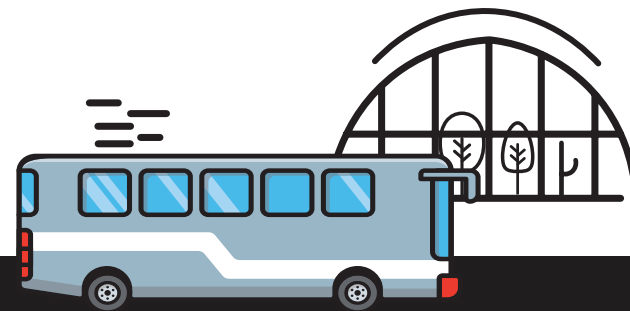
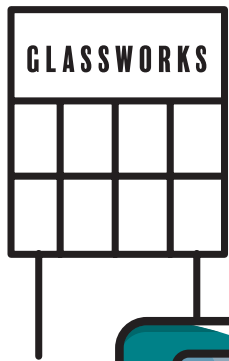


**HAVE
YOUR SAY
ON TAKING
BACK CONTROL
OF OUR
BUSES**



SYMCA Bus Franchising Consultation Summary

Take part at southyorkshire-ca.gov.uk/bus-reform

The deadline for responses is 11.59pm on 15 January 2025.

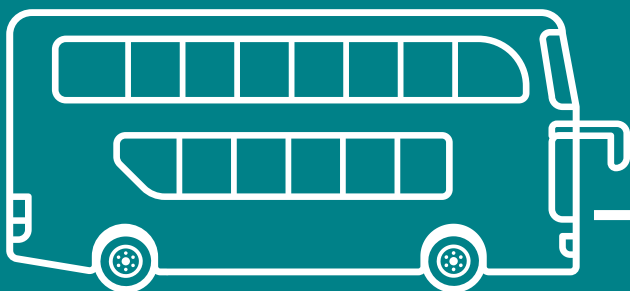
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2 — Executive Summary



2 Executive Summary

2.1 Why are we consulting?

The South Yorkshire Mayoral Combined Authority (“the MCA”) is made up of the Mayor of South Yorkshire (“the Mayor”) and the four South Yorkshire local authorities of Barnsley, Doncaster, Rotherham and Sheffield. It is responsible for economic development, transport and regeneration in South Yorkshire.

The Mayor and the MCA recognise the importance of bus services to everyday life. A Bus Service Improvement Plan (BSIP) was developed in 2021 for South Yorkshire and the MCA has set out its strategic objectives to improve the way bus services are run including:

- increasing the coverage and connectivity of the bus network across the region;
- improving the punctuality and reliability;
- drive environmental sustainability;
- ensuring value for money and affordability; and
- supporting the most vulnerable

Bus services have been in decline across South Yorkshire. Some of the indicators of this are:

- the size of the bus network in South Yorkshire has declined from 43 million miles in 2006/7 to 20 million miles in 2024/25;
- only around 80-85% of buses arrive on time; and
- over 60% of people were dissatisfied or very dissatisfied with bus reliability across South Yorkshire.

There is no easy solution to delivering better bus services, but the Mayor and the MCA wish to see bus services improve over time. The MCA commissioned an assessment of the bus operating options against the strategic objectives and that assessment concluded that bus Franchising is the model that would best deliver against those objectives. Under bus Franchising, the MCA would take control of how buses are run; owning the depots and bus fleets. It will give them the power to decide bus routes, timetables, quality standards, ticket options, cost of fares, how to improve the reliability of the bus network, and how buses, trams and trains can connect with each other. The MCA therefore wish to proceed to implement the Proposed Bus Franchising Scheme set out in this consultation and now wants to hear your views on that proposal.

The MCA would like to hear views on the proposals from people, organisations and businesses across the region. The questions we are asking in the consultation are summarised in **Appendix A**.

The consultation runs from 09:00 on Wednesday 23 October 2024 to Wednesday 15 January 2025 and all consultation responses must be received by 23:59 on 15 January 2025.

2.2 What does this consultation cover?

The MCA has been considering whether there are better ways of delivering bus services in South Yorkshire (“Bus Reform”). Presently, bus services are mostly designed, planned and delivered by private sector bus operators including the routes, timetables, fares and tickets. The MCA is allowed to consider alternative ways to provide these services, one of which is by Franchising bus services (“Bus Franchising”). This is where the MCA designs and plans

bus services including the routes, timetables, fares and tickets. The delivery of bus services is then contracted out to the private sector.

The MCA has developed a Bus Franchising proposal (“Proposed Bus Franchising Scheme”) and has had that proposal assessed and independently reviewed/audited. The consultation document provides:

- **Section 2: An Executive Summary** – including the background to Bus Reform and the different options.
- **Section 3: An overview of the Proposed Bus Franchising Scheme** which incorporates the bus routes and services that are included (with a full list provided in **Appendix B**).
- **Section 4: A summary of the assessment of the Proposed Bus Franchising Scheme (“the Assessment”)** and alternative options of Enhanced Partnership (“EP”) and Enhanced Partnership Plus (“EP Plus”). This outlines why the Proposed Bus Franchising Scheme was chosen as the preferred option for the MCA to deliver its objectives to improve bus services in the region.

2.3 How to participate in the consultation

2.3.1 Who can take part?

The consultation is open to all members of the public, businesses and organisations. You do not need to live in South Yorkshire to take part.

All responses from members of the public will remain anonymous. Responses from organisations may be published. Please read the privacy notice at www.djsresearch.co.uk/dataprotection

2.3.2 How to respond to the consultation

You can respond in the following ways:

- Our preferred option: Complete and submit a questionnaire at: www.southyorkshire-ca.gov.uk/bus-reform
- Email a completed questionnaire to: southyorkshirebusconsultation@djsresearch.com
- Post a completed questionnaire to: **FREEPOST SOUTH YORKSHIRE BUS CONSULTATION**

2.3.3 Consultation questionnaire

There are two forms of the questionnaire:

- **A short questionnaire:** this contains the key questions that we want your views on and is suitable for most members of the public and organisations. To answer these questions only Section 2, the Executive Summary, needs to be read (though you are also welcome to read the entire document if you wish to understand more detail).
- **A long questionnaire:** this contains additional detailed questions and is aimed at individuals or organisations that have a significant interest and knowledge in how the bus market operates.

Please note that:

- You are not required to answer all questions in the questionnaire.
- You can provide your response in an alternative format if that is more suitable for you.

2.4 Summary of consultation events

The MCA will host a series of public information drop-in events about the consultation across the four districts of South Yorkshire in locations which are accessible. For up-to-date information on these events please consult the following link:

www.southyorkshire-ca.gov.uk/bus-reform

2.5 Next steps

The MCA has appointed DJS Research Limited (“DJS”) who is an external independent organisation with expertise in analysing consultation responses. DJS will independently review the consultation responses as part of the consultation process.

The Mayor, on behalf of the MCA, will then consider these consultation responses when making a decision on whether to proceed with the Proposed Franchising Scheme.

The Transport Act 2000 (“the Act”) allows the Proposed Franchising Scheme to be amended following the consultation in light of changes to the bus network or to reflect the consultation responses.

2.6 Background to the Consultation and Bus Reform

Since 1986, bus services in South Yorkshire have been deregulated. This means that private sector bus operators are responsible for setting routes, timetables, service standards, fares and tickets. Bus services are mostly run on a commercial basis with operators seeking to make a profit. Under this model, some services are funded by the MCA including evening and weekend services that would not be commercially viable without additional funding.

The MCA has considered options for reforming the way that bus services are run in the region and is now consulting on whether to implement a new model of Bus Franchising across South Yorkshire. Under **Bus Franchising**, the MCA would gain control over the bus network - owning depots and the bus fleet, and specifying the routes, timetables, service standards, fares and tickets. The actual running of the bus services is then contracted out to private companies through a competitive bidding process. The public sector would pay the private sector operators for the provision of these services and would retain the revenue generated from bus fares. This means that any surplus from running bus services could be reinvested back into improving bus services, the transport network in general or wider public services. Equally, the MCA would be taking the on-going risk on revenue should the services not generate a surplus and require additional funding to continue to operate. The MCA would decide how to manage this situation. At present decisions about unprofitable routes are taken by the private bus operators.

Other options for Bus Reform have also been considered. An **Enhanced Partnership (EP)** is a statutory partnership between the Local Transport Authority (which in South Yorkshire is the MCA) and local bus operators. It sets out how they will work together to achieve the outcomes in the MCA’s Bus Service Improvement Plan (BSIP). A key feature of EPs is that any changes or improvements must be jointly agreed by both the MCA and local bus operators – with operators continuing to run the bus network on a commercial basis. The MCA along with the councils in South Yorkshire signed an EP Scheme for Buses with local bus operators in April 2022. This option is the present-day operating model in South Yorkshire. This option is also referred to as the **Do Nothing or Reference**

Case option in this document. It is this option that the Bus Franchising options and the Enhanced Partnership Plus option (see below) are compared to in the Assessment.

A further, hypothetical, alternative option of **Enhanced Partnership Plus (EP Plus)** has been developed for the purposes of the Assessment. This option would deliver a greater package of improvements to the bus network, fleet and ticketing compared to the current EP scheme. The roles and the responsibilities of the MCA and local bus operators remain the same as the existing EP Scheme. This option has been developed for analytical purposes and does not reflect any actual agreement with local bus operators.

To assess these options and work towards implementing Bus Reform in South Yorkshire, the MCA has followed the steps required by the Act. This requires a detailed assessment of the Proposed Franchising Scheme to be conducted which sets out what sort of Franchising Scheme the MCA will deliver, confirm that it is affordable and deliverable and allow a decision to be taken on whether or not it is the best way to proceed. The MCA has conducted the Assessment and a high-level summary of the Assessment is provided in Section 2.8 with further detail in Section 4. The full Assessment is available at the following link:

www.southyorkshire-ca.gov.uk/bus-reform

A summary of how this consultation document complies with the legal requirements of the Act is provided in Table 1 below.

Table 1 Legal requirements for the consultation document

Legal Requirement	Consultation Document Section Reference
A summary of the assessment of the Proposed Franchising Scheme	See Section 2.1 of the Executive Summary and Section 4
The area within which the Franchising Scheme would operate, and any sub-areas within it	See Section 2.8 of the Executive Summary and Section 3.1 and Appendix B
A description of the franchised services that the authority proposes to provide	See Section 2.8 of the Executive Summary, Section 3.2 and Appendix B
A description of any services, or types of service, that the authority proposes to exempt from regulation arising because of the Franchising Scheme – including any routes or services that will continue to be provided by the commercial sector under service permits	See Section 2.8 of the Executive Summary, Section 3.2 and Appendix B
The date on which the authority proposes to make the Franchising Scheme, together with the first date or dates by which the authority proposes to enter into contracts with operators to provide franchised services	See Section 2.8 of the Executive Summary and Section 3.3
The periods that must expire between the authority entering into a contract, and services starting to be operated under that contract	See Section 2.8 of the Executive Summary and Section 3.3
A description of the authority's or authorities' plans for ongoing engagement throughout the life of the Franchising Scheme to seek views on how well the scheme is working	See Section 3.4
A description of how the authority's or authorities' plans to facilitate involvement of small and medium sized operators through the procurement process	See Section 2.9.4 of the Executive Summary and Section 4.4
The date by which responses to the consultation must be received	See Section 2.1 above

2.7 Overview of the Bus Reform process so far

The MCA has gone through the detailed process that is required under the Act to assess and implement Bus Franchising. This is set out in Table 2 along with the next steps.

Table 2 Overview of the MCA's process for implementing Bus Reform

Date	Milestone
4 March 2022	The MCA publishes a Notice to undertake an assessment of a Franchising Scheme
27 October 2022	The MCA Board approve the Case for Change for Bus Reform
February 2024	The Assessment of Bus Franchising is submitted to the MCA Board
12 March 2024	The MCA Board decide to proceed to the audit stage
31 August 2024	Independent Auditor's review is concluded
8 October 2024	The MCA Board consider the Independent Auditor's review and agree to begin a statutory consultation
23 October 2024	Start of statutory consultation
15 January 2025	Statutory consultation concluded
Spring 2025	MCA to decide whether or not to proceed to implementation of Bus Franchising

2.8 Description of the Proposed Franchising Scheme

The Proposed Franchising Scheme is a draft of the legal scheme which is required to be made in accordance with the Act to implement Bus Franchising across South Yorkshire. It sets out the geographical area that Franchising would cover, the bus services that are intended to be franchised and the key dates on which Franchising would come into operation.

The Proposed Franchising Scheme covers the whole area of South Yorkshire and matches with the boundaries of the MCA including the local authorities of Barnsley, Doncaster, Rotherham and Sheffield. A map is provided in **Section 3.0** below.

The Proposed Franchising Scheme would apply to all bus services in South Yorkshire (other than those which are specifically excluded from the Proposed Franchising Scheme or where a Service Permit Scheme would apply). The services are listed in **Appendix B** and reflect those included within the Assessment.

The key dates for the Proposed Franchising Scheme include:

- The date on which the Proposed Franchising Scheme is expected to be made: 1 May 2025
- The first date on which the MCA proposes to enter into contracts with operators to provide franchised services: 1 April 2027
- The proposed mobilisation period for a franchise contract (the time between a contract start date and buses being on the road) is 6 months with the Scheme expected to come into operation on 1 October 2027.

2.9 Summary of the Assessment

The Assessment is a form of business case which includes:

- The **Strategic Case**, which sets out the Case for Change, the MCA's objectives for bus services and an assessment of whether Bus Franchising and other Bus Reform options achieve these objectives.
- The **Economic Case**, which provides an assessment of whether Bus Franchising and other Bus Reform options provide value for money.
- The **Commercial Case**, which outlines commercial and procurement considerations for Bus Franchising and other Bus Reform options.
- The **Financial Case**, which provides an assessment of whether Bus Franchising and other Bus Reform options are affordable.
- The **Management Case**, which details the proposed approach to management and delivery of Bus Franchising and other Bus Reform options.
- The **Assessment Conclusion**, which provides an overview of the overall conclusions of the Assessment based on the evidence in the five cases.

2.9.1 Options for Bus Reform

The Assessment considers variations of the Bus Franchising, EP and EP Plus Bus Reform options. A long-list of six options were explored and evaluated. These options are outlined below.

The options differ in terms of whether the MCA or the bus operators would own the bus depots and/or the vehicles and who would be responsible for the risk associated with the uncertainty in income (known as revenue risk).

The Strategic and Commercial Cases provide an assessment of the long-list of all six options and reach the view that **Franchising Option B (where the MCA owns the depots and fleet) is the preferred Franchising Option. Franchising Option B is therefore referred to as the "Proposed Franchising Scheme".**

Based on this assessment, the **Economic, Financial and Management Cases only consider a short-list of options including EP, EP Plus and Franchising Option B ("the Proposed Franchising Scheme").**

Long-list of options considered in the Strategic and Commercial Cases:

Table 3 Long-list of options considered in the Strategic and Commercial Cases

	EP (Do Nothing option / Reference Case)	EP Plus	Franchising Option A	Franchising Option B Proposed Franchising Scheme	Franchising Option C	Franchising Option D
Depots	Operator Owned	Operator Owned	Operator Owned	MCA Owned	Operator Owned	MCA Owned
Vehicles	Operator Owned	Operator Owned	Operator Owned	MCA Owned	MCA Owned	Operator Owned
Revenues Risk	Operators Risk	Operators Risk	MCA Risk	MCA Risk	MCA Risk	MCA Risk

Short-list of options considered in the Economic, Financial and Management Cases:

Table 4 Short-list of options considered in the Economic, Financial and Management Cases

	EP (Do Nothing option / Reference Case)	EP Plus	Franchising Option B Proposed Franchising Scheme
Depots	Operator Owned	Operator Owned	MCA Owned
Vehicles	Operator Owned	Operator Owned	MCA Owned
Revenues Risk	Operators Risk	Operators Risk	MCA Risk

2.9.2 Strategic Case

The Strategic Case assesses the Case for Change and potential of different ways that bus services in South Yorkshire could be reformed to achieve the MCA's objectives for the bus network. The Strategic Case considers all six options for Bus Reform set out in the Section above.

Buses play a key role in the South Yorkshire economy, helping people get to work, access education opportunities and visit friends and family. The importance of buses in delivering the MCA's aims to grow South Yorkshire's economy, reach the region's climate ambitions and tackle social exclusion is significant.

The trend in bus use across England has shown a steady decline in the numbers of people travelling by bus between 2010 and 2019. South Yorkshire has experienced a faster decline than similar areas and is on track to continue to decline.

2.9.2.1 Objectives for Bus Reform

Eleven objectives for the bus network have been developed by the MCA to assess the different options for Bus Reform. These include:

- **Objective 1 – Affordability:** The delivery model must be affordable to the MCA.
- **Objective 2 – Value for Money:** The delivery model must achieve value for money to the MCA.
- **Objective 3 – Passenger Demand:** The delivery model should drive increases in passenger demand.

- **Objective 4 – Coverage and Connectivity:** The delivery model should increase in coverage and connectivity across the region.
- **Objective 5 – Punctuality and Reliability:** The delivery model should increase the punctuality and reliability of bus services.
- **Objective 6 – Market Conditions:** The delivery model should increase the presence of operators in the bus network.
- **Objective 7 – Environmental Sustainability:** The delivery model should drive an environmentally sustainable bus network.
- **Objective 8 – Societal Responsiveness:** The delivery model should drive improved responsiveness to societal needs through connectivity.
- **Objective 9 – Supporting the Most Vulnerable:** The delivery model will support a network that aids society's most vulnerable.
- **Objective 10 – Equity in Customer Experience:** The delivery model will drive equity in experience for customers.
- **Objective 11 – Deliverability:** The delivery model must be deliverable

2.9.2.2 The Case for Change

Despite the long-term trend of decline in bus use, buses remain the most used mode of public transport in South Yorkshire. The South Yorkshire Bus Review was carried out in June 2020 and included consultation with over 5900 residents. The review identified the issues and challenges that bus users faced that prevent buses from fully playing their role in achieving the region's aims. These challenges include:

- **Poor punctuality** – only around 80-85% of buses arrive on time in South Yorkshire.
- **Poor reliability** – over 60% of respondents to a survey were either dissatisfied or very dissatisfied with bus reliability across South Yorkshire.
- **Inconsistent standards and accessibility** – the standard of bus network, information provision and vehicles is variable, with the customer offer differing greatly across South Yorkshire.
- **Regular large scale service changes** – in 2006/7 the bus network in South Yorkshire operated 43 million miles, by 2024/25 it is anticipated to have shrunk to 20 million miles.
- **Variable service frequencies** – service frequency is poor in some areas due to services being focused on peak demand periods.
- **Poor connectivity** – there is poor connectivity for those using more than one bus to make a journey.
- **Complex fares and ticketing** – the fares structure is complex with over 100 types of ticket available which can be confusing to passengers.

Under the current system bus operators, local authorities and relevant stakeholders have different incentives and aims regarding the planning and operation of the bus network. For example, local authorities can realise benefits from a bus service such as increased town centre footfall, whereas a private bus operator has to generate a financial return from the selling of tickets against the cost of running services.

This lack of coordination can reduce the incentive for public sector investment in measures to support the bus network, as local authorities have limited control over timetables and fares and so cannot ensure the benefits associated with investment will materialise.

Alongside this, the private sector operators may choose not to invest in the bus network as declining bus use can discourage investment in new services or new buses.

Without a change in incentives, the objectives for the bus network will carry on being misaligned with the region's wider strategies and ambitions.

2.9.2.3 Assessment of Options against Objectives

The assessment of the Bus Reform options against the objectives indicates:

- The EP Plus and all the Franchising Options would offer benefits above the existing Enhanced Partnership option.
- The majority of the benefits associated with the EP Plus option are dependent on reaching agreements with operators which is highly uncertain, and EP Plus is less affordable than the Franchising Options.
- All Franchising Options would allow the MCA to control the services, fares and fleet standards to improve outcomes for passengers and maintain quality and consistency throughout the network - They would therefore provide a greater certainty of benefits to the MCA.
- Franchising Option B (which involves the MCA owning the depots and the fleet) would provide the most control to the MCA, would facilitate greater competition and be more affordable than the other Franchising Options.

2.9.2.4 Conclusions of the Strategic Case

The Strategic Case shows that there is a strong Case for Change given the challenges for the existing bus network, the lack of coordination and misaligned incentives. It concludes that, based on an assessment of the options against the objectives, Franchising Option B (where the MCA owns depots and fleet) is the preferred Franchising Option as it is affordable, demonstrates value for money, is deliverable and better meets the MCA's objectives when compared to other options. Franchising Option B also provides greater certainty that the benefits will be delivered compared to EP Plus as it is not dependent on agreement with local bus operators. Franchising Option B is, therefore, referred to as the Proposed Franchising Scheme.

2.9.3 Economic Case

The purpose of the Economic Case is to analyse the value for money (VfM) of the options. Only the Franchising Option B, EP and EP Plus options are taken forward for consideration in the Economic Case due to the conclusions of the Strategic and Commercial Cases. The value for money (VfM) is assessed by conducting cost benefit analysis on each option which considers the benefits and costs of these options to society as whole, as opposed to primarily financial analysis of the revenues and costs.

2.9.3.1 Economic Appraisal Assumptions

Economic appraisal is a systematic process that compares the benefits and the costs of different options. The key economic appraisal assumptions include:

- **Network:**
 - EP: Services are based on the network at the end of October 2023 with a modest decline in March 2025 to match the reduction in funding for bus services during this period.
 - EP Plus and the Proposed Franchising Scheme: Services are based on the network at the end of October 2023 with an initial modest decline, with services then restored when EP Plus or Franchising are implemented. This same network has been assessed for the EP Plus and Franchising Options.
- **Demand:** the underlying demand for bus travel would fall in line with the decline in bus patronage seen in recent years and in line with a continued decline in patronage throughout the 30-year appraisal period (as

per Department for Transport national forecasts).

2.9.3.2 Benefits

A number of benefits of the EP Plus and Proposed Franchising Scheme have been assessed relative to the EP. There are two broad categories of benefits: user benefits, which accrue to existing and new bus passengers, and non-user benefits, which accrue to wider society including people who never travel by bus. Examples of the types of benefits included are:

- The overall benefits to bus users of the improvements to bus services, such as changes to reliability and journey time benefits.
- Benefits associated with fewer car trips being undertaken and more trips being undertaken by bus. This considers reduction in congestion and improvements to traffic-related noise and air quality.
- Changes in bus revenue associated with increases in bus use.
- The increase in the zero emission bus (ZEB) fleet and the associated environmental benefits.

2.9.3.3 Costs

Capital and operating costs have been estimated for each of the EP, EP Plus options and the Proposed Franchising Scheme. The capital costs include the costs of the assets including buses and depots while the operating costs include the cost of running bus services including driving staff, maintenance staff and fuel. A detailed assessment of costs was undertaken to understand the changes in net costs, which is the difference between the cost and revenue that the MCA is expected to receive under Franchising and EP Plus option. The costs considered include:

- Changes in bus operating costs, including maintenance of vehicles and employee costs.
- Changes to employee and management costs borne by the MCA due to the setting up and administration of the Proposed Franchising Scheme.
- Costs associated with the investment in the bus fleet and depots, including the need to consider transitioning the bus fleet to zero emissions with the associated infrastructure work required at depots.

2.9.3.4 Economic Case results

The results of the economic appraisal for the Assessment are set out in Table 5 below.

The monetary value of the impacts of the options were calculated and totalled over a 30-year appraisal period. The values for future years have been adjusted to account for inflation and the declining value of future costs and benefits. This process is to ensure that costs and benefits are compared on a like for like basis, with both expressed as a '2010 present value', referred to as the Net Present Value (NPV). The NPV presents the difference between the present value of benefits and the present value of costs over a period of time (30 years in this case) and is used to show the overall benefit of the options. This is reported alongside the benefit cost ratio (BCR), which compares the present value of benefits with the costs and investments of a project or investment.

Table 5 Results of Economic Appraisal

Benefits	£'000s, 2010 prices	
	EP Plus	Proposed Franchising Scheme
Time Savings - Network changes and reliability improvement	97,079	97,079
Congestion	1,596	2,074
Infrastructure	8	10
Accident	173	225
Local Air Quality	10	13
Noise	12	16
Greenhouse Gases	148	193
Indirect Taxation	-1,250	-1,536
ZEB Benefits	31,505	31,505
Profit Margin	158,185	78,162
Disbenefit - Private Sector	-106,925	0
Benefits	Proposed Franchising Scheme	
Present Value of Benefits (PVB)	180,543	207,741
Present Value of Costs (PVC)	102,019	97,367
Net Present Value (NPV)	78,523	110,374
BCR	1.77	2.13

The results show that, based on the current analysis and current network scenario, the EP Plus and Proposed Franchising Scheme would achieve a positive Net Present Value (NPV) – meaning the benefits of the options exceed the costs. The Proposed Franchising Scheme has a higher NPV and BCR than the EP Plus option. The Proposed Franchising Scheme therefore provides 'High' value for money whereas the EP Plus option would achieve 'Medium' value for money.

2.9.3.5 Economic Case Scenarios and Sensitivities

To address uncertainty in the analysis, several scenarios have been developed to appraise the performance of the EP Plus and Proposed Franchising Scheme against different future forecasts for revenues, costs, demand and other factors. Table 6 shows the impact on the results if revenue is at different levels. For example, if revenue is 10% higher than forecast, then the BCR for Franchising increases significantly to 8.45, whilst if revenue is 10% lower than forecast then the BCR worsens to 1.22.

Table 6 Revenue sensitivity test

Benefits	£'000s, 2010 prices		
	Proposed Franchising Scheme	Scenario: Revenue Increase (10%)	Scenario: Revenue Decrease (10%)
Present Value of Benefits (PVB)	207,741	207,741	207,741
Present Value of Costs (PVC)	97,367	24,579	170,154
Net Present Value (NPV)	110,374	183,161	37,586
BCR	2.13	8.45	1.22

2.9.3.6 Economic Case Conclusion

The results show that, based on the analysis and current network, both EP Plus and the Proposed Franchising Scheme would generate more benefits and revenue than the cost required to implement and operate them, with both achieving a positive NPV. The analysis does show that the Proposed Franchising Scheme has a higher NPV than the EP Plus option and would provide greater value for money (VfM).

2.9.4 Commercial Case

The Commercial Case sets out the commercial arrangements for delivery of the different options for Bus Reform in South Yorkshire. It considers how the MCA can structure the commercial arrangements of options to best secure the high-quality bus services that the MCA seeks. It considers the full long-list of six options including EP, EP Plus and Franchising Options A, B, C and D which are summarised in Section 2.7.1.1 with Franchising Option B being the Proposed Franchising Scheme.

2.9.4.1 Overview of current commercial arrangements

Commercial bus services in South Yorkshire are currently operated by 23 different bus companies. The three largest operators - First South Yorkshire, Stagecoach Yorkshire, and TM Travel - provide over 90% of the miles operated by buses each year and carry 98% of passenger journeys. Non-commercial, socially necessary bus services are delivered by bus operators acting under contract with the MCA. These are known as 'tendered services'.

2.9.4.2 Commercial Approach to EP Plus

Under the EP and the EP Plus option, both strategic and operational control of the bus network in South Yorkshire sits with commercial bus operators. Whilst the EP option reflects the current agreement between the MCA and local bus operators, the EP Plus option is theoretical and in practice would require negotiation and agreement between the MCA and bus operators.

2.9.4.3 Commercial Franchise models

Under the Franchising option, strategic control would be held by the MCA, while operational control would remain with bus operators.

2.9.4.4 Overview of financial risk allocation

The two financial risks that are the most relevant in considering the commercial structure of franchised bus operations are cost risk and revenue risk. Cost risk relates to the risks that the costs of running bus services are different from those anticipated; revenue risk relates to the risk that revenue received from bus fares and other income is different from that anticipated.

From detailed analysis and market engagement, the Assessment concludes that (i) **cost risk with franchised bus operators**, and (ii) **revenue risk with the MCA** are the appropriate approach for Franchising.

2.9.4.5 Assets under Franchising

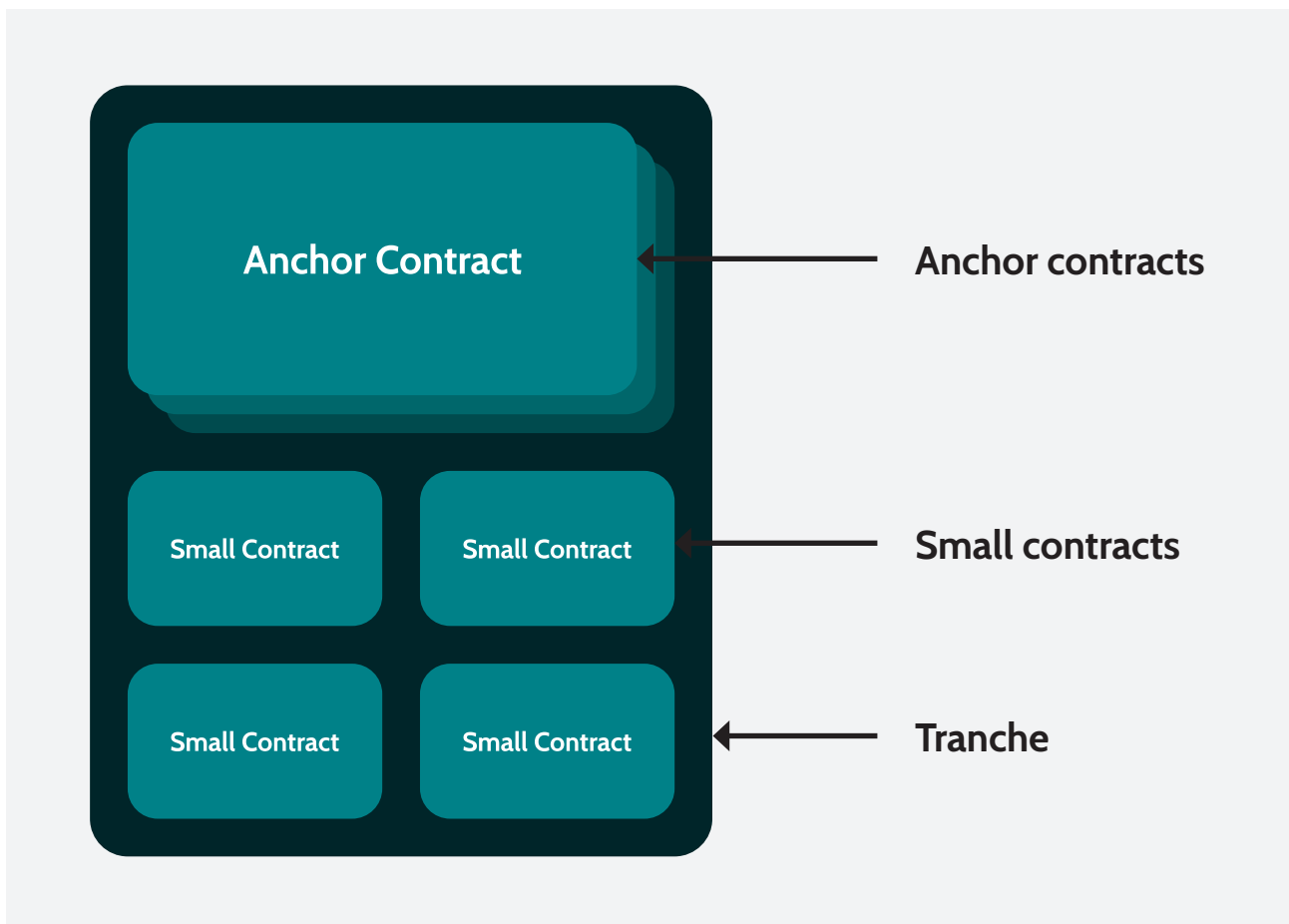
The main assets to consider for Franchising are bus depots and bus fleets.

Where the MCA would own depots, the MCA would need to enter into commercial negotiations with the present owners to acquire existing depots. These negotiations may not be successful in allowing the MCA to acquire depots at market value. Alternatively, the MCA may need to seek other depot locations.

Where the MCA would own fleet, a number of responsibilities would be likely to lie with the MCA in respect of its ownership of those vehicles. These responsibilities include vehicle specification, including interface with those designing customer experience and vehicle procurement, including both initial procurement and an ongoing renewal programme.

2.9.4.6 Lotting and Procurement of Franchises

'Lotting' refers to how the bus network is divided into separate packages, each of which can be tendered in separate competitions. The assumed approach for South Yorkshire is shown in the diagram below.



It is assumed that three tranches would be let, each one of which would have anchor contract(s) for services that are currently operated from one of seven strategic depots. Smaller contracts may not be aligned to a strategic depot and would potentially be attractive to Small and Medium Operators (SMOs).

It may be appropriate to limit the number of franchise contracts that a single entity can hold as this may support the diversification of the market for bus service providers.

In order to develop assumptions for the Assessment, several different orderings were considered. The MCA's working assumption is that the ordering of the tranches will be as follows.

- Tranche 1: services currently operated from Ledger Way and Olive Grove depots
- Tranche 2: services currently operated from Barnsley and Rawmarsh depots
- Tranche 3: services currently operated from Holbrook, Ecclesfield and Halfway depots

2.9.4.7 Competition

Under Franchising, the MCA would contract private bus operators to run services in line with the MCA's specification. The MCA would use competitive tendering to decide which bus operators to award contracts to and to establish the fees that operators will be paid. In these competitions, the MCA is likely to look both at the quality of different operators' bids and the prices that they offer.

Competition is expected to secure:

- optimal pricing for contracts, by using competitive tension in the market for bus services to incentivise operators to identify and deliver operational efficiencies and reductions in profit margins
- innovation, by rewarding through evaluation creative proposals from bus operators that may increase the benefits expected from each contract.

Based on structured engagement with incumbent and potential future bus operators, the following assessments have been made:

- Franchising Option A (franchised operator provides both depot facilities and vehicles), and Franchising Option C (franchised operator provides depots and is provided with a fleet by the MCA) both place high barriers to entry for operators that do not own or have access to depots. These options are assessed as **not being capable** of supporting robust competition for franchise contracts.
- Franchising Option D (franchised operator provides vehicles; the MCA provides depot facilities), is assessed as being capable of supporting robust competition. While fleet provision represents a meaningful barrier to entry, market engagement indicated that sufficient mobilisation time can address this obstacle.
- Franchising Option B, under which the MCA provides franchised operators with both vehicles and depot facilities, is assessed as being capable of supporting robust competition for franchise contracts, as the barriers to entry involved are the lowest of any of the four Franchising Options.

2.9.4.8 Conclusions of the Commercial Case

The following conclusions have been drawn regarding the four Franchising Options under consideration:

- All four of the Franchising Options are commercially complex, and will require appropriate MCA resourcing and programme management, as described in the Management Case.
- Franchising Options A and C are **not capable of supporting robust competition** and would lead to poor value for money for the MCA and **are therefore commercially unviable**.
- From this assessment, Franchising Option B is identified as its preferred Franchising Option, noting that it reduces barriers to entry by providing fleet and depots to operators, thereby supporting increased

competition for franchise contracts. **Therefore, Franchising Option B is the preferred Franchising Option, referred to as the Proposed Franchising Scheme.**

From a commercial perspective EP Plus is less complex and does not require the MCA to take on direct financial risk. However, it is not possible to be certain at this stage that the assumptions made regarding the outcomes through EP Plus are accurate as they would be subject to agreement with operators, and there are therefore significant risks in relation to securing those outcomes.

2.9.5 Financial Case

The Financial Case examines the detailed cost, income and net financial position of EP, EP Plus and the Proposed Franchising Scheme, and considers whether they are affordable. This includes consideration of the revenue and capital cost requirements over the 30-year appraisal period.

2.9.5.1 Total capital expenditure requirement

The Assessment has been developed on the basis that **comparable outcomes can be achieved under both EP Plus and the Proposed Franchising Scheme.** As a result, EP Plus and Franchising are assumed to deliver the same network and same level of investment. As a result, they will share the same costs across these areas.

The cost of renewing and upgrading the depots and fleet has been assumed to take place over two renewal cycles during the 30-year appraisal period:

- There is an initial acquisition and renewal period between 2027/28 to 2031/32. Approximately £350 million of capital expenditure is required during this period. It is assumed that grant funding would be the main source of funding for this.
- The second renewal cycle occurs when the original buses purchased begin to life expire and depots require renewal. This starts in the early 2040s. It is assumed that this renewal cycle would be financed by borrowing.

2.9.5.2 EP Plus Financial Overview

There are a number of specific assumptions that have been made for EP Plus given the role of the private sector and the way in which finances are managed:

- The interest rate is assumed to be 7% for any borrowing required from the private sector (for example for capital expenditure).
- There are transition costs to EP Plus including employee costs which would amount to approximately £5.5 million between 2024/25 and 2027/28, with a recurring increase in employee costs.
- There are additional costs to support unified ticketing.

There are further assumptions in relation to the funding:

- The Transport Levy available for bus services expenditure is assumed to rise by 2% per year up to 2029/30 under this scenario. The Transport Levy is funding provided by local authorities of Barnsley, Doncaster, Rotherham and Sheffield to the MCA and is scaled based on the population of those authorities.
- From 2030/31 onwards, the Transport Levy available for bus services expenditure can then rise at Retail Price Index (RPI)+1% which is in line with the funding scenario also made for Franchising.
- To fund capital expenditure it is assumed that between 2027/28 to 2031/32, £350 million of capital can be found either from the private sector or via third-party grant funding. Beyond 2031/32, it is assumed that the

private sector borrows to fund fleet renewal.

The results of the assessment show that EP Plus is **not affordable** over a 30-year period. This is because of the significant annual deficits emerging due to borrowing to finance fleet renewal during the second renewal cycle. This analysis indicates that if the EP Plus option seeks to deliver the same outcomes as those secured under Franchising, then the industry is unlikely to be financially sustainable long-term.

2.9.5.3 Franchising

Under the Proposed Franchising Scheme, the MCA would be in control of specifying the key features of the bus network and with bus services operated by the private sector under contract. This would mean that:

- The MCA would now receive income from fares from passengers using bus services:
 - The MCA can then use revenue from profitable commercial services to cross-subsidise socially important services that are not commercially viable.
 - The MCA would be more exposed to risk as revenue is based on demand for bus services which can be volatile.
- The MCA would make franchise payments to bus operators to cover the costs of running services plus a margin. The private sector would be responsible for operating services within this cost envelope and be at risk for additional costs if they rise beyond the agreed amount.

There are a number of specific assumptions that have been made for Franchising which include:

- The interest rate is assumed to be 5% for any borrowing required for the public sector (for example on capital expenditure)
- There are transition costs to Franchising including staffing which would amount to approximately £20.8 million between 2024/25 and 2029/30 and a recurring increase in staffing costs.
- Under Franchising, depots would need to be acquired from private sector operators in line with the Lotting Strategy set out in the Commercial Case. The estimated capital cost of this has been accounted for in the Assessment. This is an additional cost for upgrading depots (which is also a cost under EP Plus).
- There are other relatively modest capital costs to support interventions such as unified ticketing and IT costs.

Furthermore, in terms of funding assumptions:

- The Transport Levy available for bus services expenditure is assumed to rise by 2% per year up to 2029/30 under this scenario.
- From 2030/31 onwards, the Transport Levy available for bus services expenditure can then rise at Retail Price Index (RPI)+1% which is in line with the funding scenario also made for Franchising.
- To fund capital expenditure, it is assumed that between 2027/28 to 2031/32, £350 million of South Yorkshire's second City Region Sustainable Transport Settlement (CRSTS2) can be utilised. Beyond 2031/32, it is assumed that the MCA borrows to fund depot and fleet renewal.

Based on these assumptions, Franchising is shown to be affordable over the full appraisal period as a result of capital expenditure being funded by CRSTS2 and the reinvestment of financial surpluses in the early years to cover later deficits that emerge.

2.9.5.4 Franchising Financial Risks and Sensitivities

There are a number of risks which if seen could impact the affordability of the Proposed Franchising Scheme:

- The MCA would be taking on revenue risk under Franchising and would therefore be more exposed to changes in demand due to factors such as economic downturns or demographic changes.
- There is a risk that costs will be higher than anticipated as a result of inflation or other uncertainties relating to the cost of purchasing buses and depots.
- There are risks to the future availability of revenue or capital funding as funding over a long-time frame is uncertain, including in relation to CRSTS2 and the Transport Levy increases required to sustain Bus Franchising.

A range of sensitivities have been conducted which show that the affordability of EP Plus or Franchising is improved or adversely impacted. For example, if operating costs are 10% higher or revenue is 10% lower than anticipated then Franchising is no longer affordable over a 30-year period. Conversely, if operating costs are 10% lower or revenue is 10% higher than this will make all options more affordable. There are similar risks for EP Plus.

2.9.5.5 Conclusions of the Financial Case

The conclusions of the Financial Case show that:

- The EP Plus and the Proposed Franchising Scheme have been developed on a comparable basis with the same assumed interventions on the network, fleet enhancement and depot upgrades.
- **EP Plus is not affordable over the assessed 30-year period** on the basis that the financial position deteriorates rapidly during the second renewal cycle once capital expenditure is no longer grant funded and is instead financed by borrowing at a higher rate than that assumed under Franchising.
- **The Proposed Franchising Scheme is affordable over the assessed 30-year period** with the assumed interventions due to the availability of CRSTS2 funding up to 2031/32 to fund capital expenditure and a lower borrowing rate for the public sector to fund subsequent capital expenditure.
- There are further risks that could impact the affordability of all the options and that these would need to be carefully managed.

2.9.6 Management Case

The Management Case considers how the MCA would manage and deliver the Proposed Franchising Scheme or EP Plus, relative to EP.

2.9.6.1 Managing the Proposed Franchising Scheme

The Proposed Franchising Scheme would mean a significant expansion of the MCA's accountabilities including:

- **Network planning** for the whole bus network including routes, frequency of service and timing of service across the day. Bus network planning would be integrated with other transport modes such as active travel, rail and tram to give customers access to a greater range of destinations.
- **Network review and consultation** to update the network on an ongoing basis. Using customer consultation, feedback from Local Authority partners and commercial data, the network would be reviewed to meet the needs of local communities.
- **Procurement and contract management** as the MCA would be accountable for tendering, contracting and performance managing bus service contracts.

- **Fares and ticketing** to set the fare structure, ticketing types and pricing levels.
- **Fleet and vehicle purchase and management** to a set fleet standard including vehicle size, fuel type and facilities onboard such as Wi-Fi and phone charging. For new vehicles, the MCA would specify the fleet and procure from a bus manufacturer.
- **Depot management** including the acquisition of depots, setting operating and maintenance standards, and installing charging infrastructure.
- **Service permit scheme** for routes not included in franchise contracts such as cross-boundary services.

An additional 13 permanent roles are thought to be required in a new bus directorate to manage these additional accountabilities.

Moving from an EP to the Proposed Franchising Scheme would be a significant business change. Following the Mayoral decision to proceed there would be a transition phase. The programme of delivery is thought to require an additional 28 temporary roles to implement this programme. The activities in the transition Phase include Organisation Design, Network Planning, Fleet Specification, Commercial Activity Design, Depot Acquisition, Fleet Procurement, Procurement of Franchise Lots and Operational Readiness.

2.9.6.2 *Managing the Proposed EP Plus Scheme*

Under EP Plus, the main accountabilities would not change from the current setup. However, the MCA would have greater involvement in the various areas detailed in the Strategic Case, such as fares and ticketing and branding.

For EP Plus there would be a requirement to enhance the existing bus team within the MCA. A future organisational model would include dedicated roles for the following processes as opposed to individuals that are simultaneously responsible for all processes:

- **Network planning** involves closer collaboration with bus operators on the network to meet customer and strategic requirements more completely and to procure more routes than it does currently. This is because under EP Plus, the same network is being proposed as is being proposed for a Franchising Scheme, as outlined in the Strategic and Economic Cases. Additionally, there could be scope for the MCA to influence the bus network so that it is more efficient from a holistic perspective and connects better with the wider transport network.
- **Procurement and contract management** involves continuation of tendering socially necessary routes to operators and ensuring contractual obligations are fulfilled by accessing and analysing bus performance data. The MCA would perform more advanced performance and contract management arrangements in EP Plus.
- **Fares and ticketing** arrangements give the ability to set fares on tendered routes. The MCA would work in closer collaboration with operators to provide customers with a simplified fare structure.

To fulfil the additional processes, EP Plus would require a change in MCA capabilities and resourcing. An additional 13 permanent roles are required to manage these additional accountabilities.

EP Plus would require an implementation programme across 2 phases - Design and Transition. This programme would be shorter and require less staff for implementation than the Proposed Franchising Scheme, but the MCA would still need up to 17 roles to deliver the change.

2.9.6.3 *Management Case Conclusions*

The Management Case concludes that both the Proposed Franchising Scheme and the EP Plus would be deliverable from a resourcing perspective by the MCA. These changes would be possible within the existing corporate structures and strategies. Both options, to varying degrees, would require changes to the MCA's processes

and capabilities and both would require additional staff.

Table 7 Summary of resource requirements – full time equivalent roles required

		EP Reference Case	Franchising	EP Plus
Transition Resource		N/A	Up to 28	Up to 17
Business as usual resource	Bus Functions	9	22	20
	Organisation-wide Functions	N/A	12	13

2.9.7 Overall Assessment Conclusions

There is a clear case for reforming bus services in South Yorkshire, given the existing challenges faced by bus users including poor reliability, connectivity and inconsistent standards. The bus network is not currently being coordinated effectively and without change, incentives for the bus network will carry on being misaligned with the region's wider strategies and ambitions.

The Proposed Franchising Scheme (Franchising Option B, where the MCA owns depots and fleet) is the preferred Franchising Option as it better meets the MCA's objectives when compared to other Franchising Options. Franchising Option B is considered to be more commercially deliverable as it maximises competition for franchise contracts when compared to other Franchising Options.

The Proposed Franchising Scheme also better meets the MCA's objectives when compared to the EP options. Franchising provides the MCA with greater control when compared to EP and EP Plus, and therefore provides greater levels of confidence in the delivery of required outcomes. The delivery of these outcomes under EP Plus relies on reaching agreement with operators, which is a significant risk.

The Proposed Franchising Scheme is therefore considered to be the preferred option as it is affordable, demonstrates value for money, is deliverable and better meets the MCA's objectives when compared to other options.

2.9.8 Short Questionnaire

Q1

(a) Overall, to what extent do you support or oppose the introduction of the Proposed Franchising Scheme?

- Strongly support
- Support in part
- Neither support nor oppose
- Oppose in part
- Strongly oppose
- Don't know

(b) Why do you say this?

Q2

The Proposed Franchising Scheme will cover the whole area of South Yorkshire. This includes the four district authorities of Barnsley, Doncaster, Rotherham and Sheffield. It would apply to all services across South Yorkshire (other than some services excepted from the Proposed Franchising Scheme and services to which the Service Permit Scheme would apply).

Do you have any comments on this?

See Section 2.9.2 of the Executive Summary (or 3.1 of the consultation document) for information to support answering this question.

Q3

The Strategic Case summarises the South Yorkshire bus network's day to day challenges and concludes that it is not performing as well as it should be.

Do you have any comments on this?

See Section 2.8 of the Executive Summary (or 4.2.4.2 of the consultation document) for information to support answering this question.

Q4

The Strategic Case concludes that a Proposed Franchising Scheme is the best option for South Yorkshire Mayoral Combined Authority (when compared to EP and EP Plus) to deliver its aims and strategic objectives for buses in the region.

Do you have any comments on this?

See Section 2.9.2 of the Executive Summary (or 4.2 of the consultation document) for information to support answering this question.

Q5

(a) To what extent do you agree or disagree that the introduction of the Proposed Franchising Scheme will improve bus services in the South Yorkshire region?

- Strongly agree
- Tend to agree
- Neither agree nor disagree
- Tend to disagree
- Strongly disagree
- Don't know

(b) Why do you say this?

Q6

The Economic Case concludes that, of all the Bus Reform options considered, the Proposed Franchising Scheme would offer the best value for money for the South Yorkshire Mayoral Combined Authority.

Do you have any comments on this?

See Section 2.9.3 of the Executive Summary (or 4.3 of the consultation document) for information to support answering this question.

Q7

The Commercial Case concludes that the Proposed Franchising Scheme reduces barriers to entry by providing fleet and depots to operators, thereby supporting increased competition for franchise contracts.

Do you have any comments on this?

See Section 2.9.4 of the Executive Summary (or 4.4 of the consultation document) for information to support answering this question.

Q8

The Financial Case concludes that the Proposed Franchising Scheme would be affordable for the South Yorkshire Mayoral Combined Authority, but that there are further risks which would need to be carefully managed.

Do you have any comments on this?

See Section 2.9.5 of the Executive Summary (or 4.5 of the consultation document) for information to support answering this question.

Q9

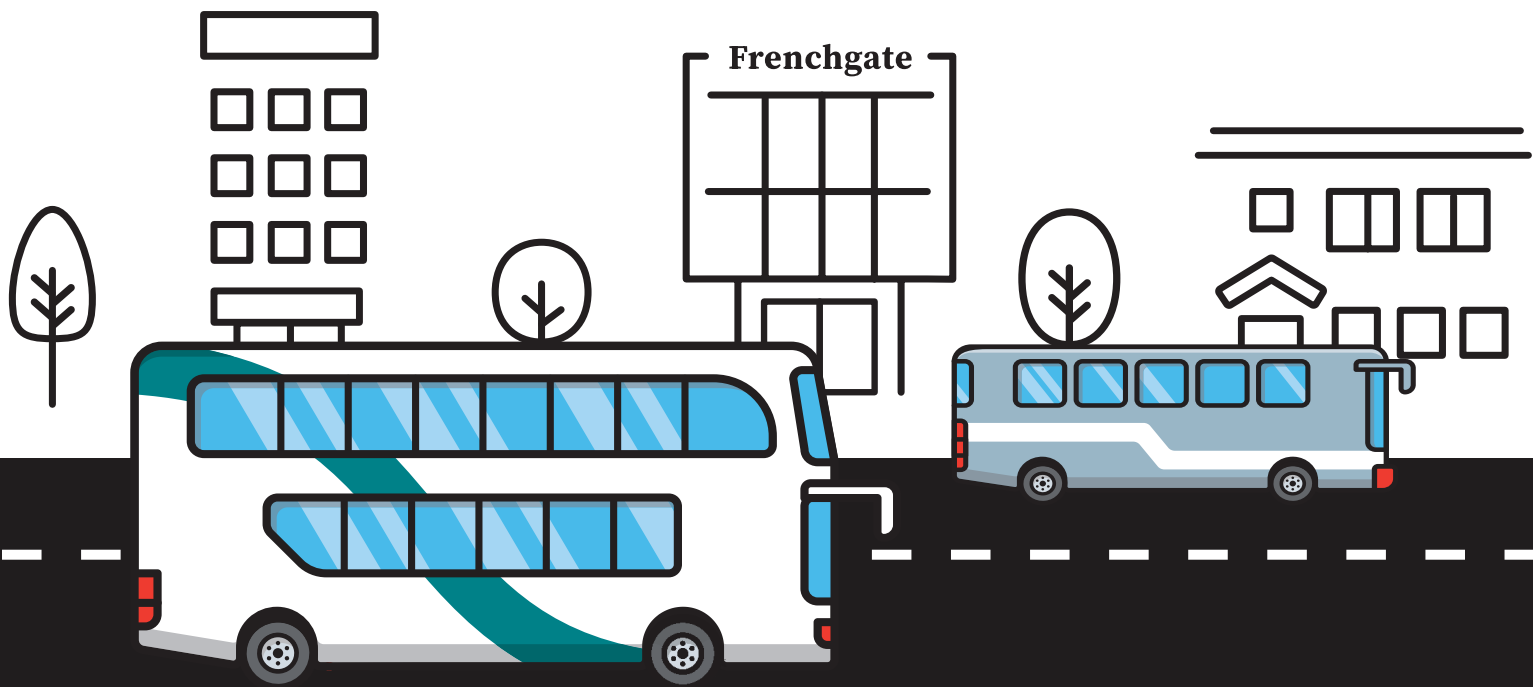
The Management Case concludes that the Proposed Franchising Scheme is deliverable and sets out how South Yorkshire Mayoral Combined Authority would implement and manage it.

Do you have any comments on this?

See Section 2.9.6 of the Executive Summary (or 4.6 of the consultation document) for information to support answering this question.

Q10

Do you have any further comments?



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SOUTH YORKSHIRE
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