourable, with participants tending to reiterate comments made elsewhere in the consultation, which focused on the outcomes the Proposed Franchising Scheme would deliver; with cheaper and better value bus fares one of the most commonly mentioned positive outcomes. Specific comments relating to the Economic Case were that bus services should serve the public and not be run for profit and that the Proposed Franchising Scheme provides the best overall VfM of the options presented. Of those statutory consultees who provided a response to the Economic Case questions, most made a favourable comment in support of the conclusions of the Economic Case. Positive comments were generally received from local authorities and unions, plus a minority of bus operators.

17.7.3 On the other hand, public participants in the first consultation who disagreed with the conclusions of the Economic Case tended to cite concern about the costs and associated affordability of the Proposed Franchising Scheme and the lack of evidence to support the conclusion. Negative or unfavourable comments were received from bus operators, bus industry groups and some customer representation groups. Of note, Jacobs were employed by OneBus to review the Economic Case in detail. Their report was referred to by OneBus, Stagecoach and Rotala in their responses to the Economic Case to the first consultation.

17.7.4 As set out in this report, TfGM remain of the view that the methods and datasets used to inform the Economic Case in the Assessment were appropriate and that there were no issues arising from the first consultation that required alterations to the Economic Case or that would have led us to believe that the relative performance of the options in the Assessment would change as a result of issues raised.

Responses to the Second Consultation

17.7.5 In terms of the Economic Case, the Covid-19 Impact Report concluded that the additional analysis confirms that, on balance, the VfM of the Proposed Franchising Scheme is likely to be robust to the uncertainty created by Covid-19 in all reasonably likely Scenarios. It also concluded that the Proposed Franchising Scheme 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.

17.7.6 In the second consultation, public comments on the analysis into the potential impacts of Covid-19 on the conclusions from the Assessment equally split between participants who made positive or negative comments. Most of the positive comments agreed with the conclusions being reached in the report that the Assessment remained valid, noting that the Proposed Franchising Scheme offered VfM, and that the current system does not.

Those making positive comments agreed that the Economic Case is comprehensive and thorough in the detail it presents, and that the Proposed Franchising Scheme performed better when assessed against other, alternative options for bus reform. Others felt it provided better value for money for the long-term and that the case in favour of the Proposed Franchising Scheme has actually been strengthneded by the impact of Covid-19.

17.7.7 Of the small number of comments made by the public regarding the Economic Case in the second consultation the negative comments were similar in number to the positive comments, but covered a greater range of points. These included concerns about the validity of conducting such analysis during a pandemic and that there was a lack of good evidence to back it up, with comments that the work was based on guesswork and speculation. Others pointed to the declining net economic benefits in the analysis as an indication that value for money under Covid-19 would be poorer, with related comments regarding increased economic pressure and declining patronage reducing the relative value for money of the scheme..

17.7.8 As with the first consultation, negative or unfavourable comments were received from the incumbent local bus operators, bus industry groups and some customer representation groups. Of note, NERA and Oxera were employed by Stagecoach and Rotala respectively to review the analysis in the Covid-19 Impact Report. Their respective reports raised issues regarding the overall robustness of the analysis and the compliance with national guidance. Stagecoach and Rotala who employed them contended that in the circumstances a new Assessment prepared under section 123B of the Act was required as a matter of law.

17.7.9 TfGM accept that Covid-19 has introduced increased levels of uncertainty regarding the future, and hence that the analytical assurance of the analysis underpinning the Assessment is lower than at the time of the Asssessment. The Covid-19 Impact Report provides additional information to decision-makers on the causes of uncertainty and their potential impact on the conclusions reached in the Assessment. As set out in this report, TfGM acknowledge that the approach undertaken to consider the impacts of Covid-19 on the conclusions of the Assessment does not align with TAG Guidance and it may well not align with the DfT’s proposed Uncertainty Toolkit as and when it is published. However, it is not considered that TAG offers an appropriate approach for the consideration of Covid-19 impacts, and so an appropriate local methodology was devised. It is for this reason that a range of scenarios, encompassing a broad range of possible future environments for the introduction of the proposals, was adopted. No more pessimistic specific scenario that could reasonably be expected than Scenario 3 was proposed in response to the second consultation.

17.7.10 TfGM, therefore, remain of the view that the approach taken to the Covid-19 Impact Report to consider the potential impacts of Covid-19 on the value for money conclusions in the Assessment was appropriate and that there were no issues arising from the second consultation that required alterations to the Covid-19 Impact Report Economic Case orto its conclusions that, on balance, the value for money of the franchising scheme is likely to be robust to the uncertainty created by Covid-19 in all reasonably likely Scenarios and that it remains preferable to the Operator Proposed Partnership as, on balance, the net benfits are likely to remain higher and be more deliverable, particularly given the uncertainty surrounding what, if any, partnership options are on offer. .

Overall Conclusion to the Economic Case

17.7.11 In reaching the above conclusions, it is important to highlight the following matters that were identified in the Covid-19 Impact Report. First that suitable commercial management strategies and other aspects of franchise specification and contracting have been developed so that the implementation of the Proposed Franchising Scheme can be adapted to minimise risk and ensure value for money. Secondly, that the value for money analysis framework should be extended to address the additional impacts that significant falls in bus market size could induce. Finally, that an extended period of Covid-19 recovery and hence Government subsidy may induce further market failures in the bus network provision relative to the Reference Case. If so 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.

17.8 Commercial Case Conclusion

The first consultation

17.8.1 The First Consultation Document asked a number of questions in respect of the Commercial Case. These questions covered the various aspects of the franchise commercial proposition, including asset strategy, the implementation timeframe, franchise design and procurement strategy, along with additional questions on the impacts of the options on the achievement of the objectives of neighbouring transport authorities and the partnership commercial proposition. The question relating to the impacts of the options on the achievement of the objectives of the neighbouring transport authorities is considered further at section 4.8 of this report. The questions relating to the partnership commercial proposition are considered further at section 4.10 of this report.

17.8.2 As reported in Ipsos MORI's June 2020 Consultation Report (Section 9.10), the majority of responses in relation to the first consultation from members of the public were favourable towards the Commercial Case conclusion with 108 favourable comments and 57 unfavourable comments from members of the public. However, the views of statutory consultees (5 favourable comments versus 5 unfavourable comments) and non-statutory consultees (5 favourable comments versus 6 unfavourable comments) were generally mixed, some specific examples of which are set out in this report.

17.8.3 In response to the first consultation, a number of challenges and critiques arose regarding the appropriateness of the proposed commercial arrangements, and specifically:

- A range of comments, both favourable and unfavourable, were received. In general, there was a distinction between large incumbent operators, who made more unfavourable comments, and other operators, who were more positive about the commercial proposition; and
- Comments covered a range of aspects of the commercial proposition, including the asset strategies in respect of depots, fleet and ITS, franchise packaging, contract length, risk, SME facilitation, procurement and employees.

17.8.4 Responding to the first consultation, most incumbent large bus operators raised challenges surrounding GMCA's proposals on depots. These areas of challenge included the following:

- The first area of challenge was whether GMCA should be providing any depots and, if so, which. TfGM remains confident that such an intervention by GMCA will deliver significant competition benefits and that the strategic depots identified in the Assessment collectively provide the most efficient model for delivery of large franchises during the transitional phase;
- The second area of challenge was whether incumbents would sell the strategic depots to GMCA voluntarily. TfGM notes the position of the respondents on this area; however, part of the rationale for the proposed approach was to reduce the impact of franchising on those operators as it would mitigate the risk of stranded assets as well as reducing the impact on employees. In the event of a Mayoral decision to introduce the Proposed Franchising Scheme, GMCA would, therefore, continue to seek its preferred option of negotiated depot transfer through proactive dialogue with operators;
- The third area of challenge was whether the alternatives for large franchises, apart from the compulsory purchase of strategic depots, are feasible. The Assessment sets out a

number of alternative routes to depot provision at the transitional stage. However, with the exception of CPO, there has been little comment in the consultation response in relation to these alternative routes. It is considered that they continue to provide viable strategies for the provision of depots;

- The fourth area of challenge was whether GMCA can legally use CPO powers to acquire strategic depots. TfGM remains confident that it has the legal powers to undertake CPO if required. TfGM's preferred route to depot control remains via negotiated transfer, which will also help mitigate operator impact, but in the event that this is not achievable, it would seek to deploy one or more of the alternative viable options described in the Assessment;
- The fifth area of challenge was the timeline for delivering the Proposed Franchising Scheme in the event that strategic depot owners are unwilling to sell those depots to GMCA. The Assessment considers a range of viable options available to GMCA to provide depots for the operation of large franchises and is not reliant on CPO, but it is accepted that if CPO powers are used, then the dates on which it was proposed that the Proposed Franchising Scheme would become effective would need to be changed, which is allowed for under the Act; and
- The final area of challenge was regarding the reasonableness of the costs allowed for in the Financial Case in respect of the depot strategy. The Assessment makes a prudent estimate of the cost of acquiring control of strategic depots, including a combination of a likely negotiated transfer valuation and an independently obtained CPO valuation. In addition, the Financial Case (Section 20 of the Assessment) includes a Quantified Risk Assessment that estimates the cost of specific uncertain events, including additional costs in the delivery of the depot strategy, which may occur.

17.8.5 TfGM's preferred route to depot control, therefore, remains via negotiated transfer, which will also help mitigate operator impact, but in the event that this is not achievable, it would seek to deploy one or more of the alternative viable options described in the Assessment.

17.8.6 In response to the first consultation, a number of operators argued that the success of the fleet RV mechanism is dependent on take-up by operators. However, to the extent that incumbent operators choose not to engage in RV negotiations with GMCA and/or agreement cannot be reached for the transfer of incumbent fleet into the RV mechanism, each franchise bidder would simply be responsible for the provision of fleet to account for any difference between franchise fleet requirements and RV fleet allocation. However, analysis performed by TfGM, which includes consideration of maintenance cost and fuel efficiency benefits, indicates that the whole life cost of new fleet would not materially exceed that of existing fleet. It has, therefore, concluded that the franchise cost implications of different courses of action by incumbent operators in respect of RV are likely to be neutral.

17.8.7 In response to the first consultation, there was a range of views on the appropriateness of the packaging strategy for franchising contracts, with comments ranging from those supporting the proposition to those arguing in favour of route-based franchises. Whilst a route-based model was considered in the development of the Assessment, it was concluded to be suboptimal for reasons of low depot density in Greater Manchester, customer confusion, multiple changing cross-boundaries, slow rollout of benefits, less efficient network management, and not benefiting from the economies of scale associated with larger franchises.

17.8.8 In response to the first consultation, some operators stated that the franchise term should be longer, either to encourage investment or to provide more efficient periods for leasing fleet. Other operators, local authorities and transport user groups stated their approval of the proposed contract lengths. The proposed contract length has also taken account of the need to provide GMCA with the flexibility to make changes to the franchising proposition at regular re-procurement intervals, whilst also noting that it is unlikely that contracts over 10 years would be permissible pursuant to UK law.

17.8.9 In response to the first consultation, there were positive responses about the principles of having an appropriately calibrated performance regime, although a number of operators were clear that the performance regime should not include measures outside of the operator's control. TfGM agreed with this principle and intends to manage this directly via the calibration of the performance regime or alternatively by reflecting such factors in the franchise network specification.

17.8.10 Having considered all of the responses to the first consultation in respect of the proposed commercial arrangements, it is considered that the principal challenge from respondents was in respect of the deliverability of the depot strategy in respect of large franchises. Although consultation responses from owners of strategic depots indicate that there is limited appetite to engage in negotiation with GMCA in respect of the potential transfer of depot control, the Assessment describes a number of alternative transitional models that would deliver franchising to the timescales described. In conclusion, it was considered that the proposed commercial proposition, including the impact on competition and the facilitation of cross-boundary services, remains appropriate.

The second consultation

17.8.11 The second consultation asked a single question in respect of the Commercial Case as to whether the respondent has any comments on the conclusion that the commercial arrangements described in the Assessment for franchising and the partnership option remained appropriate, notwithstanding Covid-19.

17.8.12 As reported in Ipsos MORI's March 2021 Consultation Report (Section 9.1), there were almost four times as many positive responses received overall about the Commercial Case than negative comments, the majority of which agreed that the commercial arrangements remained appropriate.

17.8.13 Whilst there were fewer negative than positive responses to this question overall, there was a greater range of negative themes raised. Most participants who left negative comments disagreed with the conclusions and did not feel that the commercial arrangements described in the Assessment for franchising and the partnership option were appropriate, whilst others felt they were no longer relevant or would change in the future. The main areas of additional challenge compared with the first consultation were:

- The impact of Covid-19 on operators' ability to raise capital to invest in new fleet. However, 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 should be sufficient to secure finance for the required investment in franchise fleet. It is also noted that operators in London are continuing to maintain existing orders and place further orders due to the contractual certainty that franchising brings.

- The need to make changes to the network due to ongoing volatility caused by Covid-19. TfGM recognises that there is a greater likelihood that changes may need to be made in the initial years of franchising, and the Covid-19 Impact Report describes the importance to GMCA of flexibility in its implementation, procurement and management of franchise contracts to enable the franchise model to deal with uncertainty, including those created by Covid-19.
- The extent of evidence to support TfGM's conclusion in the Covid-19 Impact Report that franchising will likely be more attractive to the bidding market. TfGM noted that:
    - No operator responses to the second consultation indicated that they would not want to bid for franchises or that their appetite to bid has reduced as a result of Covid-19, and some operators agreed that Covid-19 may increase the appetite.
    - There continue to be significant levels of interest from the market for bus franchise tenders internationally with similar commercial propositions, including from a number of operators present in Greater Manchester.
    - Competition for TfGM service contracts throughout the Covid-19 pandemic does not indicate that bidding appetite has reduced as a result of Covid-19, in fact, interest has increased due to the certainty of revenue associated with these contracts.

17.8.14 In addition, a number of responses to the second consultation commented more directly in response the overall commercial conclusion of the Covid-19 Impact Report that the commercial model remained appropriate. This included:

- Go North West commented that "*this is not a conclusion that Go North West agrees with.*" The reasons given by Go North West, and TfGM's response to each, are contained within the other sections of this Commercial Case response.
- Abellio commented that "*Abellio believes that the commercial arrangements described in the Assessment are appropriate to deliver either a 'Do Minimum' or a 'Do Maximum' Franchising Scheme. Abellio strongly believes that a 'Do Maximum' implementation of the Proposed Franchising Scheme is in the economic and financial interests of the people of Greater Manchester as well as being important to ensure early delivery of the strategic objectives*".
- Trafford Metropolitan Borough Council provided a positive comment that "*we consider the safer option is to stick with existing analysis, noting that all approaches carry with them a degree of uncertainty*."
- Rochdale Metropolitan Borough Council provided a positive comment that "*A franchised model would give the public sector control over standards of service, fares, frequencies and vehicle quality that are key in providing attractive, affordable and effective bus service.*"
- Wigan Metropolitan Borough Council provided a positive comment that "*the Proposed Franchise Model will deliver the 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."

- Manchester Unison provided a positive comment that "*there is no realistic option [alternative] to franchising*."
- Bury Metropolitan Borough Council, Manchester City Council, Oldham Metropolitan Borough Council, Salford City Council and Tameside Metropolitan Borough Council commented that they agree with the conclusion that, notwithstanding Covid-19, the commercial arrangements described in the Assessment for franchising and the partnership option remain appropriate. This was also the view of the Association of British Commuters, Centre for Cities, Manchester Metropolitan University, Oxford Road Corridor, Recovery Republic Community Interest Company, the Trafford Centre and TravelWatch North West.

17.8.15 The Covid-19 Impact Report concluded that there was no material change from the Assessment. Having considered all of the responses to the second consultation, nothing in the period since the Assessment, including the impact of Covid-19, has occurred that has changed TfGM's previous conclusions. It is therefore considered that the proposed commercial proposition remains appropriate.

17.9 Financial Case Conclusion

17.9.1 TfGM have considered the consultation responses in relation to the Financial Case and other related matters from both the first and second consultations.

Responses to the First Consultation

17.9.2 In response to the first consultation, as reported by Ipsos MORI, the majority of members of the public made favourable comments on the conclusion of the Financial Case – 1,377 members of the public made favourable comments, and 476 members of the public made unfavourable comments. The majority (26) of non-statutory consultees also made favourable comments on the Financial Case, whilst 8 non-statutory consultees made unfavourable comments. A minority (8) of statutory consultees made favourable comments, whilst a majority (15) of statutory consultees made unfavourable comments.

17.9.3 A number of concerns were raised in response to the first consultation, principally by incumbent operators, in relation to the income and costs of the Proposed Franchising Scheme both over the transition period and on an ongoing basis. TfGM did not identify any omitted costs on the basis of these comments. However, it should be noted, in relation to employment costs, which represent the most significant ongoing cost, that the Proposed Franchising Scheme did not include provision for a harmonisation upwards of current terms and conditions. Additional capital costs for retrofitting or replacing fleet vehicles to meet environmental standards were not included in the costs of the Proposed Franchising Scheme or any of the options considered in the Assessment. Instead, the Clean Air Zone Outline Business Case included these requirements and GMCA has made clear the requirement for the Government to provide financial support for these proposals.

17.9.4 Some local authorities raised concerns in response to the first consultation over the financial risks of the Proposed Franchising Scheme and the potential impact on the delivery of local priorities; whilst, incumbent operators, for the most part, considered that a partnership option would avoid the transfer of risk to the public sector.

17.9.5 The Assessment acknowledged that, allied to greater control, the Proposed Franchising Scheme would carry greater financial risks than other options, and in the event of a downside scenario, GMCA would retain policy levers to address such risks principally in relation to fares policy, network scale and funding. The proposed funding strategy set out for the first consultation also considered the ongoing sustainability of the Proposed Franchising Scheme during and after transition through the precept requirement which would provide an ongoing source of revenue funding.

17.9.6 Some incumbent operators also raised concerns in response to the first consultation over the ongoing availability and value of public funding from BSOG and concessionary reimbursements. Greater Manchester currently receives approximately £16.1 million of BSOG per annum which, as set out in the Assessment, was assumed to be retained at the current nominal value over the appraisal period under all bus reform options.

17.9.7 The Assessment acknowledged the availability of BSOG from Government is a risk, which, if the risk materialised, TfGM consider would very likely impact all options. As GMCA would face this risk more directly under the Proposed Franchising Scheme, the quantified risk assessment included a risk provision in the event there were an unforeseen reduction in BSOG. However, a reduction in value or withdrawal of this funding over the long term could not be accommodated within the risk provision and would necessitate GMCA undertaking mitigating actions to achieve a balanced budget.

17.9.8 Similar concerns were raised in relation to funding for concessionary reimbursements and that a reduction in the value of this funding compared with the Assessment assumptions would represent a ‘cost’ or loss of Government funding to GMCA. However, TfGM considers that, whilst the English National Concessionary Travel Scheme (ENCTS) is a national mandatory scheme, in practice the risk of variation in concessionary reimbursement costs (and the associated funding) sits locally with GMCA, as the travel concession authority, and with local authorities who provide funding through the statutory contribution.

17.9.9 In relation to proposed funding, the Assessment set out a range of credible funding sources that could fund the additional net costs identified in the Assessment to implement the Proposed Franchising Scheme. GMCA, at its 7 October 2019 meeting, approved, for the purposes of the first consultation, a subset of the credible funding sources identified in the Assessment, for the reasons set out in the report, including that these sources are in the control of local decision-makers.

17.9.10 Under the funding proposal, the local authorities of Greater Manchester would provide a one-off contribution of £17.8 million for the additional costs to implement the Proposed Franchising Scheme. The Mayor’s 2020-21 budget report to GMCA set out the individual local authority shares of the proposed contribution on a proposed population-weighted basis.

17.9.11 Some local authorities, whilst supportive of the Proposed Franchising Scheme more generally, made their support conditional on there being no further funding requirement from authorities after transition.

17.9.12 TfGM consider it relevant to note that, as set out in the Assessment, the value of required public sector funding was forecast to grow in cash terms under all bus reform scenarios; however, the funding proposal approved for the first consultation by GMCA included approximately £12.5 million of forecast cost escalation/indexation in current budgets over the transition period that was forecast to occur under all options, as well as the Do Minimum, and the requirement from the Mayoral precept would provide an ongoing source of revenue funds, providing a level of base funding for forecast escalation in funding beyond the transition period.

17.9.13 A number of consultees commented that it would be desirable if the Government provided additional funding. This was fully acknowledged in the 7 October 2019 report to GMCA and Government subsequently made a number of policy announcements in relation to the funding of bus services, including through the Spending Review 2020.

17.9.14 Whilst the immediate availability of additional Government funding would be welcome, it was not in itself a precondition of the Proposed Franchising Scheme being implemented, as the Assessment set out credible sources of funding that exceeded the transition requirement identified in the Assessment and the GMCA approved a funding proposal for the first consultation that did not rely on additional Government funding and that reflected sources of funding that were in the control of local decision-makers.

17.9.15 Incumbent operators, for the most part, raised a number of concerns in response to the first consultation over the funding proposal and associated matters, including the availability of the identified funding sources; and the appropriateness of using, and the impact on, the Mayoral precept/council tax.

17.9.16 In the context of these concerns, TfGM considers it relevant to note that local sources of funding already make a significant contribution to the funding of bus services (currently up to £86.7 million per annum is funded by the local authorities of Greater Manchester), and this would continue to be the case under all bus reform options, not just the Proposed Franchising Scheme. In relation to the Mayoral precept, it should be noted that the majority of the proposed funding to implement franchising was provided from non-precept sources and that the proposed contribution from local authorities to implement franchising was not anticipated to result in a net impact on local authority budgets over the transition period.

17.9.17 In relation to funding, whilst an element of the identified earn back funding was already retained, the principal risk to the funding strategy, approved by GMCA in October 2019, was the release of the next five-year tranche of earn back covering financial years 2020-21 to 2024-25. The release of this funding was subsequently confirmed by Government and consequently mitigated this risk.

Second consultation

17.9.18 The Covid-19 Impact Report considered the impact of Covid-19 on the Financial Case of the Assessment, taking into consideration the uncertainties that now exist and a range of possible outcomes identified in the Scenarios.

17.9.19 The report identified, in particular, locally controlled options that could mitigate a reduction in farebox revenues over the transition period as a result of the increased uncertainty caused by Covid-19. The locally controlled mitigation options are payment of concessionary reimbursements over the transition period in line with actual rather than pre-Covid journeys; a reduction in transition costs; a reduction in the cost of operating the bus network, and; additional locally-controlled funding sources (Integrated Transport Block and incremental uncommitted earn back funding).

17.9.20 The report also noted that under the Proposed Franchising Scheme, GMCA's financial risk ultimately relates to impacts on net revenues. In relation to affordability risks on an ongoing basis, the report noted GMCA would likely have greater confidence over the impacts of Covid-19, the ability to adapt the network and a planning period to implement mitigations if required to achieve a balanced budget if the Proposed Franchising Scheme were introduced. The report also set out further funding mitigations that could be available after the transition period, including the proposed precept, which would provide an ongoing source of additional revenue funding and uncommitted earn-back funding which could be available up to 2045/46. At its meeting on 27 November 2020, GMCA approved the funding proposal as previously set out for the first consultation and the further mitigations.

17.9.21 Ipsos MORI's March 2021 Consultation Report found that a slight majority of members of the public made negativecomments on the Financial Case: 327 members of the public made unfavourable comments and 300 members of the public made positive comments. Further information on some of the specific comments and points raised responses from members of the public is set out at section 9 of Ipsos MORI's March 2021 Consultation Report.

17.9.22 Ipsos MORI's March 2021 Consultation Report also notes that 13 previous statutory consultees made positive comments on the Financial Case, whilst 12 previous statutory consultees made negativecomments; and 9 other stakeholders made negative comments, whilst 5 other stakeholders made positive comments.

17.9.23 In response to the second consultation, a number of affordability concerns in relation to the Proposed Franchising Scheme were raised. An incumbent operator considered that, despite the mitigations proposed, there was a financial ‘gap’ during the transition period and that ongoing affordability risk had not been adequately addressed. TfGM did not identify any funding gap as a result of these comments and noted in response how ongoing affordability risks had been addressed. It is also important to note that the Covid-19 Impact Report acknowledged that, whilst the mitigations identified could provide significant additional resources and resilience to offset a loss of farebox income, there was still a residual risk (for example, if the most adverse Scenario transpired) which GMCA would need to accept and underwrite with incremental local funding.

17.9.24 Whilst generally supportive of the aims of the Proposed Franchising Scheme, some Greater Manchester local authorities raised concerns or made their support conditional. A concern raised by some authorities related to the proposed network mitigation and that this should be a last resort. It is noted in response that network reduction was only one of the mitigations proposed and that similar choices would likely be faced by deregulated operators.

17.9.25 A further concern raised by some authorities was the impact of proposed precepts on residents, and Bolton Council made its support conditional upon there being no additional financial burden on the local authorities. Similar points were made in response to the first consultation. It is noted that the majority of the proposed funding, including the proposed funding mitigations identified in the Covid-19 Impact Report, are from non-precept sources and that the proposals were not expected to result in a net impact on local authority budgets over the transition period. The Covid-19 Impact Report also proposed to defer the local authorities’ contribution until the end of any transition period in approximately 2025/26, which was approved as part of the funding proposals at GMCA’s November 2020 meeting.

17.9.26 Further concerns raised, particularly by incumbent operators, related to increased uncertainty and viability of the Proposed Franchising Scheme; a lack of detail on the impacts of the proposed mitigations; whether the proposed sources of funding were available and secured; and that there was a lack of consideration of alternative uses of this funding in the context of the financial pressures experienced as a result of Covid-19.

17.9.27 It was acknowledged in the Covid-19 Impact Report that there was and is significantly greater uncertainty as a consequence of Covid-19, which would likely impact all bus reform options, as well as the Do Minimum: this is the reason a scenario-based analysis was undertaken and that, as revenue risks would accrue to GMCA, rather than operators, more directly under the Proposed Franchising Scheme, mitigation options have been considered and previously approved by GMCA.

17.9.28 It is necessarily the case that the identified mitigations are options that GMCA would need to consider in light of prevailing circumstances in the future if the Proposed Franchising Scheme were introduced. Any proposed changes would be subject to due consideration by GMCA/TfGM having regard to the requirement of the public sector equality duty.

17.9.29 It remains the case that the proposed sources of funding, including those sources identified as mitigation options, have not been committed to another purpose and that, whilst significant financial pressures were acknowledged in the Covid-19 Impact Report, it is for GMCA determine if it wishes to prioritise funding for the purposes of bus reform or other alternative uses.

17.9.30 Having considered the responses to the first and second consultations, TfGM considers that it remains the case that in light of Covid-19, there is now significantly greater uncertainty over future bus patronage and related factors. Whilst this uncertainty is not specific to the Proposed Franchising Scheme, and GMCA would still face risks under a Do Minimum or partnership, it would assume financial risks more directly under the Proposed Franchising Scheme. For this reason, it is important that GMCA notes this uncertainty and accepts the potential requirement for proposed mitigation options of the form and scale identified in the Covid-19 Impact Report. If this were the case, TfGM considers this would provide an acceptable balance of risks to achieve GMCA's objectives for bus services.

17.10 Management Case Conclusion

Responses to the First Consultation

17.10.1 In response to the first consultation overall there were more favourable than unfavourable comments on the approach to the transition, implementation and management of the Proposed Franchising Scheme. All responses from statutory and other consultees were reviewed carefully and in detail.

17.10.2 In response to the first consultation of the 183 responses to managing franchised operations under the Proposed Franchising Scheme, 73 provided favourable comments while 56 were unfavourable. Of the 14 statutory consultee responses, 6 were favourable and 5 were unfavourable. Those which were unfavourable were mostly bus operators. There were 62 favourable comments from members of the public with 47 unfavourable. Most of the concerns raised focus on the costs and difficulties associated with securing sufficiently qualified staff for the relevant core and support teams. There were also concerns associated with additional management costs. Comments from bus operators were generally unfavourable and operators agreed that the additional required full-time employees would be costly to attract, recruit and train and would ultimately be not sufficient to cover the necessary responsibilities. The members of the public making unfavourable comments were also concerned with costs, affordability and VfM on the proposed approach. Most of the favourable comments from members of the public where on the opportunity to boost employment and that the Proposed Franchising Scheme would give TfGM / GMCA more authority and control of bus services.

17.10.3 On the approach to the transition and implementation of the Proposed Franchising Scheme in the first consultation, of the 258 comments, 130 were favourable and 81 unfavourable. Around a third of those statutory consultees which provided comments made favourable ones while around half made unfavourable comments. The main concerns were criticism relating to timescales and lack of time built in for evaluating and reviewing progress during the transition. Others expressed similar opinions that the associated costs had been underestimated. The feasibility of the timescales was the main point from unfavourable comments from members of the public. Favourable comments from non- statutory consultees agreed TfGM would be capable of managing franchised operations throughout transition and implementation and favourable comments from members of the public agreed with the approach and accepted there was a level of risk that would be inevitable in such a change.

17.10.4 The Assessment acknowledged the complexity that would be involved during implementation, transition and management of the Proposed Franchising Scheme but also identified sufficient resource and existing capability and processes from which to build on and what was required to be added. Complex areas such as the transfer of staff, staffing requirements, current capability and the need to undertake a wider organisational change have all been planned for and allocated resources. Recognising the complexity of implementation, transition and management of the Proposed Franchising Scheme risk provisions and mitigation plans were included in the Assessment.

17.10.5 In conclusion, for the reasons given, there were no challenges arising from the first consultation that required alterations to the Management Case or would impact the ability to deliver the transition, implementation and management of the Proposed Franchising Scheme as outlined

17.10.6 In the second consultation overall, there were more positive than negative comments on the approach to the transition, implementation and management of either the Proposed Franchising Scheme or a partnership when considering the impact of Covid-19. Of the 342 participants who made comments about the Management Case the majority 222 made positive comments and 87 made negative comments. Of the 14 responses from previous statutory consultees, 8 were positive and 6 were negative. Most of the concerns raised were about detail on how the operating model would be implemented, particularly if Scenario 3 emerged as the recovery scenario and that the complexity of transition and transition risk had been underestimated. There were also challenges around VfM on the transition cost. The above responses address these concerns.

17.10.7 In the second consultation, there are several issues and comments from the first consultation that were re-iterated; however, the conclusions remain as per the first consultation. The issues raised and addressed were:

- Perceived low salaries
- No provision for additional operator on-street resources
- Reducing salaries and terms and conditions to submit lower-cost bids

17.10.8 In summary, GMCA recognises the risks and challenges resulting from the impact of Covid-19 when implementing and transitioning to any of the options. However, GMCA concluded that despite this risk and uncertainty it would be able to manage the transition and manage the Proposed Franchising Scheme or a partnership option.

17.10.9 In conclusion, for the reasons given, there are no challenges arising as a consequence of Covid-19 that require alterations to the Management Case, other than need for a flexible approach to recruiting resource, or would impact the ability to deliver the transition, implementation and management of the Proposed Franchising Scheme as outlined.

17.11 Conclusion on challenges to the audit and assurance processes

17.11.1 During the first and second consultation periods, some consultees made comments relating to the auditor's ("GTs") reports on both the Assessment and the Covid-19 Impact Report.

17.11.2 In the first consultation period challenges were raised by Stagecoach and Rotala including in relation to whether GT had adequately reviewed transition assumptions; their approach to materiality and whether it had justified it's view on the quality of the data.

17.11.3 In the second consultation period a number of challenges were raised by Rotala and Stagecoach and their respective advisors which included that the scope of work required was not clear or adequate; that an assurance framework should have been used to perform the work; questioned whether the review work undertaken supported the conclusions draw; queries about whether there were updated financial models; and the absence of specific comments on funding, affordability and risk, and recommendations.

17.11.4 In conclusion it is not agreed that the respondees have shown either that GT failed to consider anything material or that its opinion was not one that they were reasonably entitled to reach when carrying out their audit of the Assessment. Further, with regard to the criticisms of the approach to the assurance review of the Covid-19 Impact Report made in response during the second consultation period, it is not accepted that a further audit report was required under s123D of the Act, but rather that reliance can be placed on the Covid-19 Impact Report and GT's assurance of it.

17.12 Partnership Plus Conclusion

17.12.1 In preparing its Assessment of a Proposed Franchising Scheme, consideration was given by GMCA on how the Proposed Franchising Scheme would compare with other courses of action. That led to the development of two partnership options. TfGM determined that those discussions had reached a stage in which they could be appropriately compared with the Proposed Franchising Scheme.

17.12.2 The Act and statutory guidance do not provide any specific guidance to how GMCA may consider alternative options which are received during the course of a consultation. However, conscientious consideration must be given to any such response. This section of this report details the work undertaken by TfGM in reviewing the Partnership Plus proposal, which includes consideration of that option against each of the five cases to the Assessment.

17.12.3 TfGM is confident that sufficient consideration has been given to Partnership Plus to come to the view that, overall, it is expected that the proposal would deliver no greater benefits than the Ambitious Partnership modelled in the Assessment. This proposal, therefore, does not impact our overall conclusion in the Assessment of the relative benefits and costs of a partnership and franchising. This conclusion has not changed as a result of Covid-19, and OneBus has now confirmed to TfGM that, due to the current levels of uncertainty, its partnership offer is no longer valid and that it no longer has a detailed partnership proposal to put forward.

17.12.4 Section 17.2 of this report considers whether, in the absence of any detailed partnership proposals from operators at this stage, it would be appropriate to make a decision whether or not to introduce the Proposed Franchising Scheme. At this stage and in response to the second consultation, OneBus commented that a 'recovery partnership' should be considered as a short-term option. This is considered separately at section 13 of this report.

17.13 Stagecoach Partnership Proposal Conclusion

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

17.13.2 The proposals can be summarised as follows:

- Operations & fleet investment – Investment in fleet to deliver a reduction in the average age of Stagecoach's fleet in the South of Greater Manchester to seven years, investment in fleet to deliver Euro VI compliance by September 2021 (subject to funding from Defra), as well as a target to ensure that 45% of Stagecoach's fleet in the South of GM is "*better*" than Euro VI compliant by the same date.
- Network planning & performance – Improved consultation on changes made to services including the provision of additional data on unprofitable routes and the establishment of KPIs including a performance regime. Stagecoach notably also propose to commercialise a portion of the currently subsidised services in the South of Greater Manchester and have calculated that this would represent a saving of approximately £1.8 million to GMCA per annum.
- Customer – Various initiatives to improve customer experience (eleven in total) including a proposed unified brand and a proposed single point of customer contact.
- Fares, Ticketing & Retail – Initiatives aimed at simplifying the fares and ticketing proposition including reducing the number of fare bands to four on its services, the creation a single suite of period tickets for its services in the South of Greater Manchester by January 2021, extending the introduction of carnet ticketing, introducing a flat fare in the evenings and rolling out fare capping on its services in the South of Greater Manchester by the summer of 2021.
- Financial proposals – A proposed profit-sharing mechanism that would split any profit generated by Stagecoach above an agreed "*target level of profit*" between GMCA, a 'South Manchester Partnership Fund' and Stagecoach. The money received by GMCA could be spent across the whole of Greater Manchester on initiatives that benefit the bus user experience and encourage modal shift to bus. Stagecoach proposes that the money in the partnership fund would also be spent on initiatives that benefit the bus user experience and encourage modal shift to bus, with two thirds specifically for reinvestment in the South of Greater Manchester.
- Community & Employee – Stagecoach intends to continue to enhance the role that it plays in the community throughout the duration of the partnership.

17.13.3 Stagecoach anticipated that the partnership would be set up using a VPA, making use of AQPSs on key routes and corridors to enforce certain standards. Stagecoach's intention was that other commercial operators in the South of Greater Manchester may also enter into the South Manchester partnership and confirm that they have received initial support from Arriva. Stagecoach proposed an initial partnership term of 10 years.

17.13.4 The sections set out above analyse the implications of the proposals from the perspective of each of the five cases to understand how likely the proposals are to deliver on GMCA's objectives (Section 11.2 Strategic Implications), whether there is likely to be any economic benefit from Stagecoach's proposals (Section 11.3 Economic Implications), and whether there are any other commercial (Section 11.4 Commercial Implications), financial (Section 11.5 Financial Implications), management (Section 11.6 Management Implications) or legal (Section 11.7 Legal and Other Considerations) issues to consider for GMCA.

17.13.5 Section 11.2 Strategic Implications, above, analyses whether the proposals would have enabled GMCA to achieve the Vision for Bus as part of its Greater Manchester Transport Strategy 2040. The Strategic Implications section finds that overall, whilst Stagecoach intends that its proposal will create a 'seamless' market in Greater Manchester, under the scenario proposed, it would not be possible for GMCA to achieve all of its objectives on simplicity, integration and in a number of other key areas, including network, for Greater Manchester as a whole.

17.13.6 There remains a risk around the longevity of any partnership in South Manchester (one of GMCA's objectives) as the partnership is voluntary in nature. This is an important consideration given that GMCA is seeking to achieve its Greater Manchester Transport Strategy 2040.

17.13.7 In respect of a franchise scheme in the North, there is also the fact that, as explained at section 11.7 Legal and Other Considerations above, the need to assess a new franchise scheme covering the North (alongside assessing a partnership in the South) of Manchester and follow all relevant statutory procedures will inevitably result in delay to the introduction of any franchise scheme, and delivery of the associated benefits, in the North. Therefore, while potentially accelerating the introduction of some initiatives in the South, there would be a delay to when any franchise scheme in the North of Greater Manchester could be delivered.

17.13.8 The implications of the proposals from a commercial perspective are considered at section 11.4 Commercial Implications above. The Commercial Implications section explained that whilst Stagecoach's proposals would result in a combination of two options already considered in the Assessment, the proposal would mean allowing two different regulatory frameworks for the bus network in Greater Manchester and this would lead to some complications (particularly for services at the boundary between the North and South of Greater Manchester) and potential inefficiencies in managing the network. This means that, as Section 11.6 Management Implications explains, whilst the incremental operating costs of operating a partnership alongside a franchising scheme could be less than operating the Proposed Franchising Scheme, it is likely that the overall scenario would be less efficient to manage, as TfGM would be effectively monitoring the bus network in Greater Manchester under two different regulatory frameworks.

17.13.9 The impact on affordability for TfGM is considered at section 11.5 Financial Implications. The Financial Implications section analyses how the overall funding requirement would be likely to change and finds that it would not reduce in proportion to the scaled down revenues and costs in a franchised area, as there would be costs to manage the partnership. It is also worth noting that as Stagecoach is commercially the most successful and profitable operator in Greater Manchester, there is a risk that the revised franchised area would be commercially weaker and require additional ongoing funding as a result.

17.13.10 Section 11.3 Economic Implications concludes that there would likely be significantly lower benefits associated with Stagecoach's proposal when compared with the Proposed Franchising Scheme (partly due to some of the strategic issues noted at section 11.2 Strategic Implications). Combined with costs that are likely to be proportionally higher for the partnership and franchise areas (compared with when introducing either of these proposals across the whole of Greater Manchester on their own), Section 11.3 Economic Implication concludes that the NPV and BCR of both networks under Stagecoach's proposal are likely to be substantially lower than the Proposed Franchising Scheme. The NPV may even be lower than the Ambitious Partnership option, as Stagecoach's proposal would not result in the existing premium between the individual and multi-operator tickets being reduced, as was assumed possible.

17.13.11 Overall, given that GMCA would not be able to achieve its objectives as set out in the Assessment under Stagecoach's proposal to have a partnership in the South and a franchising scheme in the North of Manchester, the conclusion that the proposal would deliver an NPV that is likely to be substantially lower than the Proposed Franchising Scheme and the other matters referred to above, the conclusion in the Assessment that the Proposed Franchising Scheme is the best option for reform of the bus market remains valid in comparison to Stagecoach's proposal.

17.13.12 This conclusion has not changed in light of Covid-19. As set out at section 11.8, Stagecoach's proposed partnership was reviewed again in the context of Covid-19 and the changes that has had on the bus market in GM. Stagecoach has confirmed that it would like to develop a long-term proposal, but that it is not in a position to "*offer a fully developed alternative*", given the passenger demand uncertainty and the wider economic impact both locally and nationally in light of Covid-19 which is such in its view that developing any reliable partnership is impossible at this time.

17.13.13 Stagecoach has also suggested that, once restrictions start to be lifted and passenger demand and wider behaviour starts to reset, local authorities, central government and bus operators should collaborate and deliver an interim 'recovery partnership' as a bridge to a situation when central government funding is no longer required and the future environment is clearer. This is considered separately at section 13 of this report and, in the context of whether, in absence of any detailed partnership proposals from operators at this stage, it would be appropriate to make a decision whether or not to introduce the Proposed Franchising Scheme at section 17.2.

17.14 First's Partnership Proposal Conclusion

17.14.1 This section of this report details the work undertaken by TfGM in reviewing First's proposal to introduce a pilot LP in Oldham. There remains a risk around the longevity of any intervention given that the partnership is voluntary in nature and is currently being proposed to be run on a trial period, initially for a five-year term with a review of performance after three years. There was little detail provided on each of the proposals, and no further detail was provided by First as part of its response to the second consultation, although First reiterated that they believe that it "*remains the best option going forward*".

17.14.2 In broad terms, there were a handful of commitments contained within this proposal that did not feature in Partnership Plus, such as the additional fleet investment of 22 vehicles per year, the time-limited emergency tender fund and the localised livery. However, given there are also a number of Partnership Plus commitments that were not present in the First proposal, and the ability for Partnership Plus to be applied across the whole of Greater Manchester, providing a greater opportunity for the objectives being met, it is concluded that First's proposal would not provide any greater benefits than Partnership Plus. There is also uncertainty about extending the pilot across Greater Manchester, should it be successful in Oldham, given that it has not been tested with any other operators.

17.14.3 TfGM is confident that sufficient consideration has been given to First's pilot LP proposal to come to the view that overall it is likely that the proposal would deliver (when implemented in parallel with any new franchising or similar scheme being piloted in another area of Greater Manchester), no greater benefits than the Partnership Plus proposal operating across the whole of Greater Manchester and significantly less benefits than the Ambitious Partnership modelled in the Assessment. This conclusion has not changed as a result of Covid-19.

17.15 'Recovery Partnership' Conclusion

17.15.1 To date, the Department for Transport's National Bus Strategy, which is expected to set out a roadmap for bus recovery post-CBSSG, has not yet been released. It is also currently unknown what this will say in regard to 'recovery partnerships' or similar.

17.15.2 TfGM has engaged with OneBus to understand its proposals in relation to 'recovery partnership' in more detail. Those discussions have clarified that interim arrangements involving a coordinated local response are required to help the local bus network in Greater Manchester to transition from the current arrangements based on CBSSG-R.

17.15.3 TfGM agrees that interim arrangements are required to help the local bus network in Greater Manchester to transition from the current arrangements based on CBSSG-R. TfGM and OneBus also discussed and agreed that any such 'recovery partnership' would not be an alternative to a long-term arrangement such as the Proposed Franchising Scheme, and would instead aid the short- to medium-term recovery of the market.

17.15.4 To this end, TfGM agrees that a coordinated local response is critical. Throughout the Covid-19 pandemic, TfGM has worked closely with bus operators and would expect this to continue as the network recovers. Some of this dialogue has already commenced and will be further developed when there is greater level of clarity from the Department for Transport of the arrangements to follow CBSSG-R.

17.16 Go North West alternative three-stage proposal Conclusion

17.16.1 TfGM has considered Go North West's alternative three-stage proposal, and has engaged with Go North West to understand its proposal in more detail. Those discussions have clarified how it is important that operators continue to have access to additional funding whilst restrictions are eased and the market recovers from Covid-19.

17.16.2 TfGM and Go North West also discussed the benefits of direct awards and whilst it is accepted that directly awarding franchise contracts during transition would assist with mitigating some of the risks of transition to the Proposed Franchising Scheme, TfGM does not believe that GMCA would be able to use the exceptions under regulation 50 of the Utilities Contract Regulations 2016 to direct award all of the franchise contracts during transition as proposed by Go North West.

17.16.3 However, as set out as sections 13.3.3, TfGM agrees that interim arrangements are required to help the local bus network in Greater Manchester to transition from the current arrangements based on CBSSG-R.

17.17 EQIA Response Themes Conclusion

17.17.1 As considered above, there are no aspects of the EqIA which would require significant changes at this stage. This means that the revised form of EqIA published following the second consultation is not materially different to the EqIA published for the purposes of the first consultation.

17.17.2 Several useful points were raised during the consultations, which has also provided additional insight into the concerns of passengers. These points and concerns have been considered, as detailed above and nothing has emerged which would alter the EqIA or call into question the benefits of the Proposed Franchising Scheme.

17.17.3 The importance of accessibility was emphasised in several responses to the first consultation, including the University of Manchester Students' Union, who suggested driver training, audio cues at bus stops and a second door on buses as ways of improving accessibility. Additionally, Greater Manchester Disabled People's Panel identified 11 priorities for bus travel by disabled people, including audio-visual real-time information at stops and on buses, improved signage and driver training.

17.17.4 The Bus Services Act gives the Secretary of State for Transport the power to create, "*for the purpose of facilitating travel by disabled persons*" regulations governing the standards of information provided by bus operators, including audio-visual announcements. Following a public consultation on this by the Department of Transport in the summer of 2018, it had been expected that these regulations would be made in 2019. Although the regulations have yet to be made, it is expected that they will be in due course and that thereafter those operating bus services will be required to provide information on-board buses in compliance with those regulations. It is anticipated that these measures would improve the accessibility of buses for those with physical disabilities and those with communication or sensory impairments.

17.17.5 As stated above, GMCA recognise any future proposed changes would be subject to due consideration by GMCA/TfGM of the public sector equality duty and the impact on those with protected characteristics, and they would be analysed in further EqIAs as required.

17.17.6 Following a review of the responses to the consultations, it is not anticipated that the Proposed Franchising Scheme would have any adverse impacts on those with protected characteristics and there would be positive impacts of varying degrees on certain groups. The EqIA has been updated to reflect comments from both consultations. A full Equality Impact Assessment is not required as no adverse impacts have been identified within the screening process.

17.18 The Proposed Franchising Scheme: Legal and other considerations Conclusion

17.18.1 This section has considered the responses to both consultations that related to the Proposed Franchising Scheme. This was done by reviewing the replies to the questions on the Proposed Franchising Scheme (see Section 16.2) and by reviewing some other substantive points that were raised by consultees outside of questions included in the consultation document (see Sections 16.4 to 16.6). This included the responses from OneBus and the incumbent operators, who during both consultations opposed the introduction of the Proposed Franchising Scheme and challenged the legal process undertaken by GMCA, as well as saying that the Proposed Franchising Scheme would have a disproportionate impact on its business and A1P1 rights.

17.18.2 In general, there was a lot of support for all aspects of the Proposed Franchising Scheme from both statutory consultees and others. Section 13.2 above looks at some of the unfavourable comments and suggestions put forward by consultees and considers whether any aspect of the Proposed Franchising Scheme should be modified. For example, some consultees thought that the Proposed Franchising Scheme should not apply to the entirety of Greater Manchester and should instead apply to a smaller area; however, in order to meet GMCA's objectives and to reduce any consequences from having competing models within Greater Manchester, it is important that any intervention applies consistently across the entirety of Greater Manchester.

17.18.3 Go North West and First also suggested during the first consultation that the Proposed Franchising Scheme should effectively be trialled in a smaller area first. First reiterated that suggestion during the second consultation however for similar reasons as set out above, it was not considered appropriate to propose that the Proposed Franchising Scheme should be introduced on a trial basis only.

17.18.4 During both consultations Go North West commented on the proposed Sub-Areas in the Proposed Franchising Scheme and that they would cause problems for cross-boundary services. The Proposed Franchising Scheme included a map which illustrates these Sub-Areas. It is proposed to amend the Proposed Franchising Scheme, however, to specify that the map in Annex 5 is for illustrative purposes only and that the map that defines the Sub-Areas is a larger scale version in which the boundaries are more clearly delineated that will be deposited at TfGM's offices. It is also proposed that the list of services in the Proposed Franchising Scheme is updated to ensure that they reflect the existing services and to ensure that they are appropriately classified in the scheme.

17.18.5 Many consultees commented that the proposed timescales for introducing franchising and the proposed nine-month mobilisation period in the Proposed Franchising Scheme were unrealistic. Those issues were considered in the Commercial Case at sections 6.9.7 to 6.9.69. This section did consider the responses to the question on the proposed date for making the Proposed Franchising Scheme and as set out above at section 16.2; if a decision was taken to introduce the Proposed Franchising Scheme, it is proposed that dates are inserted consistent with the timing of that decision.

17.18.6 During the first consultation, some consultees also commented on GMCA's plans for consulting on how well the Proposed Franchising Scheme is working and suggested that GMCA should consult sooner than originally proposed. It was found that consulting sooner would have benefits. After the first consultation the Proposed Franchising Scheme was modified for the purpose of the second consultation to provide that GMCA would consult sooner and in particular, within 12 months of franchising being operational in all sub-areas.

It is recommended that such modification should be made. During both consultations some consultees commented that certain groups should be specifically mentioned in the Proposed Franchising Scheme. Whilst there may be benefits in consulting those groups, it would be for GMCA to decide at the time of any such consultation who it would be appropriate to consult. As the choice of such groups may change it would not be appropriate to specify them in the Proposed Franchising Scheme now.

17.18.7 As well as these questions, some consultees, mainly OneBus and some of the incumbent operators who opposed the Proposed Franchising Scheme, made comments about the process undertaken by GMCA so far. They claimed that there were flaws in the Assessment, in the audit and in the consultation process. They also commented on the process undertaken by TfGM in preparing the Covid-19 Impact Report and by the auditor in reviewing the same. These claims are considered in detail at section 9 above. Having carefully considered the consultation responses and having undertaken its own detailed assessment of the lawfulness, propriety and reasonableness of the procedural matters discussed, TfGM is confident that the criticisms addressed by consultees are not well founded.

17.18.8 Consideration was also given to the potential impacts of the options and how the Proposed Franchising Scheme may impact on operators. Some commented that the Proposed Franchising Scheme would result in a significant change in how the market operates and that it could lead to operators having stranded assets (such as depots and vehicles) and/or outstanding pension liabilities. Consideration of these issues and the potential mechanisms proposed by GMCA to reduce some of these issues, such as through the proposed RV mechanism and by GMCA proposing to acquire strategic depots from operators, have been given.

17.18.9 Stagecoach's consultation response also made the case that the Proposed Franchising Scheme would impact on its property (or A1P1) rights and that it would be a disproportionate intervention by GMCA. Detailed consideration of this issue was given between Sections 16.6.59 to 16.6.78 and TfGM has set out its understanding of this particular issue to inform GMCA's determination on it when it makes its final decision.

17.18.10 It is recommended that, if the Proposed Franchising Scheme is made, the draft included in the second consultation should be modified to define the Sub-Areas by reference to a deposited map and to adjust the Annexes as explained and for the reasons given above. Although the Mayor has always been the person who has to decide whether or not to make a franchising scheme, the draft need also to be amended so that any scheme is made by him on behalf of the GMCA (as that is a function under section 123H of the Act exercisable only by him given article 4 of, and paragraph 3(i) of Schedule 1 to, the GMCA (Functions and Amendments) Order 2019).

17.19 Overall TfGM Conclusion and recommendation

Comments on the Assessment

17.19.1 During the first consultation, whilst there was support for the Proposed Franchising Scheme from the majority of public and statutory respondents, there was also some opposition and challenge to TfGM's analysis in the Assessment. Those who opposed the Proposed Franchising Scheme, principally the incumbent bus operators in Greater Manchester, set out some challenges to the analysis. This was done in three broad areas – challenging the case for change and the conclusion that the Proposed Franchising Scheme would best fit GMCA's objectives; the economic and financial forecasts showing that the Proposed Franchising Scheme represented good VfM and was affordable; and the commercial and management arrangements showing that GMCA would be able to successfully implement the Proposed Franchising Scheme in the timescales proposed.

17.19.2 During the second consultation, there was again support for the decision to implement the Proposed Franchising Scheme and to take the decision to do so now, despite the uncertainty created by the Covid-19 pandemic. Some incumbent operators challenged the basis of the analysis presented in the Covid-19 Impact Report, particularly the approach taken to look at the future in terms of different potential scenarios, and to test the conclusions of the Assessment in the light of those. They criticised how the Scenarios were created and the subsequent analysis that was based on them. They suggested it was not a sufficiently secure basis to make a decision. They also argued that the future was too uncertain to take a decision to implement the Scheme now, and that this should be postponed until more and better analysis of the market could be undertaken.

The scenario approach

17.19.3 Whilst some operators criticised the scenario approach taken by TfGM, a number of points should be noted. Whilst there was criticism of how the projections of patronage were arrived at, no operator suggested a wider specific range of potential outcomes. Indeed, scenarios used by operators themselves, and other organisations held up as positive examples (Transport for London and Transport for the North) were considerably more optimistic. The Scenarios used by TfGM provide a sufficiently rigorous basis for testing the validity of the conclusions reached on the Proposed Franchising Scheme in the Assessment under a wide range of different potential circumstances.

The case for change

17.19.4 The operators raised concerns in their responses to the first consultation about the analysis presented in the Assessment on the challenges facing the bus market. They considered that too little emphasis had been placed on congestion and Metrolink as causes of the decline in bus patronage, and hence too much emphasis had been placed on the problems of network inefficiency and complex fares and ticketing (issues that franchising would address). The Strategic Case in the Assessment acknowledges and analyses the effects of congestion and sets out how further 'Phase 2' interventions could address it. The Assessment also sets out the impact that Metrolink and other exogenous factors have on bus patronage. Considering the responses to the consultation, TfGM remains confident in the analysis of congestion presented. Whilst there are undoubtedly external reasons that have impacted bus patronage, this does not mean reform of the bus market should not be pursued.

17.19.5 Overall, there was support for GMCA's objectives in both consultations. There was some disagreement with the analysis of the areas in which the Proposed Franchising Scheme is likely to perform better than the alternatives. On the network, some operators argued that franchising would not enable the network to be improved significantly, although they did not present any counterargument to the key point that planning one integrated network as opposed to a set of competing, separately planned networks could bring significant advantages. Some operators disagreed with the idea of simplifying ticketing and said that the proposition that period tickets should give access to all buses was not necessarily advantageous to passengers. However, other responses and the evidence presented in the Assessment and its supporting documents makes a convincing case that simplifying ticketing in the way described in the Assessment would be of advantage to passengers. Operators also argued either that a single brand was not as advantageous as claimed, or that a partnership could deliver its key aspects – such as a similar livery for buses. However, TfGM remains of the view that the unifying the bus network under one brand with simplified ticketing and sources of information and clear accountability enhances confidence in the network for both current and potential passengers.

17.19.6 In the second consultation, some incumbent operators argued that the challenges facing the bus market had changed and that this meant GMCA's objectives were no longer valid. They argued that instead of the Proposed Franchising Scheme GMCA should focus on recovery and the potential for 'recovery partnerships'. GMCA in January 2021 re-issued its Local Transport Strategy and adopted the delivery plan associated with it. This Strategy included the same Vision for Bus as previously, and, while the context has changed, the importance of the objectives in terms of the network, fares, customer service and VfM remain. These are the aspects of the service that will need to be focused on to also assist recovery.

17.19.7 Concerns were also raised by some operators and some neighbouring authorities in terms of the potential effects on cross-boundary services. The statutory tests that would be necessary to grant a service permit mean that some services – albeit a small proportion – might require some conditions to be placed upon them. This could mean operators ceasing to operate them on a commercial basis. This report sets out how GMCA could work with neighbouring authorities using existing powers to replace services and ensure that passengers did not lose out.

17.19.8 Considering points made by incumbent operators and others, TfGM considers that the Proposed Franchising Scheme will provide considerable benefits and that its advantages as set out in the Assessment for passengers are substantial. Looking at the performance of the different options in the light of the different scenarios consequent on the Covid-19 pandemic showed that the Proposed Franchising Scheme remains more likely to achieve GMCA's objectives for the bus network than the alternatives.

Economic and financial forecasts

17.19.9 The economic and financial analysis presented in the Assessment was based upon a modelling exercise that created a baseline for the bus market and tested the effect of different interventions. A report from Jacobs was commissioned by OneBus that detailed some criticisms of this analysis that in some cases were repeated, or added to, by some of the incumbent operators. This report details how these points are either misplaced or would not affect the conclusions drawn about the VfM or affordability of the Proposed Franchising Scheme.

17.19.10 Forecasting by its very nature involves a large number of assumptions that feed into the outputs that are produced and there are different levels of confidence for each of them. Thus, it is recognised, for instance, that the evidence-base for the specific values placed on unifying the bus service in Greater Manchester under a single brand is not deep or broad. However, the discussion set out in the response shows that TfGM is confident in the outputs that show the Proposed Franchising Scheme to be better VfM than the alternatives. It is also the case that TfGM is confident that the Proposed Franchising Scheme is affordable for GMCA given the flexibility in how it may be implemented and the mitigations available if necessary.

17.19.11 The effect of Covid-19 is to increase the uncertainty about the future and therefore the economic and financial forecasts. Conclusions on VfM and affordability were examined in the light of different scenarios, including the pessimistic 'Scenario 3' that sees patronage drop to 25% of its previous levels. Under three of the four scenarios, the Proposed Franchising Scheme remains VfM in terms of the monetised benefits and costs – but this would be in doubt if the outcome for the market was more like Scenario 3. As mentioned, the Proposed Franchising Scheme would remain affordable under the different scenarios, but mitigations necessary under Scenario 3, would potentially see changes to fares and the network that could harm passengers. This would be the case under any market model in such circumstances including the current deregulated market – and in that instance there would be pressure for GMCA to intervene and spend public money to support the bus service, as has been done in during the Covid-19 pandemic.

Implementing the Proposed Franchising Scheme

17.19.12 A number of respondents to the first consultation suggested changes to the commercial model for implementing franchising, for instance in terms of the ownership of assets, the size or length of franchise packages. Although these have been reviewed in detail, TfGM is still confident that the commercial approach proposed will best meet the objectives of achieving strong competition and VfM. However, ongoing engagement with the market will continue as any procurement activity commences and refinement of the detail will continue based on feedback.

17.19.13 The main objections from incumbent operators during the first consultation concerned the proposal that GMCA should acquire the strategic bus depots. Some operators said that they would not cooperate with GMCA in the voluntary sale of the depots, despite the fact that this would mitigate one of the largest potential impacts of the Proposed Franchising Scheme on them if they did not win a relevant local service contract. Given that, TfGM considers that it is not unreasonable in the circumstances to proceed on the basis that depots could be purchased voluntarily from operators. But in any event, GMCA has alternative proposals (most of which were not commented on) to provide alternative depots if needed. It is considered that depot ownership will support enduring competition and lower barriers to entry, a point endorsed by the CMA. None of the feedback received has led to any changes being proposed to how the Proposed Franchising Scheme should work.

17.19.14 Some incumbent operators thought that the cost and timescales for implementation of the Proposed Franchising Scheme were unrealistic, as they doubted the capability of TfGM (who would be charged with managing the Proposed Franchising Scheme). Incumbent operators stated that the assessed costs of TfGM for the partnership proposals were too high and that the implementation of franchising would take longer and cost more – for instance because of the difficulty of purchasing depots. There are uncertainties in the implementation process, and, if operators were to choose not to cooperate, that would make the process more difficult. However, the response sets out that the original assumptions were reliable, that the plans for implementation were capable of being implemented and are capable of being modified should that be necessary.

17.19.15 In response to the second consultation, some operators argued that the Covid-19 pandemic would make the transition more difficult, although one (Abellio) suggested it made a more logical 'jumping off point' as there were similarities in terms of the public support for the network and the lack of competition. Whilst uncertainty due to Covid-19 will affect the implementation and greater attention will need to be paid to some risks (such as operators withdrawing services early), it would not make the process fundamentally different in character or so risky as to be a barrier.

17.19.16 TfGM recognise the need to change its organisation to deal with the challenge of running a franchised bus operation. Whilst some services are currently contracted by TfGM, that capability would need to be augmented and extended to allow the running of a network covering the whole of Greater Manchester. This is explained in the Assessment. The critiques offered of the capability of TfGM do not contain any persuasive evidence or reasons why the organisation would not be able to implement and manage the Proposed Franchising Scheme.

Alternatives to franchising

17.19.17 In terms of alternatives to the Proposed Franchising Scheme, during the first consultation incumbent operators in Greater Manchester argued that the Operator Proposed Partnership had not been given sufficient credit in the Assessment and they put forward new partnership proposals additional to those considered in the Assessment. They also suggested that measures to reduce congestion should be put in place, alongside partnership, in preference to the Proposed Franchising Scheme. These would rely on using the transition funding that GMCA had approved in October 2019 for the Proposed Franchising Scheme.

17.19.18 Two substantive proposals were put forward during the first consultation – firstly by OneBus, following discussions with TfGM between October 2017 and June of 2019, which was called Partnership Plus and was claimed to add further commitments to the Operator Proposed Partnership. Secondly, Stagecoach put forward a proposal that a partnership with them as majority operator in the South of Greater Manchester could be combined with a franchising scheme in the North. Consideration was also given to a proposal by First for a local partnership in Oldham and consideration of that proposal is set out further at section 12.

17.19.19 During the second consultation, OneBus and Stagecoach both effectively confirmed that the proposals they had put forward during the first consultation were no longer valid. This was because of the uncertainty caused by Covid-19 on the bus market. Instead, operators said that no decision should be taken to make the Proposed Franchising Scheme until there is more certainty in the market and when they are able to put forward detailed partnership proposals. In addition to this, some operators commented that GMCA should instead consider 'recovery partnerships' to assist with the recovery of the market and to ensure that they are able to access any continued Government funding which may be announced. During clarification meetings with TfGM the operators agreed that any such 'recovery partnership' would not be an alternative to a long-term arrangement such as the Proposed Franchising Scheme, and would instead aid the short- to medium-term recovery of the market.

17.19.20 Notwithstanding the fact that operators have not been able to propose any detailed partnership proposals at this time, the analysis of the partnership proposals in the Assessment showed that in themselves, they did not achieve comparable benefits to the Proposed Franchising Scheme, and the proposals put forward by operators during the first consultation did not perform significantly better. The first consultation showed support for a reinvigorated bus offer in Greater Manchester, with many looking to see bus journey times improved alongside (not as an alternative to) the Proposed Franchising Scheme. Measures to address congestion are part of GMCA's transport policy, whether the market is franchised or continues to be deregulated, as is set out in the Delivery Plan for the Greater Manchester Transport Strategy 2040 published in 2021. The Proposed Franchising Scheme would enable a broader range of further measures to be undertaken and with better value for money than would be possible in the current, deregulated, market.

17.19.21 Incumbent operators, as well as some local authorities, raised the point during both consultations that greater costs and risks would be borne by GMCA if the Proposed Franchising Scheme were implemented. In the second consultation, operators pointed to more straightened public finances as a result of Covid-19. Whilst there was endorsement of the approach to risk analysis performed (even from opponents of the Proposed Franchising Scheme) it remains the case that the Proposed Franchising Scheme entails a transfer of revenue risk to the public authorities in Greater Manchester, as well as a significant transition cost in the early years of the scheme. The future direction of the bus market and travel is by its nature uncertain, and the Covid-19 pandemic has increased the uncertainty in terms of patronage and revenue that would be available to support the service. GMCA would thus have revenue risk and the responsibility for determining how the bus market in Greater Manchester should respond to pressures of costs or reduced patronage if franchising is introduced. Whilst the uncertainty caused by Covid-19 is not specific to the Proposed Franchising Scheme, and GMCA would still face risks under a Do Minimum or partnership, it would assume financial risks more directly under the Proposed Franchising Scheme. For this reason, it is important that GMCA notes this uncertainty and accepts the potential requirement for proposed mitigation options of the form and scale identified in the Covid-19 Impact Report. More broadly, GMCA and its constituent authorities will bear the risks of the bus system in Greater Manchester and responsibility for ensuring that economic growth is not impeded by a weaker transport system.

17.19.22 GMCA, as set out in the Assessment, has approved funding for the Proposed Franchising Scheme, but it should be recognised that development of the bus network should not be achieved at the expense of other competing costs faced by fiscally constrained local authorities. GMCA should continue to engage with central Government to establish sustainable funding propositions to support network growth and increased bus use, including the use of 'recovery partnerships' or whatever structure DfT wish to put around further funding for the recovery of the bus network. Whilst progress on some key issues such as clean air will require some further investment, it is concluded that the Proposed Franchising Scheme is affordable and offers a stronger basis for investment of public money into a broader range of measures and better VfM than the alternatives for bus reform, and this remains the case despite the uncertainty created by the Covid-19 pandemic.

17.19.23 There are reasons to take the decision now. Further delay would postpone the structural reform of the bus market in accordance with the GMCA's strategic policies which is required to best meet the challenges it faces in any event and it would reduce the GMCA's ability to help recovery. A 'recovery partnership' type arrangement would be pursued irrespective of the decision on the Proposed Franchising Scheme, but the long-term recovery of the bus market in Greater Manchester would be best served by a 'recovery partnership' followed by the implementation of the Proposed Franchising Scheme. On balance it considered that the disadvantages of further delay outweigh its possible advantages in terms of gaining further information, whether by use of the DfT guidance once published or from an offer of a new, longer term partnership (especially as there is no reason to believe that this would outperform the previous proposals).

Recommendation

17.19.24 Considering the analysis in the Assessment and the responses to the two consultations held, it is concluded that the Proposed Franchising Scheme offers the best opportunity to achieve GMCA's objectives and to drive further improvements to the bus service and to the wider public transport system in Greater Manchester. Although it is likely to interfere with the peaceful enjoyment of the possessions of those operating bus services in Greater Manchester without compensation, it is considered that making the Proposed Franchising Scheme is in the public interest and that it is in all the circumstances nonetheless justified. It is therefore proposed that the Proposed Franchising Scheme should be made as consulted upon, subject to the use of a more detailed map, the services identified being updated (as explained in sections 6.9.53 and 16.2.45 of this Report respectively) and it being made clear that it is for the Mayor to make the Proposed Franchising Scheme on behalf of the GMCA.

18. Appendix 1

18.1 Consultees

18.1.1 Section 123E(4) of the Act lists categories of organisations and individuals with whom GMCA was required to consult.

18.1.2 These group are outlined below:

- **All bus operators running local services in Greater Manchester**. TfGM records identified 66 bus operators in this group.
- **All other persons holding a PSV operator's licence or community bus permit who would be affected by the proposed scheme**.
- **Such persons who appear to represent employees of bus operators running local services in Greater Manchester**. GMCA and TfGM identified nine bodies and contacted the General Secretary for each.
- **Such organisations appearing to represent bus passengers.** Transport Focus are specified below; GMCA and TfGM identified two further organisations as appearing to fall within this category – Travel Watch North West and Bus Users UK.
- **A Traffic Commissioner.** GMCA and TfGM identified the Traffic Commissioner for the North West and Wales as the relevant consultee.
- **The Chief Constable of Greater Manchester Police**.
- **The Passengers' Council** (which is now known as Transport Focus).
- **The Competition and Markets Authority (CMA)**.
- **Any other relevant local authority whose area would be affected by the proposed scheme.** In addition to the 10 Greater Manchester Councils, GMCA and TfGM sought to identify all local authorities who may be affected by the proposed franchising scheme. This includes neighbouring local authorities where local services operate in and out of Greater Manchester. 23 neighbouring local authorities were identified across Lancashire, Merseyside, Cheshire, Derbyshire and West Yorkshire.