



South Yorkshire Bus Franchising Assessment



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SOUTH YORKSHIRE
SYMCA



MAYORAL
COMBINED
AUTHORITY

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Glossary

Term	Definition
Agent-Based Model	Agent-based models are computer simulations used to study the interactions between people, things, places, and time. They are stochastic models built from the bottom up meaning individual agents (often people in epidemiology) are assigned certain attributes.
Agglomeration benefits	Agglomeration benefits arise as a result of individuals and firms interacting with one another and are an important factor in the formation of clusters. Agglomeration economies arise from improved labour market interactions, knowledge spillovers and linkages between intermediate and final goods suppliers. These can occur within an industry (localisation economies) and/or across industries (urbanisation economies).
AMAT	Active Mode Appraisal Tool
APPG	All-Party Parliamentary Group
Assessment	The SYMCA Bus Franchising Assessment
Average yield	This is the average fare for journeys in South Yorkshire, calculated using the operator patronage and revenue data.
Base network	The current network of bus service.
Baseline demand	Demand for bus service based on the current network.
BCR	Benefit Cost Ratio, which compares the present value of benefits with that of costs and investments of a project or investment.
Benefit decay	Rate of decline in the value of benefit due to the passage of time.
BRG	Bus Recovery Grant, funds bus services in England outside London.
BSIP	Bus Service Improvement Plan (BSIP), as required by the National Bus Strategy. The BSIPs are how LTAs, working closely with their local bus operators, to set out their vision for delivering the step-changes in bus services that are required by the Strategy.
BSIP+	Bus Service Improvement Plan Plus, a funding scheme provided by the UK government to local authorities and bus operators to improve bus services in specific areas.
BSOG	Bus Service Operators Grant, a UK government grant to support bus services outside London.
Bus Back Better	DfT's "Bus Back Better" national bus strategy, published in March 2021.
Bus fare elasticity	The ratio of the proportional change in patronage to the proportional change in bus fares.
Bus Operator or Operators	Companies that are operating Local Qualifying Bus Services.
Bus Services Act	The Bus Services Act 2017 (c. 21) is an Act of the Parliament of the United Kingdom that provides for local transport authorities to create partnership schemes to improve bus services in their areas, and to introduce advanced ticketing schemes. The Act also provides for mayoral combined authorities to partially re-regulate bus services by creating franchise.
CAZ	Clean Air Zone
CBSSG	COVID-19 Bus Services Support Grant, which was set up to support commercial bus operators in England in recognition of the impacts of coronavirus (COVID-19) on their revenue due to reduced patronage.
CIHT	Chartered Institute of Highways and Transportation

CIPFA	Chartered Institute of Public Finance and Accountancy
CMA	Competition and Markets Authority
CNI	Community Needs Index
CO₂	Carbon dioxide
Combined Authority	A Combined Authority in England pursuant to the Local Democracy, Economic Development and Construction Act 2009.
Commercial and procurement strategy	The strategy which understands and shape the market to deliver commercial outcomes.
Commercial Case	The Commercial Case of this Assessment.
Concessionary passes	Allocates and manages concessionary passes for users.
Consumer surplus	Consumer surplus is the difference between willingness to pay for a good and the price that consumers actually pay for it.
Corporation Tax	A tax on the profits made by limited companies and some organisations in the UK.
CPI	Consumer Prices Index, a measure of inflation in the UK.
CPO	Compulsory Purchase Order
CRSTS	City Region Sustainable Transport Settlements programme is a £5.7 billion investment in local transport networks. It provides consolidated, long-term capital funding to 8 city regions across England.
DB	Defined Benefit
DC	Defined Contribution
DCC	Derbyshire County Council
Define customer requirements	Researches, identifies and defines customer requirements for bus services.
Demand matrix	Matrix containing number of trips between all pairs of origin-destination zones.
Depot management	Acquisition of depots, setting O&M standards and installing charging infrastructure.
Design phase	The period when the full design of the Franchising scheme and the supporting infrastructure and personnel within the MCA is taking place. The latter part of this phase interacts with the Implementation phase, as some aspects of the franchising scheme would begin to be implemented while others are still being designed.
DfT	The Department for Transport
Discount factor	Product of (1+discount rate) for each year between the base year and a particular year.
Discount rate	Rate which represents the extent to which people prefer current over future consumption, is applied to convert future costs and benefits into their present value.
Distributional Impact Analysis (DIA)	An assessment on how the potential implementation of the bus Franchising Scheme will affect different social groups.
Diversion factors	Value which indicates how passenger trips on other modes would be affected if an intervention led to an increase or decrease in bus patronage.
DRT	Demand-Responsive Transport
Economic Case	The Economic Case set out in this Assessment.
ENCTS	English National Concessionary Travel Scheme

Enhanced Partnership (EP)	A statutory Enhanced Partnership under the Transport Act 2000 (as amended by the Bus Services Act) involving transport authorities and operators working together to agree upon shared objectives for local bus services and the manner in which those objectives will be achieved.
Enhanced Partnership Plus (EP Plus)	A tested option whereby the existing EP arrangement is enhanced through additional funding and further agreements by the MCA and bus operators to improve services in a number of aspects (branding, ticketing, fleet etc.)
EP Plan	A high-level vision and objectives for bus services in the local area and closely follows or replicates relevant sections of the BSIP.
EP Scheme	Sets out the precise detail of how the BSIP vision and objectives will be achieved, including any commitments made by the local authority or standards to be met by bus operators.
ETM	Electronic Ticket Machines
Fares and ticketing	Provides fare structures, payment options, ticket types and revenue protection and payment collection.
Financial Case	The Financial Case set out in this Assessment.
Fixed-route bus services	Provides operation & maintenance of fixed-route timetabled bus services, stations and depots.
Fleet & vehicle purchase	Specify and procure bus vehicles.
Forecasting Framework	This is the process set out to describe the approach to the economic appraisal for the purposes of the business case.
Franchising	Regulatory model whereby services are provided by private companies under tender from the relevant local transport authority (in this case, the MCA) pursuant to the Transport Act 2000 (as amended by the Bus Services Act 2017).
Franchising Guidance	The Bus Services Act 2017 Franchising Scheme Guidance as published and updated from time to time by the Department for Transport.
Franchising Option	The MCA's options for delivering bus reform through Franchising.
Franchising Scheme	Bus franchising scheme pursuant to the Transport Act 2000 (as amended by the Bus Services Act 2017).
FTE	Full Time Equivalent
GDP	Gross Domestic Product — measures the monetary value of final goods and services—that is, those that are bought by the final user—produced in a country in a given period of time.
GDP deflator	Value used to convert nominal prices to real prices, rebased to base year prices.
Generalised Journey Time (GJT)	A measure of disutility of bus services, expressed in units of time.
GJT penalty	Adjustment factor to generalised journey time, taking into account that bus users value disutility factors (waiting time, transfer, etc.) differently.
GMCA	Greater Manchester Combined Authority
Green Book Guidance	HM Treasury's Green Book Guidance
HDV	Heavy duty vehicle
Home to school transport	Undertake the duty to provide home to school transport – Out of scope of franchising.

IFRS 16	International Financial Reporting Standards 16, an international accounting standard that governs how bodies should account for leases in their financial statements.
IMD	Index of Multiple Deprivation
Implementation phase	The period when steps are being taken to implement the Franchising Scheme, including the letting of franchising contracts, and the procurement of the necessary IT systems.
Infrastructure design	Designs transport infrastructure for buses e.g., bus lanes, bus stops
ITS	Intelligent Transport Systems.
ITT	Invitation to tender
IVT	In-vehicle time
KPI	Key performance indicator
Labour supply impacts	Employment impacts resulting from increased labour supply as people decide to enter the labour market or work longer hours due to reduced costs or time in accessing employment.
LCRCA	Liverpool City Regional Combined Authority
LEA	Local Education Authorities
LGA	Local Government Association
LGPS	Local Government Pension Scheme
Local Authority	In South Yorkshire, this refers to one or all of the constituent authorities of Doncaster, Barnsley, Sheffield and Rotherham.
Local governance arrangements	The governance arrangements for delivering bus in South Yorkshire (e.g., the EP Board)
Local transport planning	Reflecting national planning arrangements and local development plans in local transport planning.
Lots	The bus service routes within each Round that will form the basis of franchise contracts, as set out in the Commercial Case.
Lower network	Bus network based on changes should the Bus Recovery Grant be removed.
LTA	Local Transport Authority
LTF	Local Transport Funding
LTF 4	Local Transport Funding Settlement 4, a funding scheme provided by the UK government to local authorities to improve local transport services, including bus services
LTP	Local Transport Plan.
Maintain bus infrastructure	Maintenance of roads, bus stops, and priority measures
Maintain depots	Maintenance and renewal of bus depots
Maintain fleet & vehicles	Maintenance of bus fleet and vehicles
Management Case	The Management Case set out in this Assessment
Marketing and branding	Develops and markets a brand for transport services
MCA	Mayoral Combined Authority
Middle Super Output Area (MSOA)	A geographic hierarchy
MSOA	Middle Super Output Areas, a geographic hierarchy in Census data designed to improve the reporting of small area statistics in England and Wales. MSOAs are built from groups of contiguous Lower Layer Super Output Areas. The minimum population is 5000 and the mean is 7200.

National Bus Strategy	The DfT's "Bus Back Better" national bus strategy for England, published in March 2021, which provides guidance to help Local Transport Authorities and bus operators to work collaboratively and at pace to deliver the ambitions set out in their Bus Service Improvement Plans.
Net Present Value (NPV)	The difference between the present value of benefits and the present value of costs over a period of time.
Net Zero	Achieving a balance between the amount of greenhouse gas emissions produced and removed from the atmosphere.
Net Zero buses	Net zero buses are buses that produce zero greenhouse gas emissions from their operation.
Network planning	Plans, reviews and defines the network of buses.
Network rationalisation	The process of rationalising the bus network to ensure that key corridors are not subject to overprovision of services and result in an overall more efficient network with a minimisation of waste of resources.
Network review and consultation	Consultation on the network involving data analysis and passenger/non-bus users' comments.
NO₂	Nitrogen dioxide
Nox	Nitrogen oxides
NPPF	National Planning Policy Framework
NTEM	The National Trip End Model (NTEM) model forecasts the growth in trip origin-destinations (or productions-attractions) up to 2051 for use in transport modelling.
NYCC	North Yorkshire County Council
OB	Optimism Bias, overestimate the likelihood of positive outcomes and underestimate negative outcomes.
OBC	Outline Business Case
ONS	Office for National Statistics
Operate Demand Responsive Transport	Provides operation and maintenance of flexible bus services.
Over bussing	A situation where bus service provision is disproportionately high in one area (corridor) typically due to multiple bus operators targeting a profitable route.
Payments to operators	Makes payments to operators for the provision of bus services
PCV	Passenger Carrying Vehicles
Plan Demand Responsive Transport	Sets up and plans flexible and responsive bus services.
PMO	Project Management Office
Podaris	A cloud-based real-time collaboration platform for transport planning, engineering and analysis.
Procurement & contract management	Manages contracts with operators for local bus services
PTE	Passenger Transport Executive
PVR	Peak vehicle requirement, which is the number of vehicles required to operate the bus network at peak times.
PWLB	Public Works Loan Board, UK government body that provides loans to local authorities for capital projects.

Rationalised network	Bus network based on network rationalisation to minimise waste of resources.
Reference Case	The case if there was no change in bus operations.
Restricted Procedure	A defined procurement approach possible under the Utilities Contract Regulations 2016".
RPI	Retail Prices Index, a measure of inflation in the UK.
RVM	Residual Value Mechanism
SEP	Strategic Economic Plan
Service Permit Regime	A permit regime introduced under a Franchising Scheme pursuant to the Bus Services Act and The Franchising Schemes (Service Permits) (England) Regulations 2018.
Service Permit regulations	The Franchising Schemes (Service Permits) (England) Regulations 2018
Severance	Transport-related community severance is the variable and cumulative negative impact of the presence of transport infrastructure or motorised traffic on the perceptions, behaviour, and wellbeing of people who use the surrounding areas or need to make trips along or across that infrastructure or traffic.
SMART	Specific, measurable, achievable, relevant, and time-bound.
SMO	Small and Medium Operators
SOC	Strategic Outline Case
SPV	Special Purpose Vehicle, a legal entity created for a specific business activity or transaction.
SRO	Senior Responsible Owner
TAG	Transport Appraisal Guidance, which provides information on the role of transport modelling and appraisal, and how the transport appraisal process supports the development of investment decisions to support a business case. This document gives an overview of this process.
TEMPPro	The TEMPPro (Trip End Model Presentation Program) software allows users to view the NTEM dataset and provides forecasts of trip ends.
Tendered Services	Tendered Services are subsidised bus services which are unlikely to be commercially profitable and to run without local authority support.
TfGM	Transport for Greater Manchester
TfL	Transport for London
The MCA	The South Yorkshire Mayoral Combined Authority
The MCA Transport Strategy	The current transport strategy for South Yorkshire, outlining the MCA's aims for the region's transport network and supporting policies to achieve such aims. The strategy is described in section 1.3 of the Strategic Case.
The Transport Act 2000 ("the Act")	An Act of Parliament of the United Kingdom which legislated for measures for local authorities to improve bus partnerships, including statutory quality partnership schemes and quality contract schemes (a precursor to franchising). The Bus Services Act 2017 (see separate glossary entry) is an amendment of this act.
Traffic Commissioner	The public official who is currently responsible for the registration of bus services in South Yorkshire and who has the power to revoke the registration of existing services in limited circumstances, such as on safety groups.

Transition phase	The period when the Franchising Scheme has been made, but not all of the network has yet been franchised. This overlaps with part of the Implementation phase.
Transport Levy	Funding the MCA receives from South Yorkshire district authorities, to be spent solely on transport.
Transport modelling	Collects data and undertakes modelling to both monitor and set transport objectives.
Travel information	Communicates timetables, maps, disruptions, and enables journey planning.
Trip end	An origin or destination of a trip (by any mode of transport)
TUPE	The Transfer of Undertakings (Protection of Employment) Regulations 2006
UCR	Utilities Contracts Regulations 2016
UK	United Kingdom
UKIB	UK Infrastructure Bank, UK government-owned bank established to finance infrastructure projects that support the UK's net zero goal.
ULEZ	Ultra Low Emission Zone
VAT	Value Added Tax
VfM	Value for Money
VoT	Value of time
WYCA	West Yorkshire Combined Authority
ZEB	Zero Emission Bus, produces no tailpipe emissions during operation.
ZEBRA	Zero Emission Bus Regional Area scheme which supported the rollout of ZEBs, the development of ZEB technology and provided learning on the challenges of introducing ZEBs and their supporting infrastructure.

South Yorkshire Bus Franchising Assessment – Executive Summary

PURPOSE OF DOCUMENT

The purpose of this document is to provide an Executive Summary to the SYMCA Bus Franchising Assessment.

The SYMCA Bus Franchising Assessment is equivalent to an Outline Business Case and comprises the five-case assessment of the Franchising Scheme, as required under section 123B of the Transport Act 2000 (“the Act”) and the Bus Services Act 2017 Franchising Guidance. This Assessment has been undertaken in accordance with the Franchising Guidance, as well as HM Treasury’s Green Book Guidance and Transport Appraisal Guidance.

This Executive Summary is structured as follows:

- the **Strategic Case** sets out the rationale for regulatory change, the MCA’s objectives for bus services and the Enhanced Partnership (EP) and Franchising Options to be assessed. The full Strategic Case includes an assessment of the options and the preferred option recommendation, which is summarised in **Assessment Summary Conclusions** in this Executive Summary;
- the **Economic Case** provides the value for money assessment of the EP Plus option and Franchising Options relative to the current EP option;
- the **Commercial Case** outlines commercial and procurement considerations for EP, the EP Plus option and four Franchising Options
- the **Financial Case** includes the costs, funding options and affordability assessment for the preferred Franchising Option (from the Strategic Case and Commercial Case) and EP Plus option;
- the **Management Case** details the proposed approach to management and delivery for the preferred Franchising Option (from the Strategic Case and Commercial Case) and EP Plus option; and
- **Assessment Summary Conclusions**, which provides an overall summary of the assessment of the EP Plus option and Franchising Options (which is included in the full Strategic Case), recommending the preferred option.

STRATEGIC CASE: SUMMARY

The Strategic Case sets out the MCA’s strategic aims for South Yorkshire (as applicable in 2022/23) and the role of transport (and bus) in achieving these, the Case for Change in assessing bus franchising, the MCA’s objectives for bus and the options being assessed through the five-case model.

The options assessed in the Strategic Case are the existing EP as the Do-Nothing option (or Reference Case), an EP Plus option and four Franchising Options (A to D) involving different permutations of depot and fleet ownership. These options are described in Table 1 below.

The MCA’s Strategic Aims for South Yorkshire

Transport is vital to delivering the MCA and Mayor’s policy objectives, which have been drawn from the following documents:

- Strategic Economic Plan (2022)
- SYMCA Energy Strategy (2022)
- Manifesto of the elected Mayor
- Sheffield City Region Transport Strategy (2019)
- South Yorkshire Bus Review (2019)
- Bus Back Better: National Bus Strategy for England (National Policy) (2021)
- South Yorkshire Bus Service Improvement Plan (2021)

In particular, the Manifesto of the elected Mayor includes a strategic goal that is:

“Fixing South Yorkshire’s buses so public transport is the efficient, effective public service it used to be.”

The Case For Change

Travel Trends in South Yorkshire

Buses are the most widely used form of public transport within South Yorkshire, accounting for 13% of all journeys; however, there has been a steady long-term decline in bus usage, albeit exaggerated by the Covid-19 pandemic since 2020. This is contrary to the MCA’s aims, which require modal shift to a more comprehensive and attractive public transport system. While this trend applies across England, the decline recorded in South Yorkshire is steeper than the average as shown in Figure 1. If this trend of decline continues, it will result in further service withdrawals by commercial operators or reductions across the region, or a requirement for additional public sector funding via Tendered Services to keep services running at current levels.

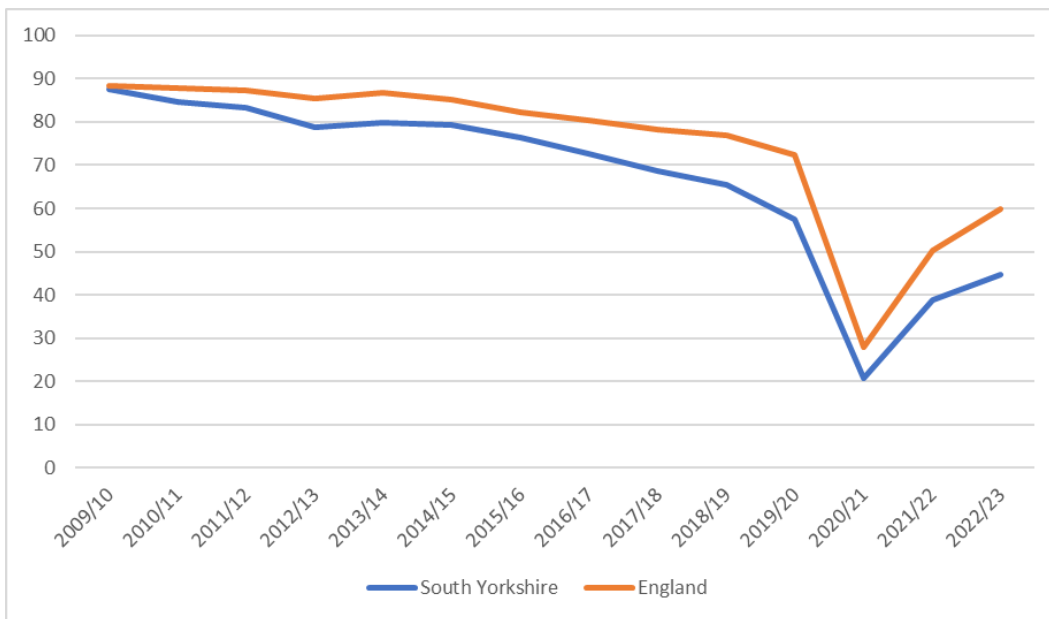


Figure 1: Passenger journeys per head of population, South Yorkshire and England¹

Buses in South Yorkshire are significantly more likely to be used by groups who may be considered socially disadvantaged, including those on low incomes, those who do not work full-time and those without access to a car. Agent-based modelling (i.e. simulations which are used to study the interactions between people, things, places and time), shows some individuals continue to use the bus even when subjected to a large time and convenience penalty for doing so. These individuals, who are often vulnerable, low-income populations living in sub-urban and rural communities, would therefore be most heavily impacted by the cuts to bus services that may result from a continued decline in demand.

Challenges Faced by Buses in South Yorkshire

The South Yorkshire Bus Review outlined the challenges facing the bus network at the onset of Covid-19, preventing it from fully playing its role as an enabler of the region’s economic, social and environmental goals. These challenges relate to: poor punctuality; poor reliability; inconsistent standards and vehicle accessibility; regular, large-scale service changes; variable service frequencies; poor connectivity; complex fares and ticketing; and concerns around personal safety.

¹ Passenger journeys on local bus services per head by local authority: England, from 2009/10 (Table bus 01f), Department for Transport

The challenges around performance currently facing the South Yorkshire bus network are driven by declining patronage under the current commercial model, exacerbated by the Covid-19 pandemic. This is a major strategic problem as these challenges create a less attractive network, leading to a further decline in usage which undermines its long-term viability and its ability to support the MCA's strategic goals (see Figure 2).

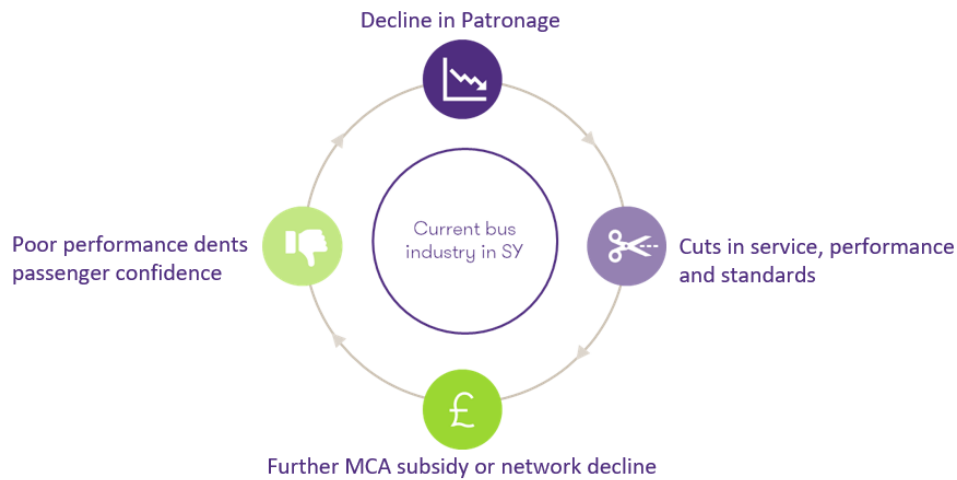


Figure 2: The cycle of decline affecting South Yorkshire's bus services

Barriers to a thriving bus network in South Yorkshire

The MCA has a clear vision for the future bus network of South Yorkshire and has identified the challenges that the network currently faces. Nine underlying causes have been identified under three categories as follows:

1. **Bus market failures** (where the market is not delivering the desired outcomes). This includes a lack of commercial sustainability through low or non-existent bus operator profits, which creates a disincentive to invest and triggers a vicious cycle of network decline as unprofitable routes are withdrawn. A lack of public funding also contributes to this failure (e.g. Tendered Service funding reduced by 39% in real terms between 2009/10 and 2017/18), which in turn contributes to network shrinkage. A lack of strategic alignment is a further cause as the current bus network is not managed holistically and lacks integration and consistency (e.g. complexity in ticketing).
2. **Wider failures** (negative consequence of the current system that are not classical market failures). Underlying causes include poor stakeholder alignment given there is no single body empowered to drive alignment to ensure that policy reflects the desire to increase public transport. The lack of overall accountability and public control over the bus network reduces the ability to make key decisions relating to bus services. Policy misalignment is a key underlying cause in this category as identified in the Bus Review. This is also linked to the limitations of the EP as the absence of a stable bus network, combined with limited public control, make planning difficult. A lack of return on political investment is a further underlying cause as local authorities have limited control of the transport network to drive effectiveness.
3. **Failure to utilise existing capabilities, powers, and processes** (where further improvements could be made using the powers available under the current South Yorkshire EP). Underlying causes include a failure to leverage existing powers. For example, the Traffic Commissioner has powers to cancel the registration of services, but this is likely only to occur in exceptional circumstances due to the negative impacts of this on passengers. Concerns about operators withdrawing services exist where poor performance is sanctioned. A further key underlying cause is that certain local authorities adopt policies which could be seen as “pro-car” (such as free or cheap car parking), which could discourage bus travel. Control of parking provision is the main policy lever available to South Yorkshire districts to reduce the cost of travelling to the town centres. This lever is rarely utilised to support bus patronage, which also relates to a

misalignment in policy as stated under the previous cause. Under the EP, the MCA's ability to encourage more patronage is extremely limited due to a lack of control over fares and timetables.

The underlying barriers to a thriving South Yorkshire bus network evidence that the current bus market is not operating effectively. It is in a spiral of decline whereby a combination of unprofitability, lack of public funding and issues with the current EP have led to a network that has been continuously shrinking in size and experiencing patronage decline over a sustained period of time. Therefore, the network is not effectively supporting the MCA's wider social and economic goals and is moving further away from delivering this over time.

Investment into and reform of the bus network, whether through a Franchising Scheme or EP Plus, has the potential to overcome many of these barriers and address the challenges described above. Reform of the bus operating model impacts the facilitation of investment into the network through how closely aligned the operation of services is to the associated infrastructure delivery owner and the overall incentives to investment.

Investment in the network would help to reduce the occurrence of large-scale service changes and could enhance service frequencies and improve connectivity across and beyond the region. It could also go some way to reduce the complexity of fares and ticketing. However, this comes with both upfront and ongoing costs, which are discussed further in the other cases of this Assessment.

Through a Franchising Scheme, the MCA would also have strategic control of the bus network in South Yorkshire (which would not be the case with EP Plus), and the flexibility to make changes within a more sustainable investment model, which could help improve punctuality, reliability, consistency of standards and vehicle accessibility, and hence could contribute to improving patronage. Franchising could also have a greater impact on addressing the existing challenges around fare and ticketing complexity, as fares policy would solely reside with MCA in this model. A Franchising Scheme would also provide MCA with stronger contractual levers to ensure performance standards (e.g. reliability and punctuality) are maintained.

The MCA's Objectives for the Bus Network

Assessment Objectives

The MCA's objectives for the bus network in South Yorkshire, and therefore the objectives used to assess the EP and Franchising Options are as follows:

1. **Affordability:** The delivery model must be affordable to the MCA
2. **Value for Money:** The delivery model must achieve value for money to the MCA
3. **Passenger Demand:** The delivery model should drive increases in passenger demand
4. **Coverage and Connectivity:** The delivery model should increase in coverage and connectivity across the region
5. **Punctuality and Reliability:** The delivery model should increase in punctuality and reliability of bus services
6. **Market Conditions:** The delivery model should increase the presence of operators in the bus network
7. **Environmental Sustainability:** The delivery model should drive an environmentally sustainable bus network
8. **Societal Responsiveness:** The delivery model should drive improved responsiveness to societal needs through connectivity
9. **Supporting the Most Vulnerable:** The delivery model will support a network that supports society's most vulnerable
10. **Equity in Customer Experience:** The delivery model will drive equity in experience for customers

In addition to the ten objectives, there is a pass-fail criterion related to **deliverability**: The delivery model must be deliverable.

An analysis of neighbouring local authorities' transport objectives and policies, indicates that the MCA's aims of improving the bus network support neighbouring authorities' aims of improving their bus networks and encouraging greater use of sustainable transport modes. Some local authorities, notably Nottinghamshire and Derbyshire, also make reference to improving provision to neighbouring authorities including South Yorkshire. Therefore, none of the aims of these authorities' need be compromised by the introduction of a Franchising Scheme within the South Yorkshire area. This Assessment has been supported by engagement with the neighbouring local authorities carried out at the time of writing this summary. However, continued co-ordination and engagement is required with these authorities to ensure that an introduction of a Franchising Scheme in South Yorkshire does not adversely impact on these networks. This would include the introduction of a Service Permit Regime for cross-boundary services that encourages existing and future cross-boundary bus services.

Options for Bus Market Reform

Four Franchising Options have been identified and are assessed against the current South Yorkshire EP. The Franchising Options A to D relate to different permutations of ownership of the depots and/or vehicle fleet, and assume revenue risk is taken by the MCA, which allows the potential for reinvestment back into the network. A further option has been identified and assessed, which is an EP Plus option. The EP Plus option represents the potential of the current EP under increased investment. The options are summarised in Table 1 below.

Table 1 Overview of Options

	EP (Do Nothing)	EP Plus	Franchising Option A	Franchising Option B	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
Revenue Risk	Operators	Operators	MCA	MCA	MCA	MCA

All options cover the South Yorkshire area in its entirety: the preferred option would be implemented across all four districts of South Yorkshire (Barnsley, Doncaster, Rotherham and Sheffield).

Conclusion of the Strategic Case

Overall, the Strategic Case highlights why South Yorkshire's bus network is not currently delivering the desired outcomes of the MCA's wider policy and strategy documents, and the connection between this and the current EP operating model. To address this, six options for the future reform of the bus network (continuing with the EP, an EP Plus option or adopting a Franchising Scheme under four different depot/fleet ownership models, Franchising Options A to D) have been proposed and considered against the MCA's objectives for the future bus network.

The **Assessment Summary Conclusions in Section 7 of this Executive Summary** provides an overall summary of the Assessment of the EP Plus option and four Franchising Options A to D, which is included in the full Strategic Case. **This recommends the preferred option is Franchising Option B (where depots and vehicles are owned by the MCA).**

ECONOMIC CASE SUMMARY

The Economic Case of the Assessment involves analysing the differences between the performance of the EP Plus option and the preferred Franchising Option B against the EP option (as the Do-Nothing option or Reference Case). The impacts and benefits of Franchising Option B and EP Plus option have

been quantified, where possible. Wider economic impacts have also been analysed, to consider any impacts and benefits that are not easily monetised.

Forecasting Framework and Modelling Assumptions

Approach to the Economic Case

A framework was developed to forecast the impacts of the proposed EP Plus option and Franchising Option B, including impacts on bus passenger demand, economic benefits and costs. This was undertaken over a 30-year appraisal period starting from 2027 (the anticipated start year for a Franchising Scheme) with the EP as the Reference Case forming the appraisal comparator scenario.

Benefits and Costs

Benefits include journey time savings, simplified ticketing, marginal external costs, social value of buses, health benefits, benefits associated with the implementation of zero emission buses, and wider economic impacts. These benefits are evaluated as the value of time, simplified ticketing, social impact and health benefits. The benefits are compared against associated operating costs and capital costs, including Optimism Bias.

Benefits (and costs) are discounted to 2010 prices over a 30-year appraisal period in line with the DfT's Transport Appraisal Guidance (TAG) requirements, to finally produce the Net Present Values (NPV) and the Benefit Cost Ratios (BCRs) of the options. In addition to quantified and monetised benefits and costs, non-monetised benefits were also considered to provide a more comprehensive assessment of Value for Money (VfM).

Both capital and operating costs have been estimated for the EP, the EP Plus options and Franchising Option B. The assessment of the EP Plus option and Franchising Options considers the net difference in cost when compared to the EP (as the Do-Nothing option or Reference Case).

Demand

A key assumption taken is that 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 appraisal period (as per DfT national forecasts).

The existing demand on the network was established using DfT national forecast base year data for 2023 for commuting, business, and other trip purposes on an average day. This data was evaluated at a Middle Super Output Area (MSOA) level (a geographic areas that is used to report small areas statistics in England and Wales) for areas within South Yorkshire and in-scope MSOAs in relevant parts of the East Midlands (Derbyshire), West Yorkshire and the Humber Region (including North Lincolnshire). Demand was assessed for two modes, bus and car.

Network Scenarios and Options

The assessment of the EP Plus option and the Franchising Options (see Section 2.5 of the Strategic Case Summary), including the Economic Appraisal, has been undertaken on the basis of the following networks:

- The Reference Case (an EP operating model), which is based on the network as it operated from the end of October 2023 (taking into account timetable changes implemented at the end of October), as well as a reduction in Tendered Services budget which would occur once the level of funding currently committed reduces (from approximately £23m to £13.5m) in March 2025.
- The EP Plus and Franchising Scheme network, which considers the network as it operated from the end of October 2023 with the Tendered Services budget restored over the course of the

transition period. This same network has been assessed for the EP Plus option and Franchising Options.

As the network used to assess Franchising Option and EP Plus option has a greater network coverage than the Reference Case, the overall impacts show an increase in bus passenger demand relative to the Reference Case, as well as some journey time and reliability improvements in certain areas.

Economic Outputs

There are different options to estimate the BCR in terms of what is included in the benefits and costs categories. In accordance with economic case convention, the Present Value of Costs (PVC) for each option are defined as 'the total cost to the MCA budget'. All other cost impacts (for example to private sector bus operators) are captured within the 'benefit' calculation. This is in line with the approach taken in GMCA Assessment.

For this Assessment, the Franchising Guidance places greater emphasis on the NPV than on the BCR, given that the transfer of costs and revenues between the private and the public sector can make the BCR a less useful comparative metric of the economic performance of each of the options (with private sector costs and revenues reported as part of the Present Value of Benefits (PVB) and public sector costs and revenues on the Present Value of Costs (PVC) in the standard TAG definition of the BCR).

The EP Plus option and Franchising Option B generate more benefits and revenue than the costs it would incur to implement and operate, relative to the Reference Case. The results for the core assessment are summarised in Table 2.

Table 2 Summary of results - core assessment

Benefits	£000s, 2010 prices	
	EP Plus option	Franchising Option B
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

Franchising would provide a greater NPV when compared to the EP Plus option. The overall conclusions do not change from the core assessment when the wider economic benefits (e.g. health and social value benefits) are considered.

Conclusion of Economic Case

The Economic Case shows that, based on the current analysis and current network scenario, all options would achieve a positive NPV, with Franchising Option B having a higher NPV than the EP Plus option and would deliver VfM. The inclusion of the wider economic impacts as part of the adjusted values increases the NPV for EP Plus and Franchising.

The advantages of implementing a Franchising Scheme are primarily through the greater control the MCA would achieve over the operation of the bus network including network planning, ticketing and fare initiatives as well as the programme for increasing the proportion of ZEBs operating on the network. Therefore, the outcomes expected with a Franchising Scheme are therefore likely to be more deliverable than compared to the current EP, or an EP Plus option where agreement with the incumbent operators is required, and the Economic Case supports this conclusion.

COMMERCIAL CASE: SUMMARY

This section contains a summary of the Commercial Case component of the 5 cases forming part of full Assessment under section 123B of the Transport Act 2000 that is being prepared by the MCA with the support of its advisers.

The Commercial Case is the third of the five cases that form this Assessment and should be considered in conjunction with the other four cases. The purpose of a Commercial Case is to set out the commercial proposition for EP (the Reference Case or Do-Nothing option), the EP Plus option and Franchising Options A to D (involving different permutations of depot and fleet ownerships) and procurement considerations.

Overview of current commercial arrangements

Since the Transport Act 1985, bus services in South Yorkshire have been deregulated. This means that responsibilities for the vehicles, routes, service frequencies and fares rests with private sector bus operators. Responsibility for on-street bus infrastructure sits with the MCA. The commercial bus services in South Yorkshire are currently operated by 23 different bus operators. The three largest operators, First South Yorkshire, Stagecoach Yorkshire, and TM Travel, operate over 90% of the annual bus mileage and provide 98% of passenger journeys. Non-commercial, socially necessary services are delivered by bus operators acting under contract with the MCA. These are known as 'Tendered Services'.

The fleet of vehicles used to operate bus services is owned and maintained by commercial operators. Intelligent Transport Systems (ITS) such as Electronic Ticket Machines, Automatic Vehicle Location hardware and CCTV are also owned by commercial operators.

With the exception of Doncaster (which is owned by the MCA and is leased to First South Yorkshire), the depots used by commercial operators to provide bus services in South Yorkshire are also owned and operated by the commercial operators.

Models for reform brought forward from previous cases

The Strategic Case of this Assessment introduces five options for reform of the bus model in South Yorkshire, compared to the Reference Case (or Do-Nothing option), the existing EP model. The commercial approaches to each of these five models is considered in the Commercial Case.

Commercial Approach to EP Plus

There is assumed to be no significant commercial difference between the Reference Case (EP) and EP Plus options that are under consideration in this Assessment, other than holding operators harmless for introducing unified ticketing under EP Plus. Any differences between those two options lies in the extent to which it is assumed to be possible to reach agreement through the EP Plus between the MCA and bus operators negotiating agreements to deliver improvements to the bus network.

Development of commercial Franchise models for bus operations

Unlike the EP Plus option, Franchising Options A to D represent significant changes in commercial approach.

Under the Reference Case (EP) and the EP Plus option, both strategic and operational control of the bus network in South Yorkshire sits with commercial bus operators (albeit under EP Plus, the MCA holds a degree of influence — but not control — over the network). Under the Franchising Options, strategic control would be held by the MCA, while operational control would remain with bus operators. These shifts in responsibilities are important in determining the appropriate commercial approach to take for the options.

Overview of financial risk allocation

The two key financial risks that are principally relevant in considering the commercial structure of franchised bus operations are cost risk and farebox revenue risk. The advantages and disadvantages of allocating cost and revenue risk with the MCA or with operators are examined in the full Commercial Case. From detailed analysis and market engagement, it is concluded that (i) **cost risk with franchised bus operators**, and (ii) **farebox revenue risk with the MCA** is likely to be the most efficient approach.

Other elements of the commercial proposition for Franchising, including contract length and approach to different roles and responsibilities are considered in the full Commercial Case.

Assets under Franchising Options

The principal assets relevant to consideration of the four Franchising Options are bus depots and fleets of vehicles. Section 2.5 of the Strategic Case sets out the different Franchising Options with depot and fleet ownership arrangements described. Asset ownership considerations are considered in Section 4.9.

For Franchising Options which involve the MCA owning depots, the MCA will 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. In this eventuality the MCA could seek to compulsorily purchase (CPO) the depots. The MCA is also exploring options for the development of alternative depots that could be used for franchised services.

Lotting and Procurement

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

Figure 3 below.

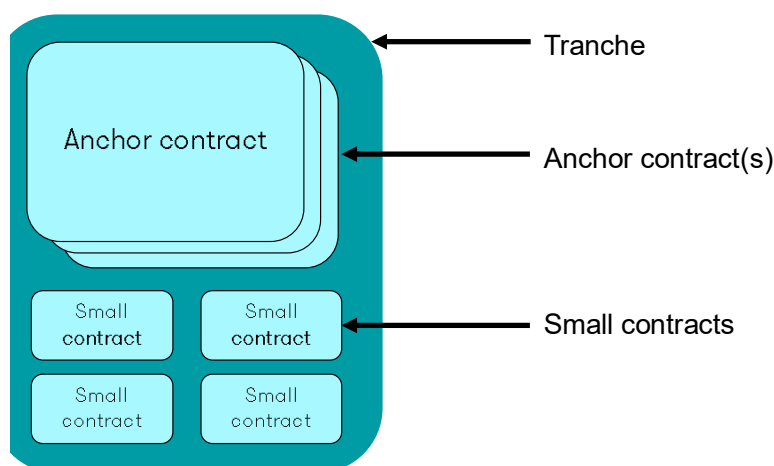


Figure 3: assumed approach to Lotting

It is assumed that three tranches would be let, each one of which would have as its anchor contract(s) services that are currently operated from one of seven strategic depots². The smaller contracts would not be aligned to a strategic depot and would potentially be attractive to Small and Medium Operators (SMOs).

The order in which lots are assumed to be let is:

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

² Doncaster, Ecclesfield, Halfway, Holbrook, Olive Grove, Rawmarsh, Wakefield Road

It is the MCA's intention to utilise the Restricted Procedure under the Utilities Contract Regulations 2016 to procure franchise contracts, although the relevant legislation may change as a result of the Procurement Act 2023. 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.

Transition

It is assumed that following the making of a Franchising Scheme, commercial services and present Tendered Services will continue to run through a Service Permit Regime which will be established by the MCA in line with the relevant regulations, until they are replaced by franchised operations. Establishing this regime will require public consultation.

Generation of competition

Competitions would be run by the MCA for contracts to operate franchised bus services 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; and
- innovation, by rewarding through evaluation novel and creative proposals from bus operators that may increase the benefits expected from each contract.

However, a competition alone is not sufficient to secure these benefits; there must in addition be robust competition for the contract within the procurement process. On the basis of structured engagement with incumbent and potential future bus operators, the following assessments are 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 very high barriers to entry for operators that do not own or have access to depots, effectively limiting the market to operators that already possess appropriate depot facilities. 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.

The Commercial Case also considers approaches to support the involvement of SMOs in franchise competitions. These approaches include strong engagement during contract development and simplification of bidding requirements for smaller contracts.

Risks

Franchising Options are commercially complex and will require appropriate resourcing and programme management to deliver and to identify, manage and mitigate risks, as described in the Management Case of this Assessment. Principal commercial risks in respect of Franchising Options include: the MCA's capability and capacity to deliver a complex programme; the MCA acquiring depots owned by operators; the MCA's ability to manage volatile revenue risk, including its ability to forecast costs and revenues accurately; operator insolvency; and procurement challenge. Key commercial risks with the EP Plus option include failure to negotiate agreements with operators, and Subsidy Control challenges regarding any MCA investment.

Conclusions of 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**.
- Franchising Options B and D both appear commercially viable. However, they present significant challenges for the MCA in respect of its acquisition of the depots.
- 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.

Regarding EP Plus, if assumptions regarding outcomes deliverable through EP Plus are accurate, then from a commercial perspective EP Plus presents several advantages over Franchising Options:

- it avoids the significant commercial complexity associated with all of the Franchising Options, and
- it avoids the transfer of significant direct financial risk relating to revenue to the MCA (although indirect exposure remains through MCA subsidising any routes that become commercially unviable).

However, it is not possible to be certain at this stage that the assumptions made regarding the outcomes through EP Plus are accurate, and there are therefore significant risks in relation to securing the outcomes.

FINANCIAL CASE: SUMMARY

One of the requirements of the Franchising Guidance is consideration of whether the authority is able to afford to make and operate the proposed Franchising Scheme. The Financial Case sets out the financial implications of the bus reform options described in the Strategic Case.

The purpose of the Financial Case is to assess the financial implications to the MCA of the preferred Franchising Option (Franchising Option B) identified in the full Strategic Case and Commercial Case, and the EP Plus option. The Financial Case sets out the income, costs, funding options and affordability assessment in respect of these options.

Financial Modelling Approach

The financial model has been developed to show the overall financial impact on the MCA in the Reference Case (Do Nothing) option of EP, EP Plus and the four Franchising Options. The model is based on annualised cashflows which, unlike the Economic Case, are stated in nominal terms.

The base year for the model is 2024-25 and the model assumes a 30-year appraisal period from 2024-25 to 2053-54. The period in the Financial Model is split into distinct phases for Franchising including the **Design Phase** (the period to prepare for the implementation of franchising); **Transition Phase** (the period to acquire the assets and let out the franchising contracts in line with the timetable set out in the Management Case); **The Business as Usual (BAU) Phase** (the period after which the whole network is franchised).

Enhanced Partnership – Reference case (Do-nothing option)

EP (Reference Case) Funding Flows

This option assumes that the existing EP scheme between the MCA and bus operators continues. This represents the “Do Nothing” option in the Assessment and is used as a baseline reference case in the model to enable comparison with the EP Plus and Franchising Options.

Under the EP model private sector bus operators currently take revenue and cost risk on the operation of commercial bus services. The MCA is responsible for funding or providing subsidy for Tendered Services which are not commercially viable in their own right. The MCA also provides reimbursement to operators to compensate them for providing services to passengers eligible for concessionary tickets.

To help fund tendered and concessionary services, the MCA receives funding from South Yorkshire district authorities including Barnsley, Doncaster, Rotherham and Sheffield through the Transport Levy.

The MCA also receives funding directly from Central Government including BSOG for tendered services and other discretionary grants such as grants for BSIP+ funding.

It should be noted that these are also the same funding flows for the EP Plus option.

The MCA's income and costs under EP (the Do-Nothing option or Reference Case)

A 30-year forecast for income and costs under EP is based on the MCA's Medium Term Financial Plan for the LTA that covers the next five financial years from 2023-24 onwards.

In terms of costs, the MCA's Tendered Services budget is the subsidy that the MCA pays for services that it tenders out, including evening and weekend services and other socially important bus services that are not viable to be provided on a commercial basis. It is forecast to fall from £31.2 million to £13.4 million in 2025-26 in line with the assumptions in the MCA's Medium Term Financial Plan (MTFP). Beyond 2025-26, the Tendered Services budget is assumed to grow at 2% per year as per the MTFP.

The net cost of EP remains flat at current levels based on the costs and revenues set out above under the MCA's Medium Term Financial Plan and is therefore affordable. The modest rise of 2% in the Tendered Services budget is funded by a rise of 2% in the Transport Levy long-term.

However, this modest rise in the Tendered Services budget, whilst affordable, leads to a risk that the network will decline further. If the MCA sought to offset this decline then the Tendered Services budget would rise and likely lead to EP becoming more unaffordable over time.

Common assumptions across EP Plus and Franchising Options

This Assessment has been developed on the basis that comparable outcomes can be achieved under both the EP Plus option and Franchising Options. These options are assumed to deliver the same network, level of investment in terms of fleet renewal, net zero upgrades and other measures that drive key outcomes.

To determine the total operating costs, six-years of historic financial and operational data was sourced from operators in South Yorkshire in March 2023. This data was distilled into the key cost lines for operating a bus service such as fuel, overheads, insurance, maintenance and staff. From this date, a set of operator metrics were developed for running bus services on a per mile, per vehicle or alternative basis.

Depots and fleet are key assets that will need to be acquired, renewed and upgraded throughout the appraisal period. The MCA has undertaken surveys of the 7 strategic depots within South Yorkshire to determine their current market value. These depots will need to be renewed and upgraded to be Net Zero compatible.

The average age of the fleet in South Yorkshire is currently 11.5 years old which drives a significant renewal requirement early in the appraisal period for fleet, given a typical useful life of 15 years. Vehicles renewals then occur every 15 years depending on the age of the vehicles. Most of the fleet in South Yorkshire is currently diesel with only 27 Zero Emission Buses (ZEBs) operating. Under both the EP Plus option and Franchising Options, it is assumed that:

- **Between 27-28 to 2034-35:** 30% of all vehicles requiring renewals will be upgraded to ZEBs
- **Post 2035-36:** 100% of vehicles requiring renewals will be upgraded to ZEBs

Operational savings from ZEB vehicles compared to diesel vehicles have not been factored into the Financial Modelling. To facilitate this transition to ZEBs, the cost estimates for depot upgrades are based on previous MCA analysis in relation to the costs of transitioning the bus fleet to Net Zero. Upgrading depots is profiled to take place between 2027-28 to 2031-32.

The total capital requirements for depots and fleet and other capital expenditure is £355 million from 2024-25 to 2031-32. This is the base scenario in the Assessment. For Franchising, it has been agreed

by the MCA that these capital requirements can be funded via CRSTS1 and 2 during this period. Beyond 2031-32, it is assumed that the MCA can borrow to fund these assets through the Public Works Loan Board (PWLB) at an interest rate of 5%. Under EP Plus, the private sector would finance these assets via borrowing assumed to be 7%.

Optimism Bias

Optimism Bias (OB) is applied to some of the cost estimates to scale them up and account for risk. Given the early stage of work, generally the approach taken is that the top end of the range for OB has been applied based on the cost category in the Green Book. For example, depot acquisition costs have a 70% OB uplift applied and fleet costs a 20% OB uplift.

Base Transport Levy Funding

The main source for funding for the bus services in the MCA is the Transport Levy. The planning assumption in the MCA's Medium Term Financial Plan is that the Transport Levy available for bus services expenditure is forecast to grow at 2% per year up to 2029-30. From 2030-31 onwards, the Transport Levy available for bus services expenditure is assumed to grow at RPI+1%. The Transport Levy part-funds all modes of public transport expenditure in South Yorkshire including buses, tram and heavy rail.

Enhanced Partnership Plus

Funding flows under EP Plus

Funding flows under EP Plus are the same as the current EP (Reference Case). Operators are still taking cost and revenue risk for the delivery of bus services, including funding and financing capital investment in the depots and fleet. The MCA is responsible for providing subsidy for Tendered Services which are not commercially viable in their own right. The MCA is limited in its ability to subsidise investment by operators through Subsidy Control rules.

Under EP Plus there are additional costs compared to the Reference Case (EP) including: for the socially important services, the MCA's Tendered Services budget will need to increase to maintain the same network as Franchising; additional staff are required for EP Plus which is discussed in more detail under the Management Case; and the need to hold operators harmless for unified ticketing.

Summary of Financial Position for EP Plus

The financial position of EP Plus has been shown in Figure 4 and Figure 5 on a "whole of industry" basis which accounts for the revenues and costs of all the bus operators as well as the revenues and costs of the MCA and the funding position outlined above. This makes the position more comparable with Franchising (where all the revenues and costs of the bus industry are internalised into the MCA's budgets).

The results show that:

- EP Plus is not affordable on a cumulative basis over the appraisal period.
- The industry marginally stays in a modest annual surplus on the assumption that capital expenditure for fleet renewal can be funded through third-party grants during the first renewal cycle.
- The industry tips into a significant annual deficit though when another major capital renewal cycle begins and the private sector is assumed to borrow to finance the fleet renewal.

This analysis indicates that if the EP Plus option seeks to deliver the same outcomes as those under the Franchising Option, then the industry is unlikely to be financially sustainable long-term.

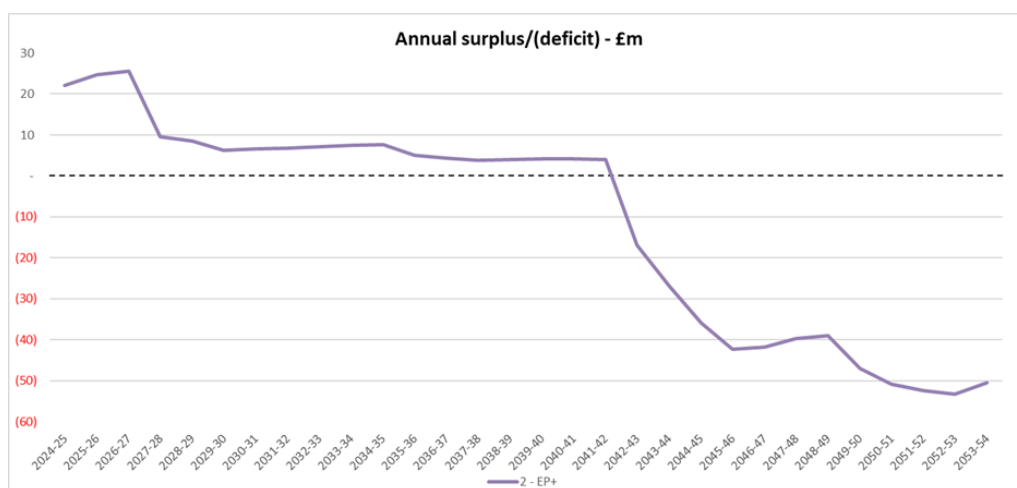


Figure 4 EP+ Whole Industry Annual surplus / (deficit) £m

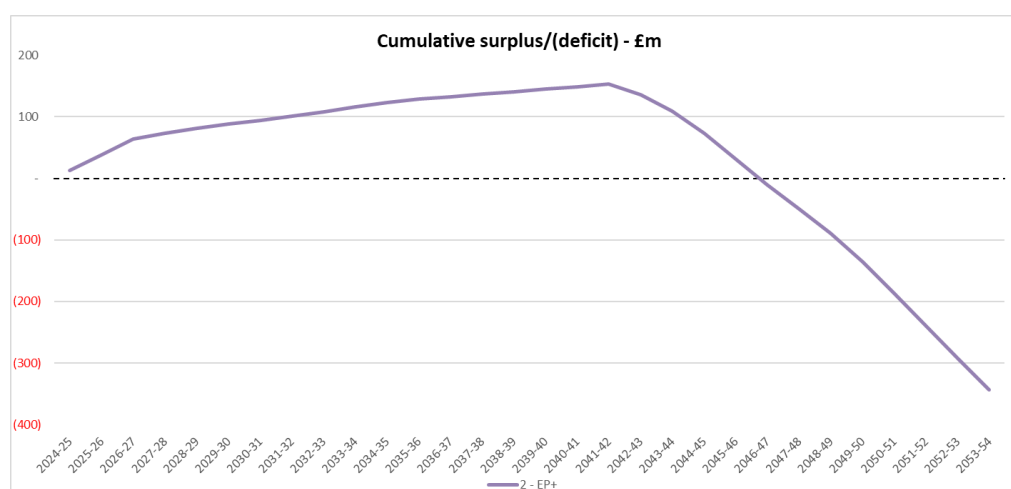


Figure 5 EP+ Whole Industry Cumulative surplus / (deficit) post levy apportionment (£m)

Franchising

Funding flows under Franchising

Franchising changes the funding flows of the bus industry. The MCA would be in control of specifying the routes, services, fleet and fares and would tender the operations of those services to private sector bus operators.

The MCA would receive the 'farebox income' from passengers using bus services and therefore take on revenue risk. The revenue is demand-led as its level depends on the number of fares sold and the price of those fares which the MCA would be responsible for setting. This means that the MCA can use the revenues from profitable commercial services to cross-subsidise socially important but not commercially viable services. As a result, Tendered Services for socially important services that exist under the EP options today would be wrapped up into bus Franchising contracts. Taking on revenue risk would mean that the MCA would have to manage the risks associated with this as described below.

Under the Franchising Options there are additional costs compared to the Reference Case based on:

- The greater network coverage that is brought back as Franchising is implemented over the 3-year transition period.
- There are additional staff and other costs required during the transition phase and beyond to implement Franchising. These are discussed in more detail in the Management Case.

Summary of Financial Position for Franchising Option B

Figure 6 and Figure 7 below show the MCA's annual and cumulative surplus or deficit after the funding scenario set out above has been applied for the preferred Franchising Option, Franchising Option B.

The results show that:

- Franchising Option B goes into a significant annual financial surplus from 2027-28 up to 2041-42 as revenue from commercial services is obtained and CRSTS1 and CRSTS2 are used to grant fund the depots, depot upgrade and fleet requirements for the first renewal cycle from 2027-28 to 2031-32 years.
- After 2041-42, the second fleet renewal cycle occurs which the MCA is assumed to finance through borrowing at PWLB. This causes a significant annual deficit to begin to emerge from 2043-44.
- Franchising Option B remains affordable on a cumulative basis over the appraisal period which results in a c.£54 million surplus by 2053-54. This is because it is assumed that the surpluses between 2027-28 to 2042-43 can be saved and receive interest (Figure 7). These are then used to fund the annual deficit that begins to emerge after 2043-44 to the end of the appraisal period.

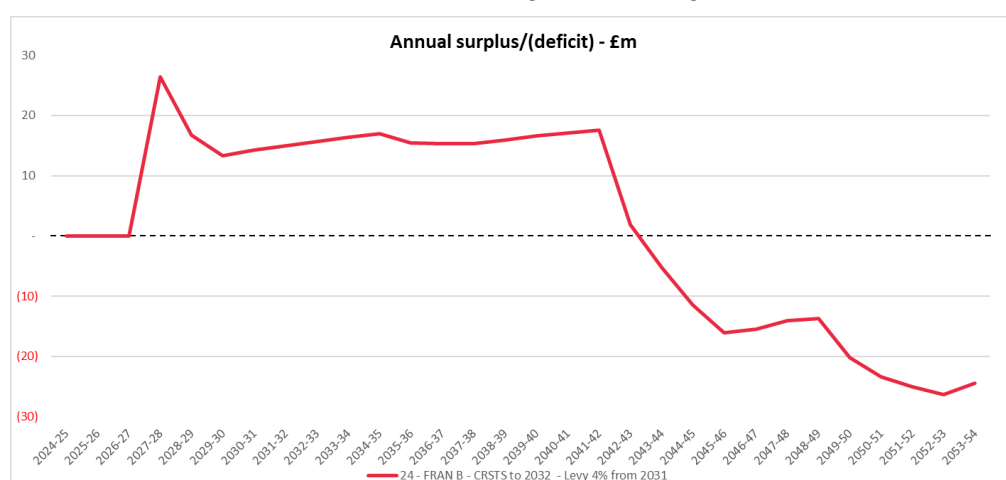


Figure 6 Franchising Option B Surplus/(deficit) annual position (nominal)

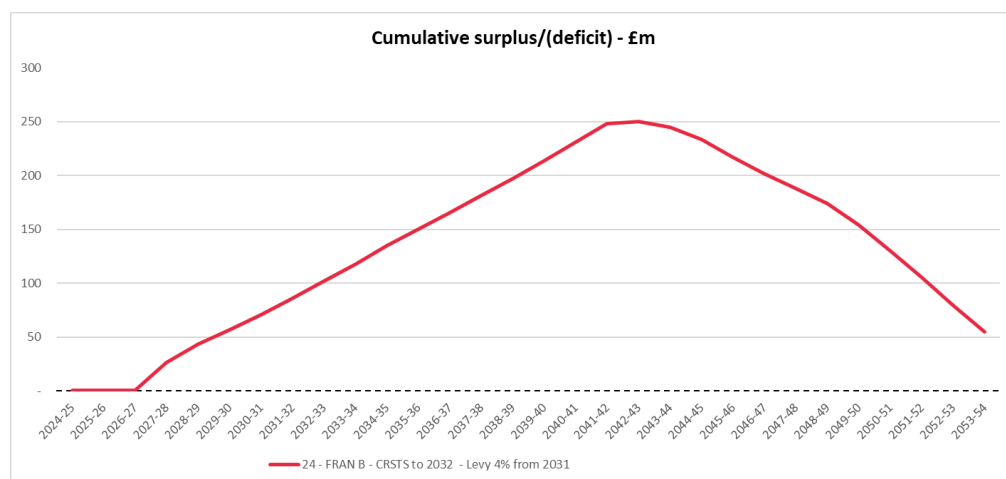


Figure 7 Franchising Option B Cumulative Surplus / deficit (nominal)

Risks

Some of the key financial risks associated with Franchising include: the MCA taking on revenue risk and having to manage potential volatility in revenues; transition to franchising (costs increasing particularly

where the remaining commercial market becomes unviable); MCA costs and resourcing being higher than forecast; higher than forecast operating costs; higher than expected depot acquisition costs and higher fleet replacement/renewal costs. Key EP Plus risks include Tendered Services budget pressure and higher enhancement costs (fleet and depots). These risks will require careful management, mitigation and provisioning to address them should they materialise.

Conclusions of Financial Case

The Financial Case results show that Franchising Option B was shown to be affordable over the full appraisal period on a cumulative basis. This was on the basis that capital expenditure could be funded via CRSTS up to 2031-32. The EP Plus option was shown not to be affordable over the full appraisal period primarily due to higher borrowing costs.

It should be noted as well that several conservative assumptions have been made to inform this analysis:

- No further interventions to drive patronage on the network have been factored in. Over the appraisal period the MCA could consider a range of measures that could significantly drive patronage including new routes, enhanced frequencies, integration with other public transport modes, or bus priority measures. Other interventions to encourage public transport usage and discourage car use could also be considered.
- As more of the fleet transitions to Net Zero, the savings in operating costs from ZEBs have not been factored into the financial modelling.
- It is assumed that no capital funding is available from central Government beyond 2031-32 and the MCA will need to borrow to finance capital beyond this date. Any available capital grant funding post 2032 will improve the affordability of Franchising further.
- The interest rates on borrowing for the public sector is 5% and is based on recent figures and is assumed to remain constant through the appraisal period. Lower interest rates would lower borrowing costs and reduce the deficit in later years.

MANAGEMENT CASE: SUMMARY

Introduction

The Management Case sets out robust arrangements for delivery of the preferred Franchising Option B and EP Plus option. It includes programme plans, governance arrangements, how performance and success will be monitored, how benefits will be realised, risk management in transition and business-as-usual, and an approach for the effective management of stakeholders. As per the Franchising Guidance, the Management Case considers how the MCA would “*make and operate the proposed franchising scheme*”.

Current Enhanced Partnership Operating Model

Accountabilities

An EP aims to improve the quality, efficiency, and overall experience of bus services through a partnership between the MCA, the constituent Local Authorities (Barnsley, Doncaster, Rotherham and Sheffield), and bus operators. The existing EP Plan and Scheme and the Bus Service Improvement Plan (BSIP) outline the approach to work with partners to improve bus travel. This involves joint accountability for certain activities between the MCA and operators. Operators have accountability for the running of bus services where they deem there is a commercial return. An EP requires close collaboration across network planning, marketing, branding, travel information, ticketing and customer requirements.

People

The current bus team within the MCA includes 9 Full Time Equivalent (FTE) resource, reporting to the Director of Public Transport Operations. The bus team receive support from the Customer Operations team. Additionally, there are 7 FTEs in the Concessions and Ticketing team. TravelMaster is a separate

company owned by operators that provide multi-operator and multi-modal bus tickets, including back-office capabilities to reconcile payments across bus operators.

Technology

Within the MCA there are no specific IT systems for bus with wider corporate applications being utilised. Bus operator performance and contract management is currently managed manually via spreadsheets and other documentation. For asset management, Customer Relationship Management system (MS Dynamics 365) is used to manage and maintain data in relation to bus infrastructure such as bus stops and shelters. This system is also used to record customer feedback and consultation information.

Governance

Governance structures within the MCA that support delivery include an EP Board, MCA Board, MCA Programme Board and the Audit, Standards and Risk Committee. The MCA Board is the overarching accountable body in relation to the EP and includes MCA executive team members, the four constituent Local Authorities and the Mayor of South Yorkshire.

Enhanced Partnership Plus

Accountabilities

There would be no change in accountabilities, however, there are multiple processes where there could be greater involvement from the MCA to influence delivery through increased collaboration with bus operators. MCA capabilities will require enhancing in performance management and network planning.

People

A future organisational model for the EP Plus Option would require an overall total of 33 FTE (for business-as-usual Bus functions and Organisation-wide functions), compared to the current 16 FTE in the current Bus team and Concessions Ticketing team under EP. This is shown in Figure 6 below.

This increase in FTEs is because under the current EP the MCA have a minimal role with respect to the bus network. However, under the EP Plus option there are proposed interventions across fares and ticketing, network planning, marketing and branding and the bus fleet. There are also considerable outcomes and benefits being proposed (the same as those proposed for a Franchising Scheme in some cases), such as related to network and ticketing. This would require a significant increase in resource and capability compared to the current MCA set up. Additionally, under EP Plus, the MCA would not have the legal authority that is granted under a Franchising Scheme, to implement the proposed EP Plus option interventions, so supplementary resource will be required to reach agreement with operators and manage commitments thereafter. This includes significant stakeholder management resource to negotiate and influence bus operators around elements of the bus system, such as fares and ticketing, the network and the bus fleet to deliver the benefits and outcomes proposed by the MCA. Moreover, under the EP Plus option the MCA would have very few contractual or commercial levers to manage bus operators, compared to a Franchising Scheme, and therefore would need substantial resource to manage operator performance.

Also, some of the roles that currently work on bus in the MCA are for general public transport, not just bus. So, under EP Plus there would be more dedicated bus roles in the MCA overall, therefore amending the team structure for bus. In addition, the EP Plus option requires between 1 FTE to 17 FTEs during design and implementation phases of the EP Plus delivery programme at any one time.

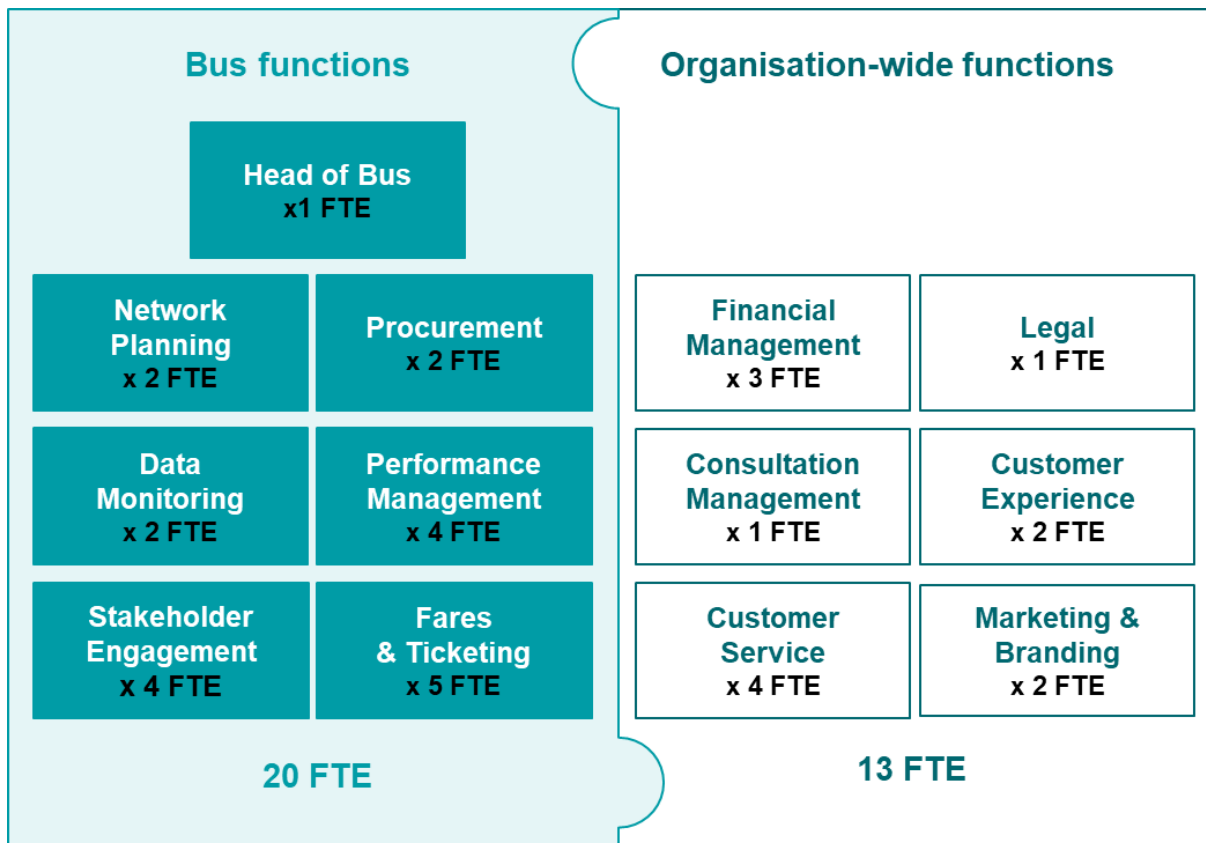


Figure 8 Enhanced Partnership Plus Organisational Chart (BAU)

The graph below (Figure 9) shows the profile of resources required for EP Plus, including external resource required for the design and transition phases of the programme, and the internal BAU roles.

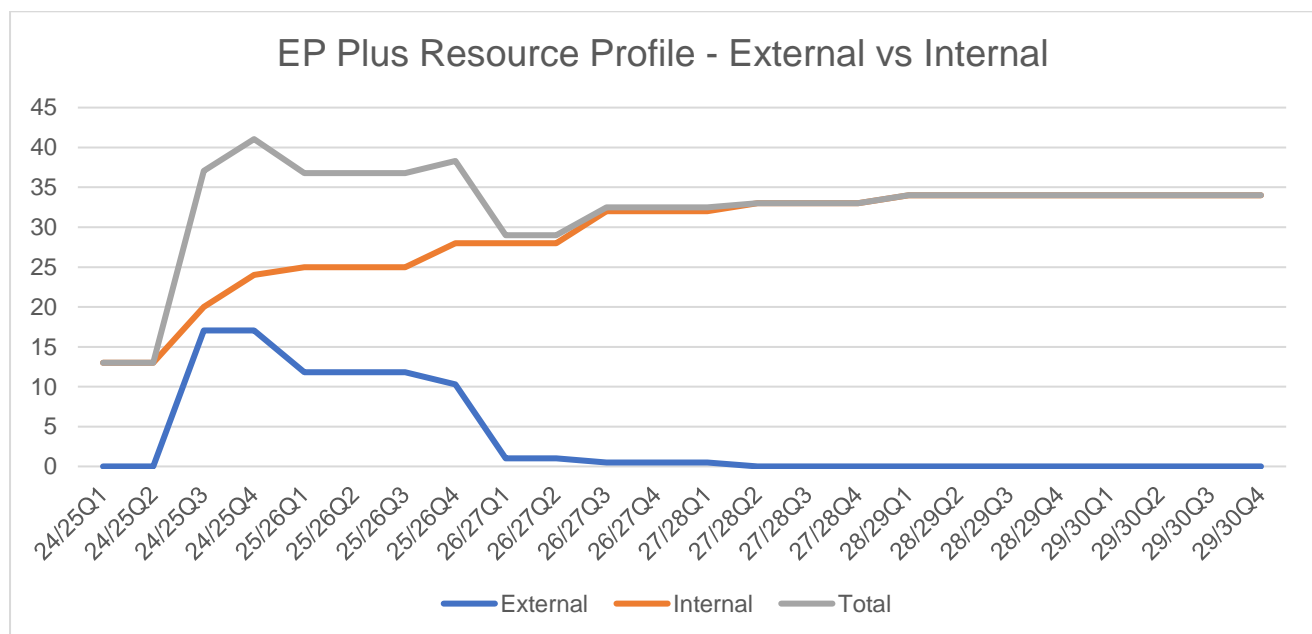


Figure 9 Enhanced Partnership Plus Resource Profile – External vs Internal

There would be a need to invest in new technologies to assist and strengthen activities such as network planning and contract and performance management. Data management and business intelligence systems would facilitate better transport integration and bus operator performance management.

The governance structures under EP Plus would be the same as that of EP. The Audit, Standards and Risk Committee would perform further scrutiny around EP Plus as additional budget would be invested.

The programme plan for EP Plus would consist of two stages: design and implementation. The design phase, lasting around eighteen months, involves the design of the operating model and associated business change (Figure 10). The implementation phase would deliver the new functions and capabilities, lasting another eighteen months. This phase would include the delivery of the October 2023 bus network and more stringent bus operator performance management on these Tendered Services.



Accountabilities

The MCA would assume accountability for additional activities required including network planning, procurement and performance management of bus services. Under the preferred option, Franchising Option B, the MCA would become ultimately accountable for fleet and depot management, which includes defining the specification and standards, and maintaining the fleet and depots overall. However, day-to-day management and operation would be contracted out to bus operators, who would therefore become responsible for day-to-day maintenance for both fleet and depots.

The MCA would require a significant increase in capacity and capability of people and skills. The future (business-as-usual) organisational model would require 34 full-time equivalent dedicated roles for the various parts of the value chain, rather than individuals performing simultaneous responsibilities for all of these processes. This is shown in Figure 11 below. This is compared to the current 16 FTE within the MCA working on bus, although some of these roles work across various MCA departments and are not solely dedicated to bus, for example corporate functions such as finance and IT teams and roles and

customer service teams who are involved at varying levels of commitment and time under EP. This would be different under Franchising, which would require a different operating model.

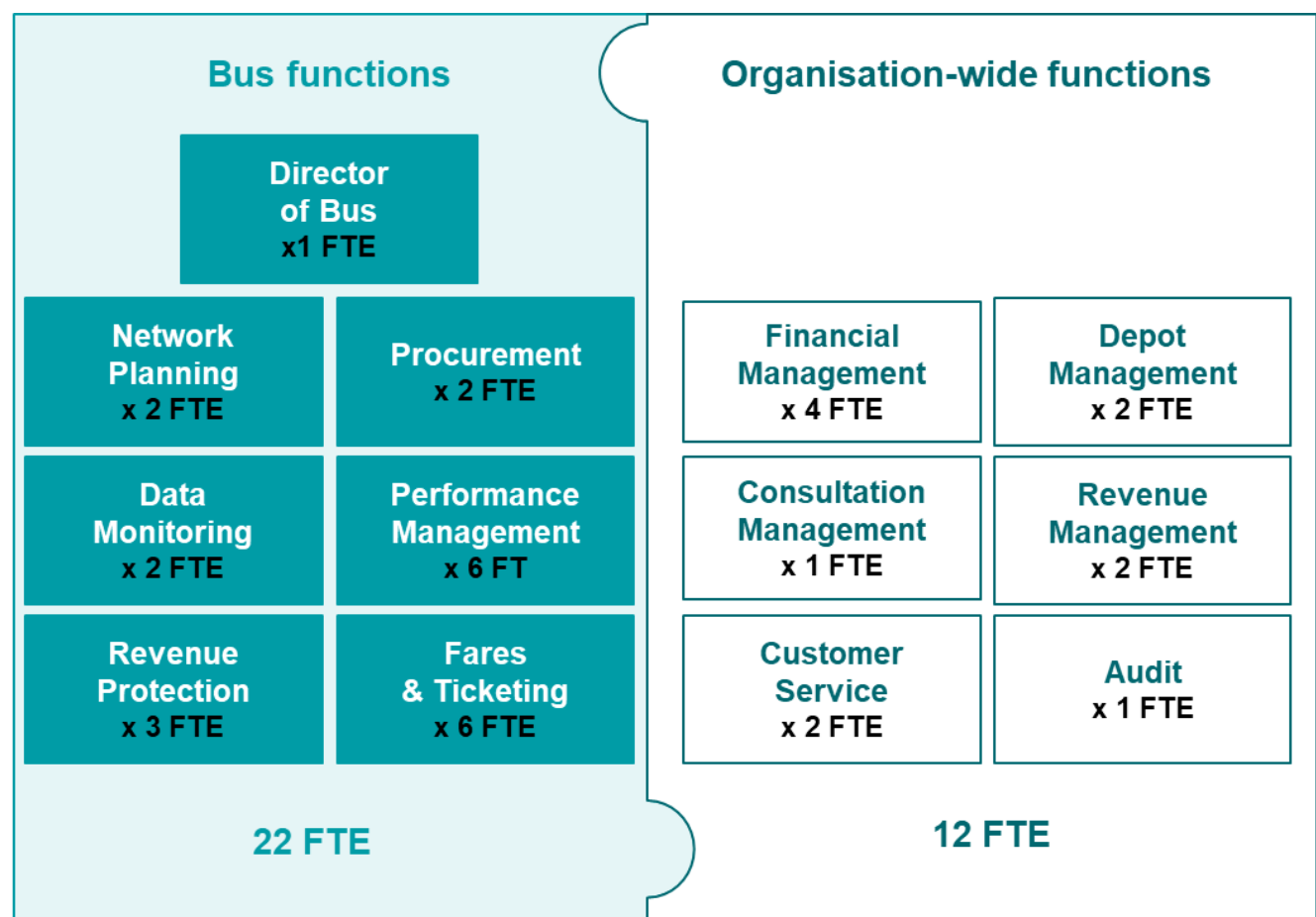


Figure 11 Franchising Organisational Chart

In addition, the preferred option (Franchising Option B) will require between 9 to 28 FTEs per year during the design and transition phases of the Franchising Scheme programme. It is expected that these resources would be provided by the market rather than directly provided by the MCA. Figure 12 below reflects the profile in external resources required for the design and transition phase of the Franchising Scheme programme, compared to the changes in internal resource required for business-as-usual, the latter peaking at 34 FTE.

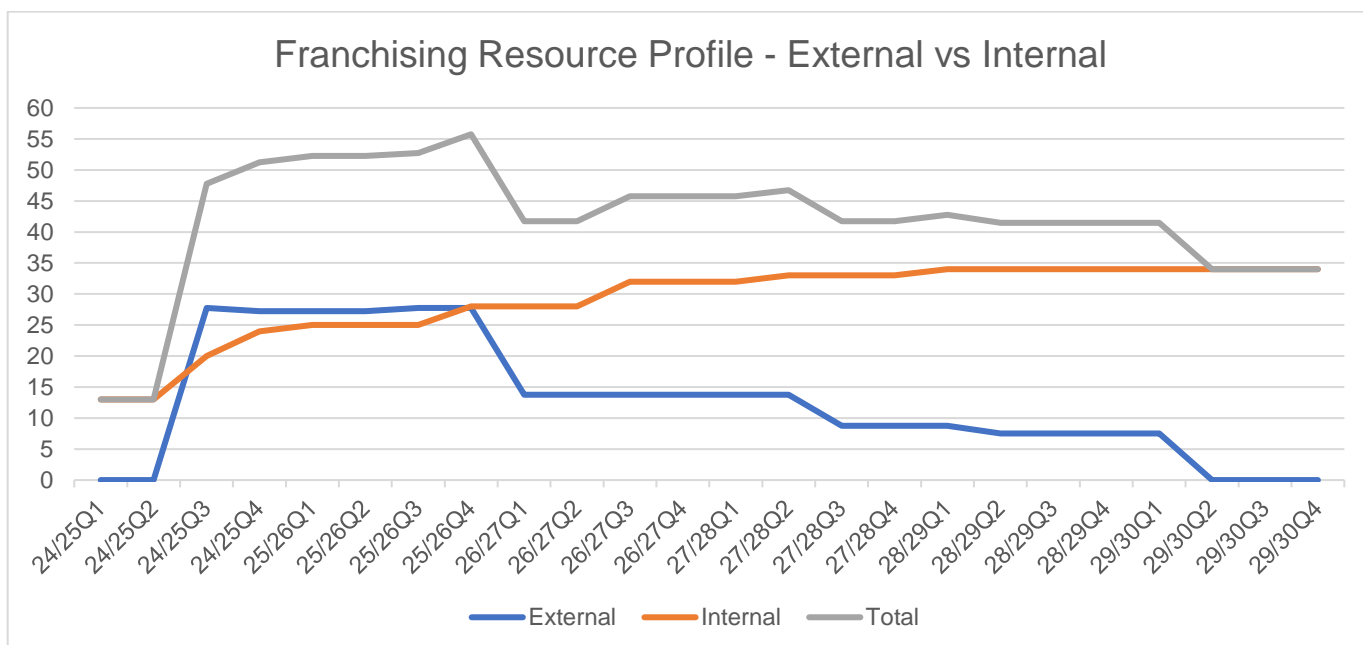


Figure 12 Franchising Resource Profile – Internal vs External

Technology

The current MCA technical landscape requires significant investment. For corporate functions such as financial management existing corporate systems would be used. Network planning, procurement and contract management, ticketing and data and analytics would require additional IT investment. It is recommended that the MCA conduct an IT systems analysis, to understand IT requirements.

Governance

It is expected that the newly formed governance structure of the MCA would manage the Franchising Scheme. The MCA's new governance structure follows a cabinet-style leadership model, with portfolio responsibilities for policy areas divided between the Mayor and the four local authority Leaders, who would form the MCA Board. The existing EP Board would be dissolved once Franchising is implemented.

Programme Plan

Following completion of the Assessment and a Mayoral Decision to proceed in September 2024, there are two main programme phases: design and transition (Figure 13). The design phase includes activities such as designing the Target Operating Model, customer experience design, network planning, service permit scheme design, fleet specification, and commercial and template contract design. The transition phase cycles through three Franchising Scheme tranches, the first cycle of which includes preparation, procurement and mobilisation before the deployment of contracts. The staggered nature of the lots would enable efficient use of capability and resource spreading the procurement across 3 years.

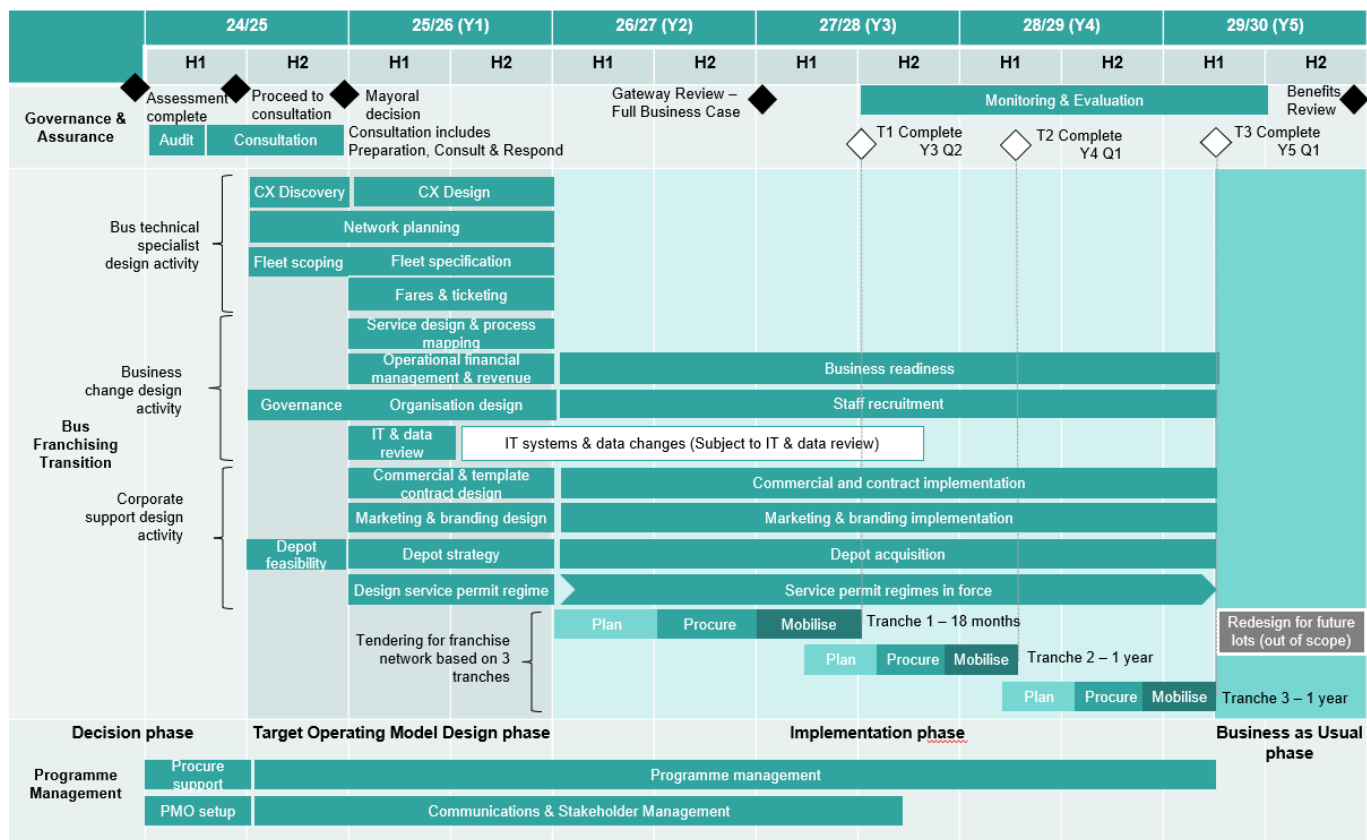


Figure 13 Franchising Programme Plan

Programme Management Methodology and Strategy

Programme Management Arrangements

Moving from the current EP operating model to a Franchising Scheme or an EP Plus operating model is a significant business change. Careful delivery and governance are critical to ensuring the realisation of associated benefits and the support of the stakeholders involved.

The programme would utilise the MCA's existing programme management standards and arrangements used on other projects. The programme would adopt a Project Management Office (PMO) and would utilise processes put in place by the Programme Controls teams. The PMO in the MCA Executive Team would be responsible for oversight including opportunity appraisal and further business case development activities. The Franchising programme team would also include project management for fleets and depots (which would not be relevant for EP Plus as there would be no change in the MCA's role in this regard). Other key roles would cover Benefits Management to manage benefits realisation, Risk Management to ensure risks are managed, and Stakeholder Management to stakeholders.

Risks

Effective management of risk is an integral part of good corporate governance and internal control arrangements and should be a part of regular management processes. The MCA is committed to ensuring that robust arrangements for the management of risk are in place and operating effectively across the organisation. The continued management of risk would be an important continuity arrangement.

Examples of key management case risks associated with the programme include those relating to the MCA's resourcing and capability, transition, technology, stakeholders and implementation.

The MCA would become accountable for the delivery of more activities through a Franchising Scheme with an accompanying increase in people, skills, technology and data. An EP Plus would have the same legal set up as the current EP, therefore, the MCA would not take on more legal accountability. However, additional people, skills, technology and data would be required to deliver the proposed EP Plus interventions, as the MCA would need to increase their responsibilities to deliver similar outcomes as those proposed in the Franchising Scheme. Both options require significant additional resource to deliver, with Franchising requiring a greater level than EP Plus, particularly for delivering the programme of change.

The programme for delivering both options (EP Plus option and Franchising Option B), would utilise the MCA's existing programme management standards and arrangements used on other projects and programmes. The programme would adopt a Project Management Office (PMO) and utilise processes put in place by the existing Programme Controls teams within the MCA. The PMO in the MCA Executive Team would be responsible for oversight including opportunity appraisal and further business case development activities.

The MCA utilises an Assurance Framework, which outlines how public money would be used responsibly, openly and transparently, to achieve best value for money. This would be applied to the design and implementation of either operating model to assure delivery enabling the MCA Executive Team to gather reliable feedback on delivery performance and evaluate the inputs, outputs, and impacts of the investment.

From a Management Case perspective, both the EP Plus option and Franchising Option B are deliverable and would require programmes of change to manage the transition involving programme management and governance, with the Franchising Scheme again being more significant than EP Plus. This Management Case has detailed the required programme management, risk mitigation, resource requirements and governance to successfully implement the Franchising Scheme or EP Plus option. Therefore, following this and applying robust governance, assurance, and risk management, both options would be manageable and deliverable by the MCA.

ASSESSMENT SUMMARY CONCLUSIONS

Summary of Options

The Strategic Case has highlighted why South Yorkshire's bus network is not currently delivering the desired outcomes of the MCA's wider policy and strategy documents, and the connection between this and the current EP operating model. To address this, six options for the future operating model of the bus network (continuing with the EP, EP Plus or adopting a Franchising Scheme under four different depot/fleet ownership Franchising Options A to D) have been proposed and assessed against the MCA's objectives for the future bus network. The options are summarised in Table 3 below.

Table 3 Overview of Options

	EP (Do Nothing)	EP Plus option	Franchising Option A	Franchising Option B	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
Revenue Risk	Operators	Operators	MCA	MCA	MCA	MCA

All options cover the South Yorkshire area in its entirety: the preferred option would be implemented across all four districts of South Yorkshire (Barnsley, Doncaster, Rotherham and Sheffield).

This section sets out a summary of the detailed assessment of options against the MCA's objectives using a multi-criteria assessment framework, with the results scored according to a red/amber/green rating system, where the colours have the following meanings:

- Green: The objective is substantially achieved
- Amber: The objective is partially achieved, or the probability of it being substantially achieved is uncertain
- Red: The objective is not achieved or is very unlikely to be achieved (either in whole or in part).

In addition, some objectives have been scored as green/amber or amber/red, reflecting the uncertainties in terms of the extent to which these would be achieved under the given option and effectively creating a five-point rating scale.

Assessment Summary

A comparison of the assessment of all Franchising Options and the EP Plus option against the MCA's objectives is provided below in Table 6.

Table 4: Comparison of all Franchising Options against the MCA Objectives

R ef	Objective	RAG Rating: Enhanced Partnership	RAG Rating: Enhanced Partnership Plus option	RAG Rating: Franchising Option A	RAG Rating: Franchising Option B	RAG Rating: Franchising Option C	RAG Rating: Franchising Option D
1	The delivery model must be affordable to the MCA						
2	The delivery model must achieve value for money to the MCA						
3	The delivery model should drive increases in passenger demand						
4	The delivery model should increase in coverage and connectivity across the region						
5	The delivery model should increase in punctuality and reliability of bus services						
6	The delivery model should increase the presence of operators in the Bus network						
7	The delivery model should drive an environmentally sustainable bus network						

R ef	Objective	RAG Rating: Enhanced Partnership	RAG Rating: Enhanced Partnership Plus option	RAG Rating: Franchising Option A	RAG Rating: Franchising Option B	RAG Rating: Franchising Option C	RAG Rating: Franchising Option D
8	The delivery model should drive improved responsiveness to societal needs (connectivity)						
9	The delivery model will support a network that supports society's most vulnerable						
10	The delivery model will drive equity in experience for customers						
11	The delivery model must be deliverable		Pass	Fail	Pass	Fail	Pass

Overall, this Strategic Case has highlighted why South Yorkshire's bus network is not currently delivering the desired outcomes of the MCA's wider policy and strategy documents, and the connection between this and the current EP operating model. To address this, six options for the future operating model of the bus network (continuing with the EP, EP Plus or adopting a Franchising Scheme under four different depot/fleet ownership models – Franchising Options A to D) have been proposed and considered against the MCA's objectives for the future bus network.

An analysis of neighbouring local authorities' transport objectives and policies indicates that none of the aims of these authorities need be compromised by implementation within South Yorkshire of any of the options outlined in this Assessment.

Affordability

Franchising Options vary in terms of affordability, with Franchising Option B being the most affordable on a cumulative basis showing a modest surplus at the end of the appraisal period. This is mainly due to a large proportion of capex being funded through CRSTS grant funding up to 2032. EP Plus is not affordable over the appraisal period, and this is mainly due to higher costs arising through private sector borrowing.

Value for Money

The EP Plus option and Franchising Option B are all currently shown to generate more benefits and revenue than the costs it would incur to implement and operate the options, relative to the Reference Case, the existing EP. This shows that all options would generate VfM for the MCA. Franchising Option B results in a higher NPV and BCRs when compared with the EP Plus option.

Other Criteria

Assessment of the options against the remaining MCA's strategic objectives demonstrated that the Franchising Options more readily facilitate improved responsiveness to social needs, a network that supports society's most vulnerable and equity in experience for customers. This is as the network can be more holistically planned through MCA network design to be in line with the MCA's strategic priorities. However, this will be dependent on ongoing higher levels of funding.

The Franchising Options more readily drive increases in passenger demand, connectivity across the region and improvements to reliability and punctuality of bus services. This is driven by the MCA network design, service provision, ticketing/fares specification and performance standards which provide long-term strategic control to make changes to improve drivers of demand, i.e. connectivity, reliability, punctuality. However, for Franchising Options with operator ownership of depots and fleet the ability to meet long-term aspirations for performance and efficiency may be reduced, which would impact on patronage. Franchising Options B and D also support the objective to increase the presence of operators

in the Bus network through supporting greater competition in franchise contracts, with Franchising Option B (where both depot and fleets are provided by the MCA) better meeting this objective than Franchising Option D.

Deliverability

From a Deliverability perspective, an increased presence of operators in the network and a drive to an environmentally sustainable bus network is variable between EP, EP Plus and Franchising Options. For EP, EP Plus and those Franchising Options with operator ownership of fleet there is reduced control over a move to ZEBs as the MCA does not own the assets, albeit mirrored ownership could facilitate enhancements.

For Franchising Options (A and C) with operator ownership of depots, whilst there are no changes to ownership from the existing EP facilitating delivery, it is likely to be extremely difficult to run a competitive commercial tendering process as incumbents are favoured due to their ownership of strategically located depots. To enter the market would require a prospective operator to buy one of these depots or construct a new depot, representing a high barrier to entry potentially reducing the presence of operators in the network. For these reasons, Franchising Options A and C are not considered deliverable. Conversely, Franchising Options B and D (where the MCA owns the depots) are assessed as being commercially viable as they would facilitate competition for franchise contracts, although it is noted that there are risks and challenges with the MCA securing the remaining strategic depots in the region.

An analysis of neighbouring local authorities' transport objectives and policies indicates that none of the aims of these authorities need be compromised by implementation within South Yorkshire of any of the options outlined in this Assessment.

Preferred Option

From this Assessment, 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 was considered deliverable particularly as it maximises competition for franchise contracts when compared to other Franchising Options.

Franchising Option B better meets the MCA's objectives when compared to the EP Plus option. Franchising provides the MCA with greater control when compared to EP and EP Plus, and therefore provides confidence in the delivery of required outcomes. The delivery of required outcomes with EP Plus is contingent on reaching agreement with operators, which is a significant risk.

Franchising Option B (where the MCA owns both the depots and fleet) is therefore considered to be the preferred option as it is affordable, demonstrates VfM, is deliverable and better meets the MCA's objectives when compared to other options.

1. Strategic Case

1.1 SUMMARY

This Strategic Case forms a part of the five-case assessment of the Franchising Scheme, as required under section 123B of the Transport Act 2000 (“the Act”).

This Strategic Case assesses the potential of the options for how bus services in South Yorkshire would operate to achieve the MCA’s objectives for the bus network, namely an EP Plus or a Franchising Scheme. The Franchising Options are evaluated alongside the existing Enhanced Partnership (EP) arrangement (as the Reference Case or Do-Nothing option) and an EP Plus option. The Strategic Case is one of the five cases under the five-case business model used in the overall Assessment (see Section 1.1.1 below). The six options outlined are evaluated in the Strategic Case and the Commercial Case, with only the EP, EP Plus and the Preferred Franchising Option (Option B) taken forward to the Economic Case, Financial Case and Management Case.

The case first examines the MCA’s strategic aims for South Yorkshire, as expressed in key policy documents, and the contribution of the transport network, including buses, to these. It then provides the Case for Change, by assessing the ability of the current bus network to meet the strategic aims and the challenges and barriers that are preventing it from fully contributing to them.

Having assessed these challenges and barriers, the case then outlines the MCA’s objectives for the future bus network, as developed for the purpose of the wider Assessment of which this case forms a part. This is followed by a summary of the Franchising Scheme and EP options under consideration and a comparison of these options against the objectives. Finally, the case compares the performance of the options against the MCA’s objectives.

It is worth noting that the overall decision on whether to progress with a Franchising Scheme or EP option (either as the current EP or as an EP Plus) will also take the outcome of the other cases into account, and that the comparative performance of the options against these cases may differ from their performance as assessed in the Strategic Case. The key conclusions from the other cases, in particular, the Economic, Commercial and Financial cases, are considered as part of the assessment of the options set out in Section 1.5, which sets out the preferred option.

1.1 INTRODUCTION

1.1.1 The Assessment

This Assessment has been developed to assess the case for the implementation of a Franchising Scheme for the bus network in South Yorkshire, in place of the existing EP. Under a Franchising Scheme, the MCA would take strategic control of the local bus services, including routes, timetables and fares, and operators would bid to run those services on its behalf. In the UK, this system is currently used by Transport for London and is currently being implemented in Greater Manchester following the Mayor’s decision to implement a Franchising Scheme for the region. Other mayoral combined authorities are also assessing the case for bus franchising including the West Yorkshire Combined Authority and the Liverpool City Region Combined Authority.

An assessment is required when proposing a Franchising Scheme under the Act. The South Yorkshire Bus Review, a report commissioned by the Sheffield City Region (now the MCA) in 2019 to examine the reasons for a decline in bus usage in South Yorkshire and the potential solutions to this (see Section 1.3.2 below), recommended that the MCA assess options for the franchising of the region’s bus services. Subsequently, the MCA Board approved the assessment of a bus Franchising Scheme in March 2022.

The structure of the Assessment is set out below. This uses the five-case business case model and has the same level of detail that would usually be included within an Outline Business Case (OBC) under the Treasury’s Green Book guidance:

- the Strategic Case sets out the rationale for regulatory change, the MCA's objectives for bus services and the EP Plus and Franchising Options to be assessed and provides an overall assessment of each option against MCA's objectives, identifying the preferred option.
- the Economic Case provides the value for money assessment of the EP Plus and Franchising Options.
- the Commercial Case outlines contractual and procurement considerations of the EP Plus and Franchising Options.
- the Financial Case includes the costs, funding options and affordability assessment.
- the Management Case details the proposed approach to management and delivery.

1.1.2 The Strategic Case

The Strategic Case places the case for a Franchising Scheme in the context of the MCA's strategic priorities for the region, as expressed in the Strategic Economic Plan (SEP) and the Energy Strategy. This is supplemented with a discussion of current travel trends and modal split in the region and the performance of the bus network, and the interaction of these with the current operating structure and funding model. The case outlines the MCA's objectives for the future of the bus network and assesses the ability of the Enhanced Partnership (EP) as the Reference Case (or Do Nothing option), EP Plus and four Franchising Options involving different permutations of depot and fleet ownership (outlined below) to meet these objectives:

- **Franchising Option A** – Operator owned depots, operator owned vehicles, and MCA assumes revenue risk.
- **Franchising Option B** – MCA owned depots, MCA owned vehicles, and MCA assumes revenue risk.
- **Franchising Option C** – Operator owned depots, MCA owned vehicles, and MCA assumes revenue risk.
- **Franchising Option D** – MCA owned depots, operator owned vehicles, and MCA assumes revenue risk.

More detail on these options is provided in Section 1.5.2, Table 16.

It is worth noting that while this Strategic Case considers the full potential of the Franchising Options analysed, the potential risks, organisational realignment and costs associated with franchising may in practice prevent the full potential of a Franchising Scheme being realised. These barriers to the implementation of the full potential benefits of a Franchising Scheme will be examined in the other four cases of the Assessment and reflected in the overall conclusion of the Assessment.

The Strategic Case is structured as follows:

- Section 1.2 introduces the MCA's strategic aims for South Yorkshire, including the relevant strategic priorities and their relation to transport, and in particular bus.
- Section 1.3 establishes the case for change by outlining travel trends in South Yorkshire, challenges faced by the bus network, including social shortcomings, and barriers to a thriving bus network in South Yorkshire.
- Section 1.4 provides the MCA's objectives for the bus network, success criteria and the objectives and policies of Neighbouring Transport Authorities.
- Section 1.5 presents the Franchising Options as well as EP and EP Plus.
- Section 1.6 provides a comparison of the EP Plus option and each Franchising Option against the outlined objectives.
- Section 1.7 summarises the Strategic Case in a conclusion, recommending a preferred option.

1.1.3 Strategic Case risks

Table 4 provides a summary of strategic risks that relate to implementation of the Franchising Scheme and EP Plus.

Table 4 Strategic Case risks

Name	Description	Relevant to option						Mitigation	Commentary on residual risk
		EP	EP Plus	Franchising Option					
				A	B	C	D		
Political alignment	If there are changes in political leadership and/or misalignment between key political stakeholders, then there may be shifts in support for the bus franchising model.			x	x	x	x	Maintain communication through governance boards and wider channels to keep abreast of any potential changes in direction. Continue to make the benefits of the preferred option clear, and thus monitor and evaluate benefits accordingly.	Residual risk remains and so political alignment must be managed on an ongoing basis.
Policy alignment	If there is a misalignment between policies such that bus franchising is not supported by complimentary policies resulting in limited success of franchising.	x	x	x	x	x	x	Regular review of policies to ensure alignment and that policies are complimentary to supporting preferred option.	Residual risk remains; however, development of the South Yorkshire Local Transport Plan should ensure alignment in policy between the South Yorkshire Districts.
Supporting investment	If there are strategic investment decisions taken which do not support bus franchising or EP Plus and/or a diversion of funding from bus franchising / EP Plus, then its success will be compromised.		x	x	x	x	x	Ensure key investment decisions to ensure the success of the preferred option are clearly owned and supported by stakeholders.	Residual risk remains and ongoing financial commitment to the preferred option will be necessary to its success. The level of investment risk will vary depending on the configuration of fleet and depot ownership in each Franchising Option.

1.2 THE MCA'S STRATEGIC AIMS FOR SOUTH YORKSHIRE

1.2.1 Election manifesto of the Mayor (Oliver Coppard)

The manifesto of the Mayor, Oliver Coppard, sets out the following vision: *“As South Yorkshire's Mayor, I will work every day to rebuild the pride, purpose and prosperity of our region”*. This vision is supported by the following strategic goals:

- Doing politics differently by putting communities at the heart of decision-making.
- Building a better economy and creating more, better paid jobs in the industries of the future.
- Developing a Clean Energy Strategy to bring down bills and find a path to energy security.
- Fixing South Yorkshire's buses so public transport is the efficient, effective public service it used to be.
- Bringing more money, power and investment into the region, holding the government to account when needed.

The manifesto also notes a commitment to examine the ownership, funding and future of our South Yorkshire's tram network, so we can develop a long-term approach that integrates the future of the tram network into our wider plans for public transport across South Yorkshire, and outline a way forward that is acceptable and fair to all parts of South Yorkshire. From March 2024, the Sheffield Supertram will be operated by the MCA (as an arm's length wholly owned subsidiary of the MCA).

The following sections will cover the current and potential contribution of transport to these strategic priorities.

1.2.2 Key Strategic Priorities for South Yorkshire

The MCA has clear strategic priorities for South Yorkshire, as found in the South Yorkshire Strategic Economic Plan and the South Yorkshire Energy Strategy.

South Yorkshire Mayoral Combined Authority Strategic Economic Plan (SEP)

The SEP sets out local leaders' blueprint to drive the region's recovery from COVID-19 and transform South Yorkshire's economy and society for people, businesses and places over the next 20 years. It was initially published in 2021 and refreshed in 2022. The SEP's vision statement is as follows:

“We will grow an economy that works for everyone. We will develop inclusive and sustainable approaches that build on our innovation strengths and embrace the UK's 4th Industrial Revolution to contribute more to UK prosperity and enhance quality of life for all.”

To support this vision, the SEP has the following goals for the region for 2041:

- *“We will be a net contributor to the national economy, supporting innovation and entrepreneurship, retaining talent rather than exporting it, and attracting new investors to locate in the region;”*
- *“Our people will be happier, healthier, better off, better qualified and better able to access good opportunities”.*
- *“We will have a high-quality natural environment which will contribute to an improved quality of life and wellbeing”.*
- *“We will build a zero-carbon future through hydrogen, nuclear fusion, carbon capture utilisation and storage, and other clean energy technologies”.*
- *“We will lead the world in testing, developing and commercialising ideas emerging from our research community and businesses”.*
- *“We will have vibrant town and city centres with rich sporting, cultural and leisure offers attracting people and visitors from across the country.”*

The SEP also contains the following overarching policy objectives to help support these goals:

- **Growth:** Growing the economy and enhancing its strength and resilience.

- **Inclusion:** Ensuring that everyone has a fair opportunity to contribute to and benefit from economic growth, that people have a greater stake in their economy, and that work is more closely linked to wellbeing and a decent life.
- **Sustainability:** Driving low carbon, green and circular economy opportunities within the economy and delivering net-zero emissions and lower overall environmental impact.

The UK government's launch, in July 2023, of an Advanced Manufacturing Investment Zone in South Yorkshire, which seeks to reduce the barriers to investment in the region while providing up to £80 million of funding, will help to realise the SEP.

South Yorkshire Mayoral Combined Authority Energy Strategy

Another key policy document is the MCA Energy Strategy. Updated in January 2022, this sets out how the region can achieve its goal of net-zero carbon emissions by 2040, using the following vision:

"For South Yorkshire to have: A clean, efficient and resilient energy system, which supports a healthier environment for people to live, work and visit, and which drives our transition to a low carbon economy".

The vision is supported by the following goals:

1. Drive clean growth and decarbonisation in our local businesses and industry whilst maintaining their competitiveness.
2. Promote investment and innovation in low carbon energy generation, distribution and storage technologies.
3. Improve the energy efficiency and sustainability of our built environment, and encourage communities to be part of the transition.
4. Accelerate the transition to ultra-low emission vehicles (ULEVs) and transport systems through modal shift and supporting infrastructure.

1.2.3 Contribution of Transport to the MCA's Strategic Priorities

A well-functioning transport system is a necessary requirement for the fulfilment of the MCA's priorities, as set out in the SEP, the Energy Strategy and the Mayor's manifesto. Table 5 quotes the relevant strategic priorities from these documents and sets out how transport contributes to these priorities. While Section 1.3 of this case highlights how the current bus network fails to achieve many of these priorities, these represent what the MCA should seek to achieve under a future bus network, whether under a continued EP, EP Plus or Franchising Scheme.

Table 5 Role of transport supporting the strategic priorities of the SEP and the Energy Strategy

Strategic Priority	How the Transport Network can Support this Priority
Strategic Economic Plan: Goals	
We will be a net contributor to the national economy, supporting innovation and entrepreneurship, retaining talent rather than exporting it, and attracting new investors to locate in the region.	Good transport links will enable businesses to access the labour market and other organisations, supporting the local, regional and national economy through boosting productivity and wider economic benefits such as agglomeration. An effective transport system also contributes to the appeal of a place, helping to retain talent and attract new investment into the region. A 2013 Passenger Transport Executive Group (now Urban Transport Group) report showed that more people accessed the high street by bus than any other mode, supporting £27 billion in shopping and leisure trips per year. ³ In contrast, areas with poor transport links are more likely to be classed as "left behind" ⁴ , with 84% of Left-Behind Neighbourhoods (LBNs) having worse connectivity than the English average, and 57% having worse

³ Urban Transport Group press release, 2013.

⁴ Defined by the All-Party Parliamentary Group for left behind neighbourhoods as neighbourhoods that are both among the most 10% deprived according to the Index of Multiple Deprivation, and in the 10% areas of greatest need according to the Community Needs Index.

Strategic Priority	How the Transport Network can Support this Priority
	connectivity than the average for all deprived areas, according to a 2021 APPG report ⁵ .
Our people will be happier, healthier, better off, better qualified and better able to access good opportunities.	Transport is vital for people to access work and education opportunities, with fast transport links increasing the distances people can travel to access employment, leisure and services. In addition, a more sustainable transport system supports the health and happiness of communities by reducing emissions (by reducing the number of journeys in polluting vehicles) and enabling more physical activity, both through encouraging journeys to switch to active travel and through greater use of public transport, which involve an active travel element at either end of the main public transport journey.
We will have a high-quality natural environment which will contribute to an improved quality of life and wellbeing.	<p>Reducing car usage and its consequent impacts on the environment, in the form of pollution and carbon dioxide, requires a transport network that offers attractive alternatives to the car.</p> <p>The transport network provides a means of access to the region's natural environment, particularly for more deprived groups in urban areas who are less likely to own a car. The Office for National Statistics indicates that 35% of households in the lowest income decile own at least one car, as compared to 93% of households in the highest decline⁶.</p>
We will build a zero-carbon future through hydrogen, nuclear fusion, carbon capture utilisation and storage, and other clean energy technologies.	A transport system that offers attractive alternatives to the car can reduce energy consumption relative to today, helping South Yorkshire to meet its net zero targets. The transport system can also benefit from, and facilitate, the development and adoption of zero-carbon technologies such as electric and hydrogen propulsion. This could help South Yorkshire to become a leader in the field of zero-emission technology and encourage related businesses to locate in the region, while supporting existing local businesses related to clean energy.
We will lead the world in testing, developing and commercialising ideas emerging from our research community and businesses.	<p>A well-functioning transport system that enables people to get around easily is vital for enabling existing residents to access a full spectrum of employment opportunities and thus contribute to a vibrant research and business community. It also facilitates connections between people from different businesses and research institutions, enabling emerging ideas to be developed and spread more quickly.</p> <p>A well-functioning, reliable and affordable transport network is also fundamental to South Yorkshire's trade with other UK regions and nations, and to attracting businesses that require these trade links. Given that other UK cities and regions, including Manchester, Cambridge and Leeds, are progressing with work to improve their transport systems, it is important for the MCA's transport system to keep pace with improvements seen elsewhere to ensure it remains as competitive as possible to continue to attract people to the region.</p>
We will have vibrant town and city centres with rich sporting, cultural and leisure offers attracting people and visitors from across the country.	The vibrancy of town and city centres and access to sporting, cultural and leisure facilities depend on people's ability to access these, where good transport is crucial to this. Furthermore, a well-planned and integrated transport system can support place-making by reducing the need for people to use private vehicles to access locations such as city centres. With less car dominance, road space can be reallocated towards pedestrians and to create public realm, resulting in a more inviting place to enjoy sports, culture and leisure.
Strategic Economic Plan: Overarching Policy Objectives	
Growing the economy and enhancing its strength and resilience	Traffic congestion, regardless of whether future road vehicles are fossil-fuel powered or use zero-emission (electric/hydrogen) technology, has been identified as a drag on economic growth across the UK, with the time lost through congestion valued at £9.5 billion ⁷ . An efficient and resilient transport system enables people to

⁵ "Connecting communities: improving transport to get 'left behind' neighbourhoods back on track", p.9. All-Party Parliamentary Group for left behind neighbourhoods

⁶ "Percentage of households with cars by income group, tenure and household composition", Office for National Statistics.

⁷ 2022 INRIX Global Traffic Scorecard, p.20.

Strategic Priority	How the Transport Network can Support this Priority
	access jobs and educational opportunities, enhancing the strength and resilience of the overall economy.
Ensuring that everyone has a fair opportunity to contribute to and benefit from economic growth, that people have a greater stake in their economy, and that work is more closely linked to wellbeing and a decent life.	Affordable transport is vital in providing access to opportunities for all. In particular, public transport plays an important role in supporting people from marginalised groups and/or areas of deprivation to access jobs and educational opportunities, particularly where car ownership is low. A fair, affordable and integrated transport system would support a more inclusive wellbeing-based economy.
Driving low carbon, green and circular economy opportunities within the economy and delivering net-zero emissions and lower overall environmental impact.	Modal shift away from car to sustainable transport is key to achieving a low carbon economy. In addition, all modes will need to transition towards low and zero-emission technologies.
Energy Strategy: Goals	
Drive clean growth and decarbonisation in our local businesses and industry whilst maintaining their competitiveness	The transport network can support the movement of people and goods in a carbon-efficient or zero-carbon manner, enabling businesses to reduce or eliminate the carbon emitted through the journeys their business activity leads to. An effective transport network reduces the monetary and time costs associated with making journeys, aiding the competitiveness of businesses in the area
Promote investment and innovation in low carbon energy generation, distribution and storage technologies	The transport network can be a springboard for the adoption of low and zero-emission technologies, particularly given its significant contribution to carbon emissions in South Yorkshire and across the UK. For example, current investments in hydrogen buses in the Liverpool City Region and the West Midlands also serve to create a reliable source of hydrogen demand and thus incentivise investment in hydrogen production facilities, such as ITM Power's existing facility in Sheffield (referred to in Section 1.3.2).
Improve the energy efficiency and sustainability of our built environment and encourage communities to be part of the transition.	A greater uptake of public transport and active travel is necessary for densification of the urban built environment to improve energy efficiency, both in terms of the usage and production of vehicles, and sustainability. Sustainable transport-focussed design can facilitate developments that are denser and/or less centred around the private car. UK examples include Eddington in Cambridge and Knowledge Quarter in Liverpool. Enabling design focused on sustainable transport requires developers and prospective users to have confidence in alternatives to the car, for which a well-run, comprehensive and reliable public transport network is a necessity.
Accelerate the transition to ultra-low emission vehicles (ULEVs) and transport systems through modal shift and supporting infrastructure.	Transport has been identified as key to South Yorkshire's Energy Strategy and investment is needed to support modal shift away from car and transition the transport network to zero emission technologies. In particular, schemes to disincentivise the use of polluting vehicles, such as Clean Air Zones, rely on alternative transport being available at a reasonable cost in terms of time and money. The bus network is well placed, as demonstrated in other regions, to be an early adopter of zero emission technology.
Mayoral Manifesto: Strategic Goals	
Doing politics differently by putting communities at the heart of decision-making	The manner in which the transport system is planned and operated could create opportunities for communities to have greater control and influence over decisions. Involving communities at the heart of decision-making has the potential to plan and deliver place-based transport solutions that are tailored around the needs of specific neighbourhoods.
Build a better economy and create more, better paid jobs in the industries of the future	By facilitating movement around the region, a well-functioning transport system expands the effective pool of labour available to employers in South Yorkshire, while also making the region a more attractive destination for high-paid workers. This increases the attractiveness of the region as a location for well-paid jobs (see the Strategic Economic Plan goals above).

Strategic Priority	How the Transport Network can Support this Priority
Fix our buses so public transport is the efficient, effective public service it used to be	Future options for the regulatory structure of South Yorkshire's bus system are the focus of this assessment, in order to drive improvements across the bus system in particular and the transport network more generally.
Bring more money, power and investment into our region, holding the government to account when needed	The transport network can encourage investment in the region by enabling businesses to access the labour market and other organisations, boosting productivity and through wider economic benefits such as agglomeration (see the Strategic Economic Plan goals above).

1.2.4 The MCA's Transport Strategy

Given the critical role that transport holds in achieving South Yorkshire's strategic priorities, the MCA has a vision for transport that supports the wider ambitions and is actively working towards this vision.

The Mayor's Vision for Transport for the Sheffield City Region (now the MCA), published in 2018, remains a guiding policy document for the MCA, which sets out the MCA's aims for the transport network by 2040. The vision statement of this document is as follows:

"We will build a transport system that works for everyone, connecting people to the places they want to go within the Sheffield City Region as well as nationally and internationally. Our transport system will be safe, reliable, clean, green and affordable. It will be one of the best in the United Kingdom and Europe."

This vision is supported by the Transport Strategy, published in 2019, through a series of goals and supporting policies as reproduced in Table 6.

Table 6.

Table 6: The MCA's Transport Strategy Goals and Supporting Policies⁸

Goal	Supporting Policies
Residents and businesses connected to economic opportunity.	<p>Improve the existing transport network to enhance access to jobs, markets, skills and supply chains adopting technology solutions to support this.</p> <p>Enhance productivity by making our transport system faster, more reliable and more resilient, considering the role of new technologies to achieve this.</p> <p>Invest in integrated packages of infrastructure to unlock future economic growth and support Local Plans, including new housing provision.</p>
A cleaner and greener South Yorkshire Mayoral Combined Authority	<p>Improve air quality across the MCA to meet legal thresholds, supporting improved health and activity for all, especially in designated Air Quality Management Areas (AQMAs) and Clean Air Zones (CAZs).</p> <p>Lead the way towards a low carbon transport network, including a zero-carbon public transport network.</p> <p>Work in tandem with the planning and development community to create attractive places.</p>

⁸ Sheffield City Region Transport Strategy, p.5.

Goal	Supporting Policies
Safe, reliable and accessible transport network	<p>Ensure people feel safe when they travel and invest in our streets to make them more attractive places.</p> <p>Lead the way towards a low carbon transport network, including a zero-carbon public transport network.</p> <p>Enhance our multi-modal transport system which encourages sustainable travel choices and is embedded in the assessment of transport requirements for new development, particularly for active travel.</p> <p>Ensure our transport network offers sustainable and inclusive access for all to local services, employment opportunities and our green and recreational spaces.</p>

1.2.5 Role of Bus in the MCA's Future Strategy

Bus is the most-used form of public transport in South Yorkshire (see Section 1.3.1) and provides the greatest coverage to the region's communities and developments. It is a critical part of the MCA's transport network, and a well-performing bus service is therefore a necessary condition for the fulfilment of the MCA's Transport Strategy goals.

In recognition of this and in the context of several challenges facing the bus network, including declining usage, the Sheffield City Region (now the MCA) commissioned the independent South Yorkshire Bus Review in 2019. The findings and recommendations from this were used to inform the South Yorkshire BSIP, where the MCA sets out a clear plan to improve the bus service that would actively support the region's strategic priorities.

The challenges currently facing the bus network are covered in more detail in Section 1.3.2.

South Yorkshire Bus Review

The South Yorkshire Bus Review (also referred to in this document as the Bus Review) is an independent report that was commissioned by the Sheffield City Region (now the MCA), in 2019 in reflection of the poor standard of the South Yorkshire bus network and in the context of declining patronage and service levels. It examined the key causes for the declining usage and performance of the network, as detailed in Section 1.3.2, and gave a series of recommendations for reversing this, which included an assessment of the potential for bus franchising in the region, under the terms of the Act. This was informed by extensive engagement with stakeholders including bus passengers, other residents of South Yorkshire, operators and public bodies including local authorities. These recommendations were then used to develop subsequent policies, including the BSIP (see below).

The review concluded in 2020, during the Covid-19 outbreak, and therefore generally reflects pre-covid trends. However, it also considers the early impacts of the pandemic and the role of bus in South Yorkshire in a post-pandemic world.

Bus Back Better: National Bus Strategy for England (National Policy)

The first National Bus Strategy for England was published in March 2021, with the aim of transforming local bus services and increasing patronage across England, driving a modal shift from the car. All local transport authorities (LTAs) were required to publish a BSIP by October 2021,⁹ outlining how they would work in partnership to improve bus services in their area, through measures such as fleet upgrades, better fares and ticketing options, more frequent timetables, and new bus priority measures. South Yorkshire's BSIP is discussed below.

To deliver these improvements, the National Bus Strategy made funding from the Government, such as through the COVID-19 Bus Services Support Grant (CBSSG), contingent on LTAs having committed to

⁹ [Bus Back Better: National Bus Strategy for England](#), p.11.

establish an EP, or to be in the process of implementing a Franchising Scheme, by July 2021.¹⁰ The Strategy also sets out a requirement for relevant EPs to commence by April 2022¹¹. Buses in South Yorkshire are therefore currently operating under the EP model.

An EP is a statutory partnership between an LTA and bus operators to deliver BSIP outcomes. It consists of an overall EP Plan that sets out the vision for the bus network, and an EP scheme that sets out specific actions for achieving this. The EP can specify measures including fleet quality (e.g. maximum age), ticketing arrangements, timetable change dates, livery and branding, and timetable co-ordination (both between operators where multiple operators run along a corridor, and with other services such as rail). However, the EP must be agreed by a majority of operators within the relevant plan or scheme area and doesn't completely override existing competition legislation, particularly where this applies to fares and the presence of single-operator tickets. Network planning (apart from tendered services) and revenue risk also remain with the bus operators.

Bus Service Improvement Plan (BSIP): Vision for Bus

The South Yorkshire BSIP highlights three key ways in which a well-functioning bus network can contribute to the South Yorkshire SEP:

- **Providing opportunities for people:** In rural areas they can provide an essential lifeline; everywhere, they connect communities and promote social interaction.
- **Keeping the wheels of the regional economy moving:** Well-designed bus networks can enhance people's access to employment and other opportunities, ensuring that the benefits of economic growth can be more evenly distributed.
- **Helping the transition towards a zero-carbon future:** By reducing the need for individual car use, overall CO2 emissions are lower in places where public transport patronage is higher.

The BSIP outlines how the MCA intends to co-operate with local authorities and bus operators to transform bus travel in the region in response to the findings of the South Yorkshire Bus Review and the region's recovery from the impacts of the COVID-19 pandemic. It represents a first step towards transforming South Yorkshire's bus system for the better and making this an attractive alternative to the car. The continuous development of BSIPs by appropriate transport authorities is also a requirement under the National Bus Strategy.

The agreed vision for bus, between the MCA, the local authorities and bus operators as part of the BSIP, is as follows:

- Meeting the customers' fundamental transport needs.
- Providing a reliable and attractive alternative to the car.
- Offering value for money.
- Supporting inclusive and sustainable economic growth.
- Being accessible, integrated, simple and efficient.
- Leading to a Net Zero system.
- Using technology and data to improve connectivity, quality and resilience.

The BSIP contains a set of core targets for the performance of the region's bus network by 2024/5. These are shown in Table 7.

¹⁰ [Bus Back Better: National Bus Strategy for England](#), p.11.

¹¹ [Bus Back Better: National Bus Strategy for England](#), p.40.

Table 7: South Yorkshire BSIP targets for 2024/25¹²

Metric	Existing/Target Values			Method of Measurement
	2018/19	2019/20	2024/25	
Journey Time	+0.3%		-4.0%	Increase in cumulative journey times for an agreed set of frequent services compared to 2017 baseline
Reliability	99.0%	98.8%	99.5%	Bus operator data
Passenger Numbers	92.0 million	82.9 million	77 million	DfT statistics
Average Passenger Satisfaction	86%	89%	92%	Transport Focus annual survey

The BSIP contains specific policies for realising this vision, including daily and weekly fare capping, a higher-frequency bus network, a new customer charter to drive higher standards across the network and a ZEB fleet by 2040.

Overall, the BSIP highlights a vision for change for the bus network including making buses more frequent, more reliable, cheaper, easier to understand and use and better co-ordinated. While this is not dependent on the regulatory framework of the bus system (as it initially envisages the EP option), nevertheless the ability and ease of achieving this vision for change would be affected by it.

The full realisation of the BSIP proposals is dependent on central government funding, with the MCA estimating the cost of full implementation at £430-£474 million¹³. While the MCA did not receive direct central government funding for the original BSIP programme, the MCA did receive £3.15m of BSIP+ funding for 2023-24 and the same amount for 2024-25 (noting this is revenue funding). Additional funding received through other packages including £570 million through the City Region Sustainable Transport Settlement (CRSTS)¹⁴ and £8.4 million through the Zero-Emission Bus Regional Area (ZEBRA)¹⁵ funds is helping to progress some aspects of the BSIP.

1.3 THE CASE FOR CHANGE

This section details the case for a change in how buses in South Yorkshire are run from the current South Yorkshire EP. It does this by detailing, in section 1.3.1, existing travel trends in South Yorkshire, highlighting how these illustrate a sustained, long-term decline in bus usage, with users concentrated among those with low incomes and without access to a car. This decline is linked to the challenges facing South Yorkshire's bus network, as described in section 1.3.2, which has significant social consequences as outlined in section 1.3.3. This is followed by an overview of the barriers to the creation of a thriving bus network in the region in section 1.3.4. This section concludes with an overall case for change to consider implementing bus franchising in South Yorkshire.

1.3.1 Travel Trends in South Yorkshire

Transport in South Yorkshire is currently dominated by the private car, which accounted for approximately 60% of all journeys in 2019 (see Figure 14). 2019 is the most recent data available at the time of writing that is not heavily affected by the Covid-19 pandemic. Data exists for 2020 and 2021, but

¹² South Yorkshire Bus Service Improvement Plan, p.46.

¹³ "Hundreds of millions still needed for South Yorks bus plans", Transport Network.

¹⁴ "City Region Sustainable Transport Settlements: confirmed delivery plans and funding allocations", Department for Transport.

¹⁵ "Zero Emission Bus Regional Areas (ZEBRA) scheme funding amounts", Department for Transport.

is not considered to be representative, while data after 2021 was not available from this source. Similarly, 2021 Census travel-to-work data is not used in this section as this was heavily affected by restrictions on travel in place at the time to control the spread of Covid-19.

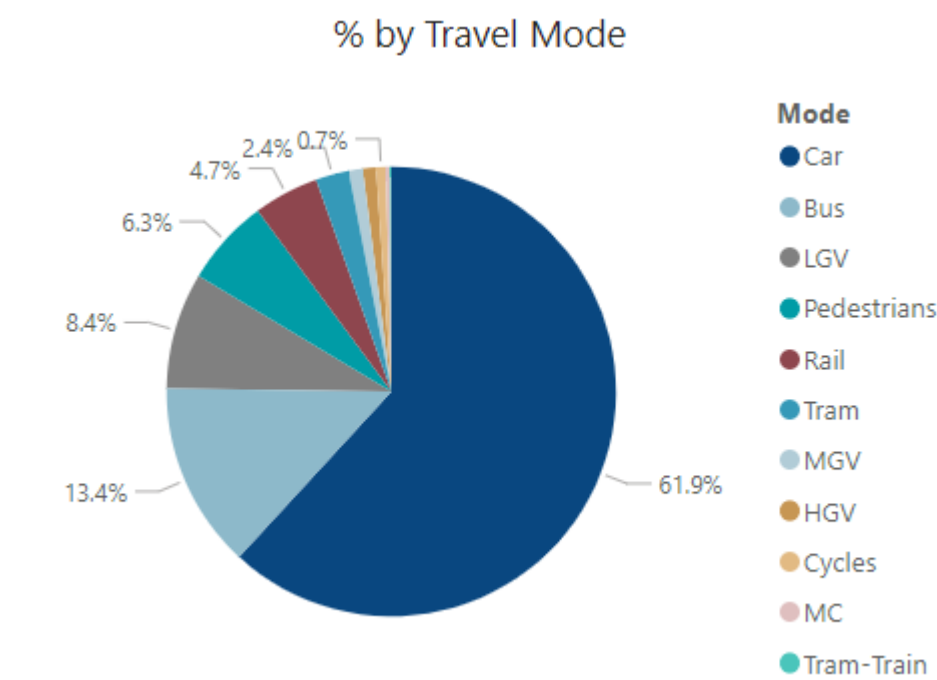


Figure 14 Mode Share of all journeys in South Yorkshire in 2019¹⁶

Note: Tram-Train refers to the tram-train service between Sheffield and Rotherham Parkgate.

Buses are the most used form of public transport within South Yorkshire, accounting for 13% of all journeys, more than double the amount of usage for the next most popular mode, rail (at 5%, including journeys that start or finish outside of South Yorkshire). However, usage declined steadily between 2010 and 2019. While a decline in bus usage is in line with national trends, bus journeys have declined at a faster rate since 2009/10 in South Yorkshire than in England as a whole (see Figure 15), while data from 2014/15 to 2020/21 also shows that, in this period, South Yorkshire’s bus usage declined faster than in comparable city regions (Figure 16) and is on track to continue to decline. While annual bus usage in South Yorkshire at 87.4 journeys per head was roughly equal to the England average of 88.4 in 2009/10, the relatively steep decline meant that annual usage at 57.4 journeys per head was significantly below the English average of 72.3 in 2019/20¹⁷.

However, the National Bus Strategy¹⁸, identifies other areas in England, notably Bristol and Brighton (see Figure 16), where patronage was increasing prior to the COVID-19 pandemic, supported by proactive partnerships between operators and authorities and sustained investment. The strategy also identifies corridors where investment in bus priority has led to localised increases in bus patronage, notably in the West Midlands and in Crawley, West Sussex. These indicate that the decline experienced in South Yorkshire is not universal under the current deregulated market structure, although the strategy does note that most areas of England were also experiencing sustained patronage decline prior to the COVID-19 pandemic. This highlights what can be achieved with partnership working and investment by local authorities and bus operators. However, these areas represent exceptions to national trends (see above), while external economic and social factors may also have contributed to the success of partnership working in these examples.

¹⁶ SYMCA – Data Intelligence Hub. Data sourced from weekday (0700-1900) cordon counts undertaken on behalf of the MCA.

¹⁷ Source for bus usage statistics in section 1.4.1: Department for Transport Bus Statistics Data Tables (Table Bus 01f).

¹⁸ Bus Back Better: National Bus Strategy for England

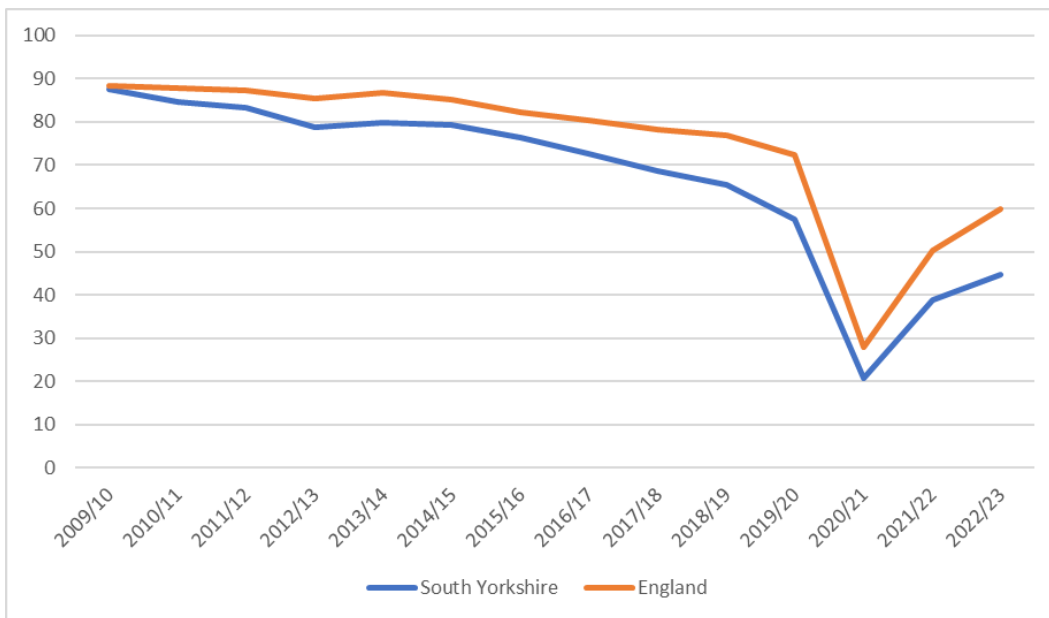


Figure 15: Passenger journeys per head of population, South Yorkshire and England¹⁹

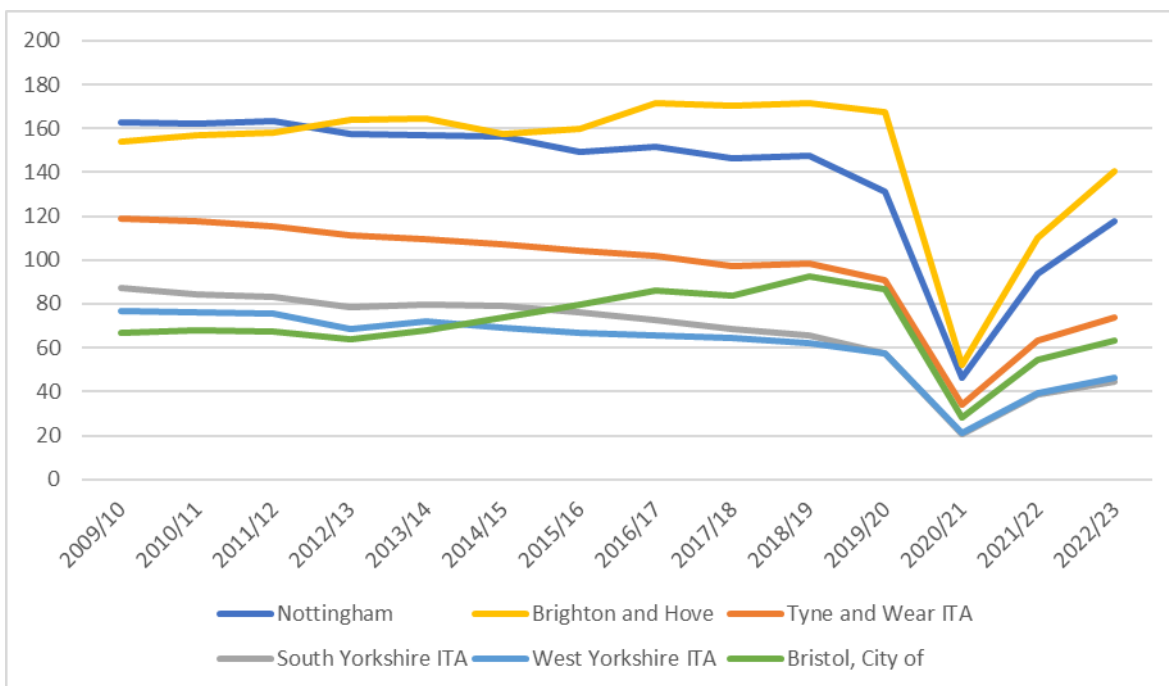


Figure 16: Passenger journeys on local bus services per head of population by Local Authority since 2009/10²⁰

In line with national trends, bus usage in South Yorkshire decreased sharply during the Covid-19 pandemic when trips decreased by over 50% compared with the previous year (see Figure 17 below). While some of this decline has been reversed (bus demand was roughly 70% of pre-covid levels in 2021/22, the most recent year for which data is available), current data and future projections indicate that a shortfall in demand of at least 10%, when compared to pre-covid demand, is likely to remain²¹.

This has created additional financial pressures on the bus network and led to further service reductions and withdrawals. Were the low current levels of patronage to be combined with a continuation of the

¹⁹ Passenger journeys on local bus services per head by local authority: England, from 2009/10 (Table bus 01f), Department for Transport

²⁰ Passenger journeys on local bus services per head by local authority: England, from 2009/10. (Table bus 01f), Department for Transport

²¹ South Yorkshire Bus Service Improvement Plan, p.18.

trends seen prior to the COVID-19 pandemic, this would lead to a sustained decline in the number of bus passengers in South Yorkshire in the years ahead, further reducing the viability of the bus network and impacting future performance. This would either necessitate the increased use of public funds to maintain the network at its current level, or a significantly reduced network and service level reflecting the declining commercial viability of many routes.

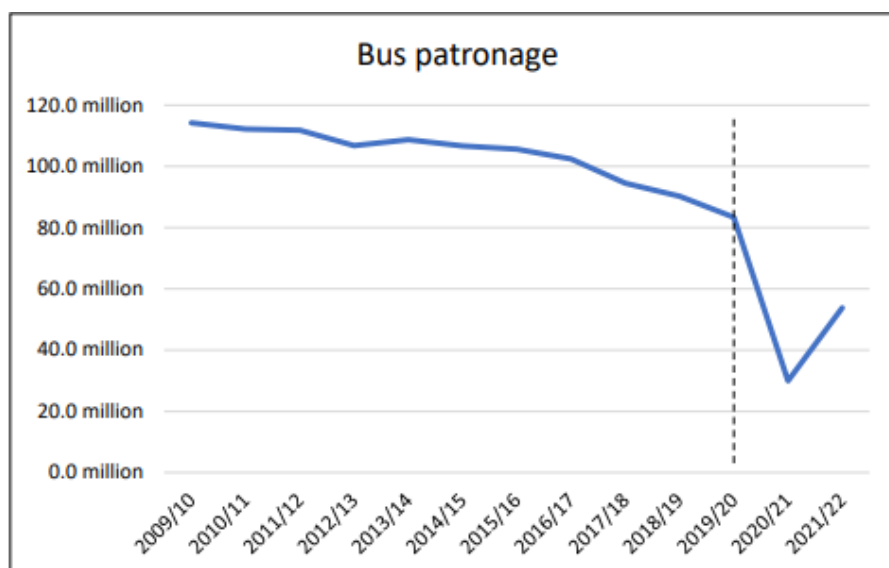


Figure 17: Annual bus patronage in South Yorkshire between 2009/10 to 2021/22²²

1.3.1.1 Bus Usage by Income and Access to a Car

Introduction to the South Yorkshire Agent-Based Model

Arup has developed an Agent-Based Model to support an understanding of the circumstances under which people in South Yorkshire use the bus.

The model uses demographically representative populations, generated using advanced statistical techniques with reference to census data. Daily travel plans are constructed for each agent using data from travel diaries and with reference to all the activities (work, shopping, leisure, medical, education activities, etc) that each agent undertakes. Each person has several transport options available. These are generated using Open Street Map data, public transport timetables, and car ownership data.

Under the simulation, each person tries to find the best way to execute their plans. The simulations include what time they left for each activity, what mode they used, and what route they took to get there. The model is validated and calibrated against the real-world baseline.

Key findings from the Agent-Based Model

The model indicates that agents that choose to use bus generally have more difficult journeys than agents who use an alternative mode, which reiterates the pattern of declining use. Bus users are more likely to be of low-income (50% of bus users vs 30% of non-bus users) and economically inactive, and less likely to have access to a car (~40% of bus users vs 10% of non-bus users) (see Figure 18). Bus is therefore crucial to enable these groups to access work, education and other opportunities, and indicates the sensitivity of many bus users to the cost of travel. Similarly, bus is a key mode for the older and younger populations, while users are also more likely to be female (see Figure 19). These findings are corroborated by DfT statistics, which find that rates of bus usage are higher among older and younger populations than those of middle age, and that women made an average of 42% more local bus journeys

²² Passenger journeys on local bus services per head by local authority: England, from 2009/10 (table bus 01e), Department for Transport

(outside of London) per head than men in 2022.²³ These findings highlight the key social role of bus in South Yorkshire and the strong potential it has in supporting more vulnerable communities.

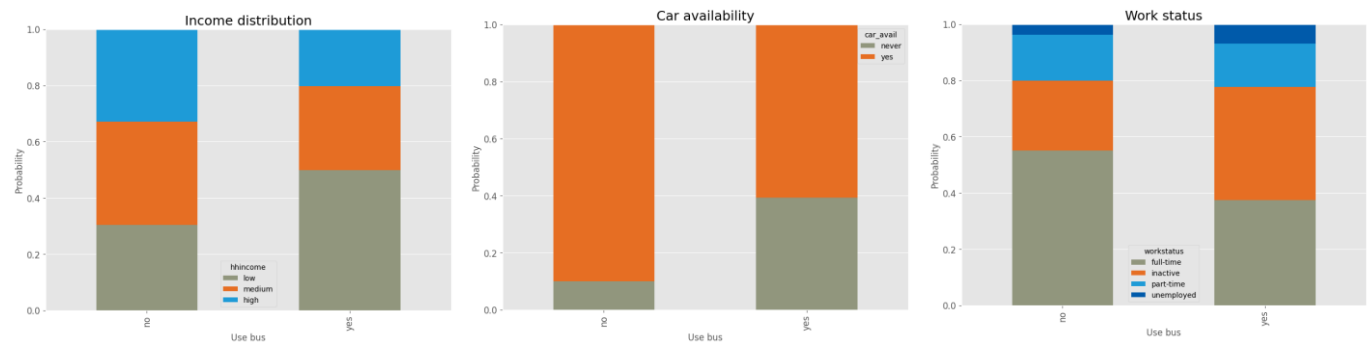


Figure 18: Comparison of income, work status and car availability among bus users and non-users in South Yorkshire. Note: “Yes” denotes bus users, “no” denotes non-users²⁴

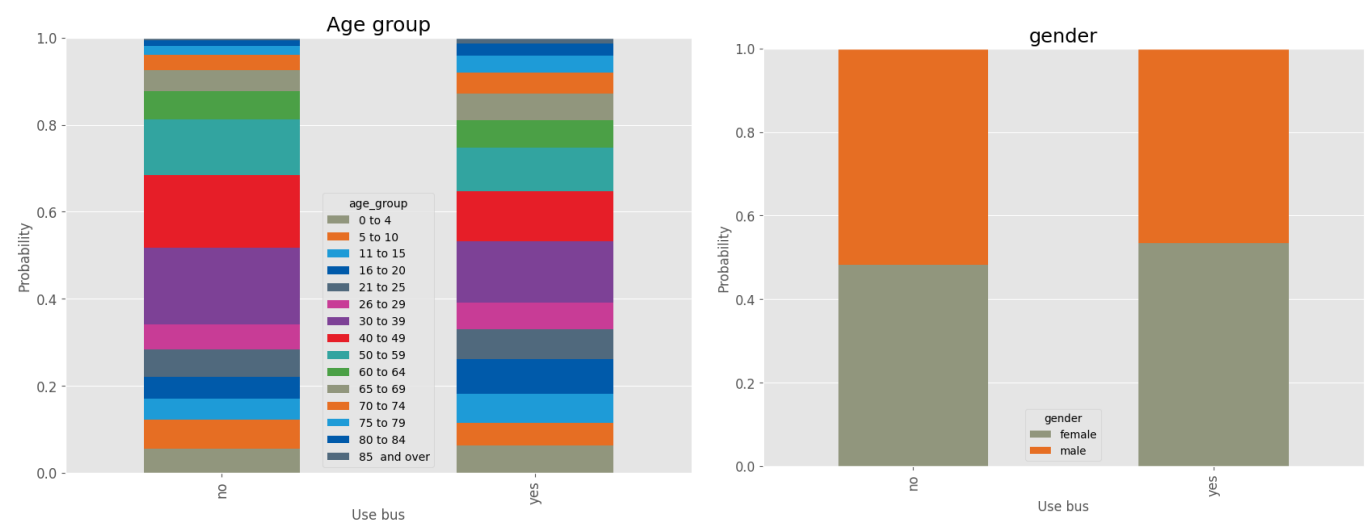


Figure 19: Comparison of, age distribution and gender among bus users and non-users in South Yorkshire²⁵

Captive users in the modelling simulation are defined as agents that continue to use bus despite having the significant time and convenience penalties this involves for some journeys. These are often vulnerable low-income agents living in sub-urban and rural communities that are being affected by inconvenient journeys requiring sometimes numerous interchanges with long interchange times (see Section 1.3.2.6 for more information). The current bus network is not currently serving this group of captive users well, with the current structure of the bus network being poorly aligned with the journeys they need to make.

1.4.1.2 Travel Trends Summary

There has been a steady long-term decline in bus usage in South Yorkshire, albeit exaggerated by the COVID-19 pandemic since 2020, with a commensurate increase in car usage. This is contrary to the MCA’s aims as detailed in Section 1.2, which require modal shift to a more comprehensive and attractive public transport system. While this trend applies across England, the decline recorded in South Yorkshire is significantly steeper than the average and is anticipated to continue, impacting future performance. If this trend of decline continues, it will result in further service withdrawals or reductions

²³ Average number of trips, stages and distance travelled by sex, age and mode: England (table NTS0601), Department for Transport

²⁴ Agent-Based Model developed by Arup

²⁵ Agent-Based Model developed by Arup

across the region, or a requirement for additional public sector funding to keep services running at current levels.

The findings of the Agent-Based Model indicate that buses in South Yorkshire are significantly more likely to be used by groups who may be considered socially disadvantaged, including those on low incomes, those who do not work full-time and those without access to a car. Some of these agents continue to use the bus even when subjected to a large time and convenience penalty for doing so, and these individuals, who are often vulnerable low-income populations living in sub-urban and rural communities, would therefore be most heavily impacted by the cuts to services that may result from a continued decline in demand.

The trends described above, and in particular the decline in demand described in this case, can be partially explained by the challenges that are outlined in the next section. Some of these challenges are also linked to the trend of declining patronage, while simultaneously contributing to it, leading to a spiral of decline that is explored in more detail in Section 1.3.2.9 below. The spiral of patronage decline suggests that intervention in the bus network is needed to create the conditions for the growth in bus usage that will be necessary to enable the MCA to meet its wider environmental, economic and social goals.

The bus remains important to more vulnerable social groups, including those of low incomes, who are less economically active and without a car. The bus also serves a higher proportion of younger and older populations (with more people between 30-59 favouring car), highlighting the important social role that bus plays. The bus network is not currently serving many captive users well, particularly in rural and suburban areas, and so improvements could be made to better support those that have fewer travel alternatives access opportunities in the region.

1.3.2 Challenges Faced by Buses in South Yorkshire

The South Yorkshire Bus Review outlined the challenges facing the bus network at the onset of Covid-19, preventing it from fully playing its role as an enabler of the region's economic, social and environmental goals. The review concluded in June 2020, after the initial impacts of the Covid-19 pandemic, but when the long-term impacts of this were not yet clear.

While some of the challenges highlighted by the bus review have been lessened under the EP and the £2 fare capping scheme²⁶, all remain issues for the bus network, and in some cases have been exacerbated by an overall decline in patronage linked to the COVID-19 pandemic. These challenges are outlined below:

- Poor punctuality
- Poor reliability
- Inconsistent standards and vehicle accessibility
- Regular, large-scale service changes
- Variable service frequencies
- Poor connectivity
- Complex fares and ticketing
- Concerns around personal safety

Section 1.3.2 focuses on performance issues and anticipated future performance with the bus network whereas section 1.3.4 focuses on discussing the barriers to improvements that cause these performance issues to persist.

1.3.2.1 Poor Punctuality

²⁶ A maximum single fare of £2 for adults was introduced in South Yorkshire in November 2022, and nationwide in January 2023.

Punctuality here refers to the percentage of bus services arriving or departing on time. This has remained relatively stable at between 80 and 85% of journeys since 2009/10, but with higher punctuality of 88% recorded in 2020/21 due to the impacts of the Covid-19 pandemic, namely reduced traffic congestion as well as lower bus passenger numbers. Figure 20 shows an overview of punctuality trends in South Yorkshire between 2009/10 and 2021/22.

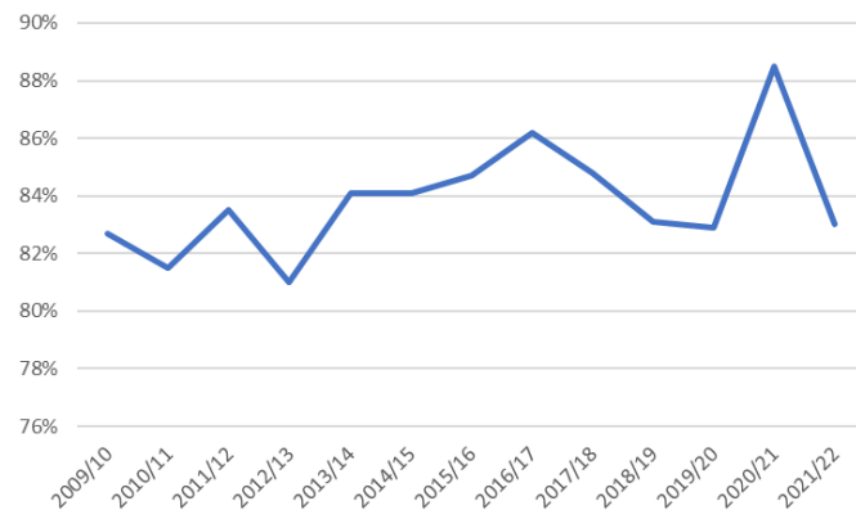


Figure 20: Percentage of bus services on time (punctuality)²⁷

The poor punctuality of bus services in South Yorkshire has been linked to the paucity of bus priority measures in the region, combined with traffic congestion that is both becoming more severe and becoming more difficult to predict as it is no longer confined to traditional peak periods²⁸. While the overall punctuality of buses in South Yorkshire is comparable to that for non-frequent services in England as a whole, which varied between 80.3% and 83.9% over the same period, excluding 2020/21 (when punctuality was 89.1%)²⁹, the South Yorkshire Bus Review³⁰ highlighted delays as a key source of passenger dissatisfaction. Moreover, neither South Yorkshire nor the England average meet the Senior Traffic Commissioner's guidance regarding punctuality of bus services, which states that 95% of bus services should arrive on time.³¹ The South Yorkshire Bus Review³² found that where bus priority is present it is also poorly enforced, which is a common cause of delays. Bus priority is currently delivered and enforced by the MCA, rather than the bus operators, although issues with the existing relationships between local authorities and the bus operators may have affected the roll-out of investments including bus priority³³. With greater control of bus services, the MCA could target bus priority infrastructure for particular services with assurance these services would continue running.

Furthermore, while punctuality targets are set and the MCA does monitor punctuality, only the Office of the Traffic Commissioner can impose fines or other penalties. The Traffic Commissioner has limited resource to carry out checks and those resources are focused on the most serious safety-critical breaches. The lack of a robust system of enforcement reduces the incentives for bus operators to build extra time into their timetables to allow for delays. This would typically be done by lengthening layovers between workings at termini, so that if one of a bus's journey is delayed, the next journey is still able to operate on time. Instead, resources are often used as intensively as possible due to the financial pressures facing the bus operators, which can lead to delays accumulating throughout the day, or buses bunching together on more frequent routes.

²⁷ SYMCA annual performance data

²⁸ South Yorkshire Bus Service Improvement Plan, p.49; South Yorkshire Bus Review, p.41

²⁹ Bus punctuality data (table Bus09a), Department for Transport.

³⁰ South Yorkshire Bus Review, p.46

³¹ Defined as being between one minute early and five minutes late. See Senior Traffic Commissioner Statutory Document No. 14, p.9.

³² South Yorkshire Bus Review, p.11.

³³ See South Yorkshire Bus Review, p.43.

1.3.2.2 Poor Reliability

In addition to the issues with poor punctuality outlined above, the network experiences reliability issues (i.e. where a service does not run), adversely affecting customer confidence. Over 60% of respondents to the South Yorkshire Bus Review's survey said they were either dissatisfied or very dissatisfied with bus reliability across South Yorkshire. Reliability has worsened significantly since the Covid-19 pandemic, with 96% of services operated (equivalent to one in 25 services being cancelled), in comparison to 98 to 99% in the years preceding Covid (see Figure 21). In combination with poor punctuality, this has adverse social impacts, such as passengers being late to work or education or being unable to access educational and employment opportunities in the worst case, according to evidence presented to the South Yorkshire Bus Review. It also serves as a further incentive for mode shift to cars even where bus services are available.

The key causes of this challenge are listed below.

- Driver recruitment issues:
 - Operators are not incentivised to have additional drivers beyond the minimum required to operate buses, and therefore have limited resilience built into their driver workforce.
 - Driver recruitment and retention problems due to competition from other sectors, i.e. HGV delivery driving paying a more competitive salary.
 - Driver recruitment and retention determines the number of drivers available to undertake the running of services. A reduced surplus of overall drivers to the number required to run timetabled services leads to a reduced resilience to disruption. For example, if a driver were to be absent due to sickness there is a more limited pool of drivers available to step in and fill the gap. Driver recruitment has been an area of focus for both the Bus Centre of Excellence and the Department for Transport highlighting its importance in the industry.
- Lack of operator enforcement:
 - Lack of consequences, such as fines or performance penalties, for operators who are unreliable.
- Fleet condition and maintenance:
 - An ageing bus fleet in South Yorkshire, with the average age of the fleet being currently approximately 11.5 years, compared to the national average of approximately 8 years³⁴ leading to either buses not being available or breaking down in service. This increases the likelihood of disruption to services as vehicles are taken out of service for repair work.
 - Bus operators in the region appear to be sweating assets faster than expected, with just over 9% of the total fleet in the region already exceeding the typical expected bus age of 15 years³⁵.

³⁴ MCA analysis

³⁵ SYMCA Environmental Analysis Modelling and Trajectories Report

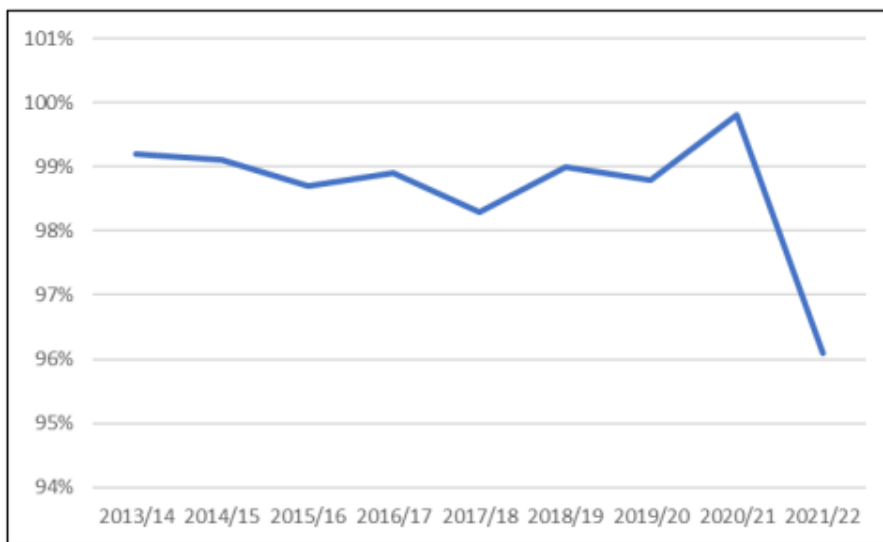


Figure 21: Percentage of bus services operated (reliability)³⁶

1.3.2.3 Inconsistent Standards and Vehicle Accessibility

The standard of bus network and information provision is variable, with the passenger offer (including fleet) differing greatly across South Yorkshire. Therefore, the experience varies significantly for passengers, thus creating an inequitable bus network across the region. For example, audio-visual announcements on buses are only present on a very limited number of routes. Moreover, the MCA cannot currently stipulate capacity on services for prams and wheelchairs beyond the minimum standards set out in the Public Service Vehicle Accessibility Regulations 2000.

The standard of the bus network is also compromised by the high average age of the fleet (see Section 1.3.2.2 above), meaning that many vehicles do not have the latest passenger features.

1.3.2.4 Historic Regular, Large-scale Service Changes

Prior to the commencement of the current EP, the bus network experienced significant changes on a regular basis, undermining the confidence of passengers and potential passengers in the system. This reduced the likelihood of new passengers joining the network and was another factor in encouraging current passengers to find alternative modes of travel.

The current EP restricts major service changes to two set dates per year, although near-continuous changes were required throughout the COVID-19 pandemic due to causes such as changing lockdown restrictions and driver availability issues. When they occur, however, service changes can still be large in scale and serve to reduce customer confidence in the long-term stability of the network.

The key cause of large-scale changes to services is the commercial framework under which the network is currently run. This manifests itself in two major issues:

- Service changes are made by operators based on the commercial viability or operational necessity and operators are not obliged to act on consultation feedback.
- There is no mechanism for reviewing and co-ordinating the timetabling impact of service changes on the wider network. Linked to this, there is no single point of accountability for these due to responsibilities being split between the different commercial operators and (for tendered services) the MCA and its constituent local authorities.

There have also been instances of service changes occurring outside of the agreed service change periods in a manner that dents confidence in the network. For example, the entry into administration of

³⁶ MCA annual performance data

one smaller operator in 2022 led to services being withdrawn at short notice³⁷, some of which were not restored for several months³⁸. These changes are also caused by the issues the current network faces with financial instability.

Moreover, the network has experienced a sustained, historic decline in miles operated. In 2006-7, the estimated network mileage was 43 million miles. By 2024-25, it is anticipated this will have shrunk to under 20 million miles (see Figure 22)³⁹.

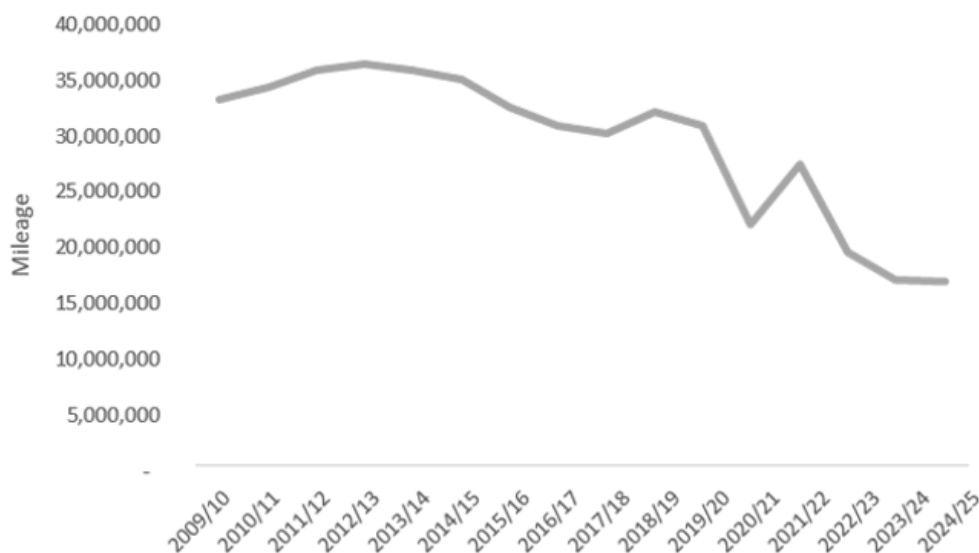


Figure 22: Historic and forecast network mileage in South Yorkshire, 2009/10 to 2024/25.⁴⁰

1.3.2.5 Variable Service Frequencies

The Bus Review found that service frequency is poor in some areas and has recently fallen significantly in many parts of South Yorkshire⁴¹. Frequency also differs between weekdays and weekends and different times of day. The challenges of limited frequencies are most acute in rural areas and in suburban estates where services are more commercially vulnerable. This is supported by the Agent-Based Modelling, which showed that bus services currently do not favour communities in rural and suburban areas.

The extent of the variability of service frequencies by time of day differs by route, but examples as of June 2023 include the 24/25 (Bradway - Sheffield city centre- Woodhouse), where a service of at least every 10 minutes during the day between Sheffield and Woodhouse on Monday to Friday daytimes reduces to two buses per hour after 20.30, but with gaps of up to 51 minutes in central Sheffield due to how the services are timetabled. Another example is routes 7 and 8, which run on the same route between Sheffield city centre and Ecclesfield. The combined frequency on this section is every 15 minutes on Monday to Friday daytimes, but reduces to every 60 minutes after 20:30.

Causes of this challenge include the following:

- Timetabling:

³⁷ "Fury as Yorkshire bus firm goes bust with jobs gone and passengers left stranded", Yorkshire Live.

³⁸ "Return of Sheffield 10/10a bus service welcomed by Green campaigners", The Star (Sheffield).

³⁹ This figure includes all services available to the public in South Yorkshire, apart from those specifically operated for the purpose of home-to-school transport. The data uses a typical weekly snapshot and so is likely to be a slight estimate as it doesn't take bank holidays and seasonal variations (e.g. Christmas) into account. Some variations in mileage caused by service changes outside of the main service change dates may also not be fully included. Source: SYMCA estimates based on GIS mapping data for bus services operating within South Yorkshire.

⁴⁰ MCA Analysis

⁴¹ South Yorkshire Bus Review, p.39

- Operators focus services on periods of peak demand in order to increase market share and have no incentive to prioritise particular groups of passengers for social policy reasons.
- Timetables are developed to match bus operator resources and funding, rather than wider social or economic needs.
- Congestion slows bus journey times, with a knock-on impact on timetabling and therefore frequency.
- There is no single controlling mind reviewing the system, as operators produce their own timetables, with some operators not having access to real time tracking information.
- Falling Demand:
 - Lower patronage levels lead to reduced revenue, and therefore operators reduce frequency for commercial viability purposes, which in turn reduces demand further – creating a “downward spiral”.

1.3.2.6 Poor Connectivity

There is poor connectivity within the bus network and poor integration between buses and other modes of transport⁴² (e.g. overlap with tram routes and poor integration with tram nodes). Key employment centres across the region, notably those outside traditional city centre employment locations, are also often poorly served by buses.

The poor connectivity is exacerbated by difficulties in navigating the system among certain groups of passengers, with those without access to smartphones unable to use the journey planning apps that are often the main source of route planning and real-time information. Unfamiliar users may also find it difficult to use journey-planning and ticket-purchase apps, or be unaware of the limitations of these, as these are provided on an operator-by-operator basis.

The key causes of this challenge are outlined below:

- Unfavourable patterns of development (employment and residential):
 - Poor bus connectivity between sites of key employment outside of main city centres as bus routes are generally routed through city centres to maximise passengers and as a result of historical patterns of journeys.
 - The Bus Review⁴³ found examples of new developments that are poorly served by public transport, in contravention of National Planning Policy Framework (NPPF) guidance. These included the DN7 site in Doncaster and the Waverley Development in Rotherham.
- Lack of integrated timetable planning
 - Bus, tram and rail routes and timetables are generally planned in isolation from each other.

According to the Agent-Based Model, >30% of agent trips by bus consist of more than one bus leg. The impact of poor connectivity within the bus network is most significant for low-income users in rural and suburban areas. This is highlighted by the high percentage of bus trips involving multiple interchanges that are undertaken by users with lower incomes and without a car. While the correlation between income and the usage of buses is small for direct bus journeys, low-income users account for approximately 50% of trips involving one change, and 55% of those involving two or more changes (Figure 23). In terms of car ownership, approximately 55% of bus trips involving two or more changes are undertaken by those without access to a car, as compared to 15% of direct trips (Figure 24). This demonstrates that poor connectivity within the bus network more greatly affects the most disadvantaged groups of society that have few alternatives to bus.

⁴² South Yorkshire Bus Review, p.58

⁴³ South Yorkshire Bus Review, p.23

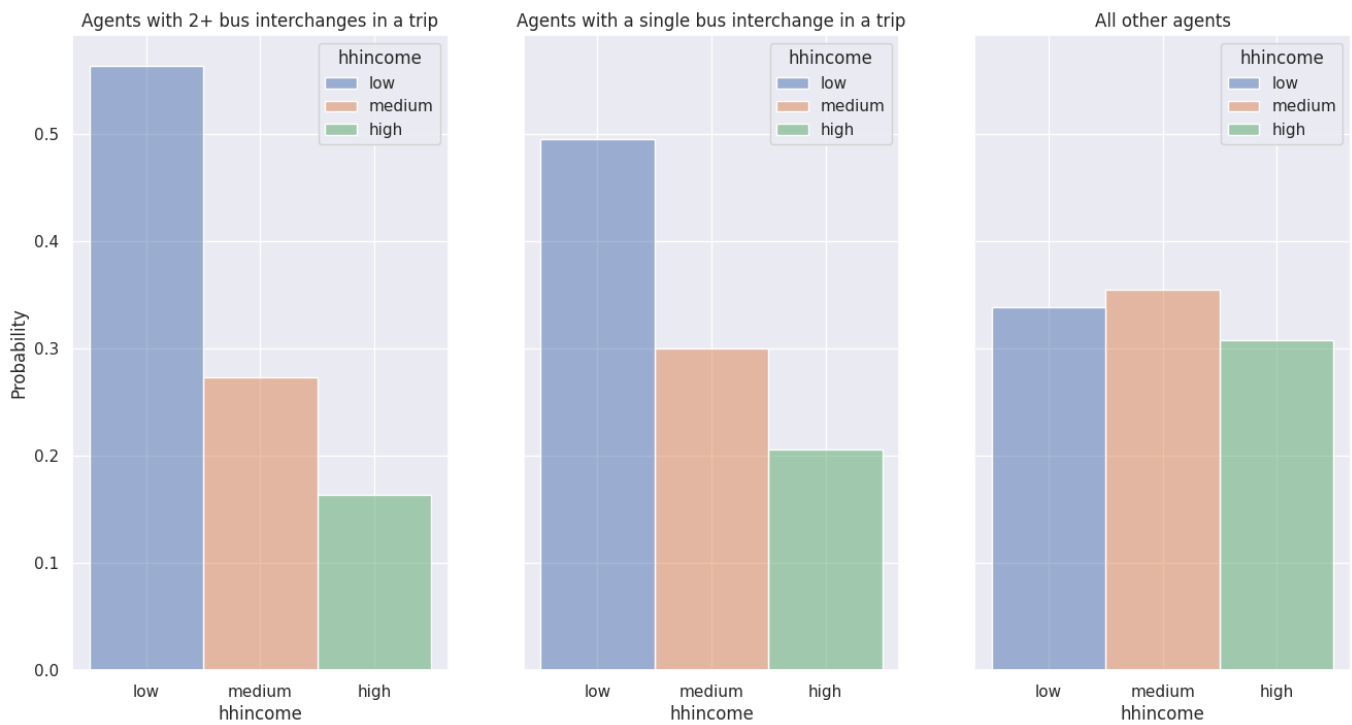


Figure 23: Probability of South Yorkshire transport users of different income levels using the bus, by number of changes required to complete a trip⁴⁴

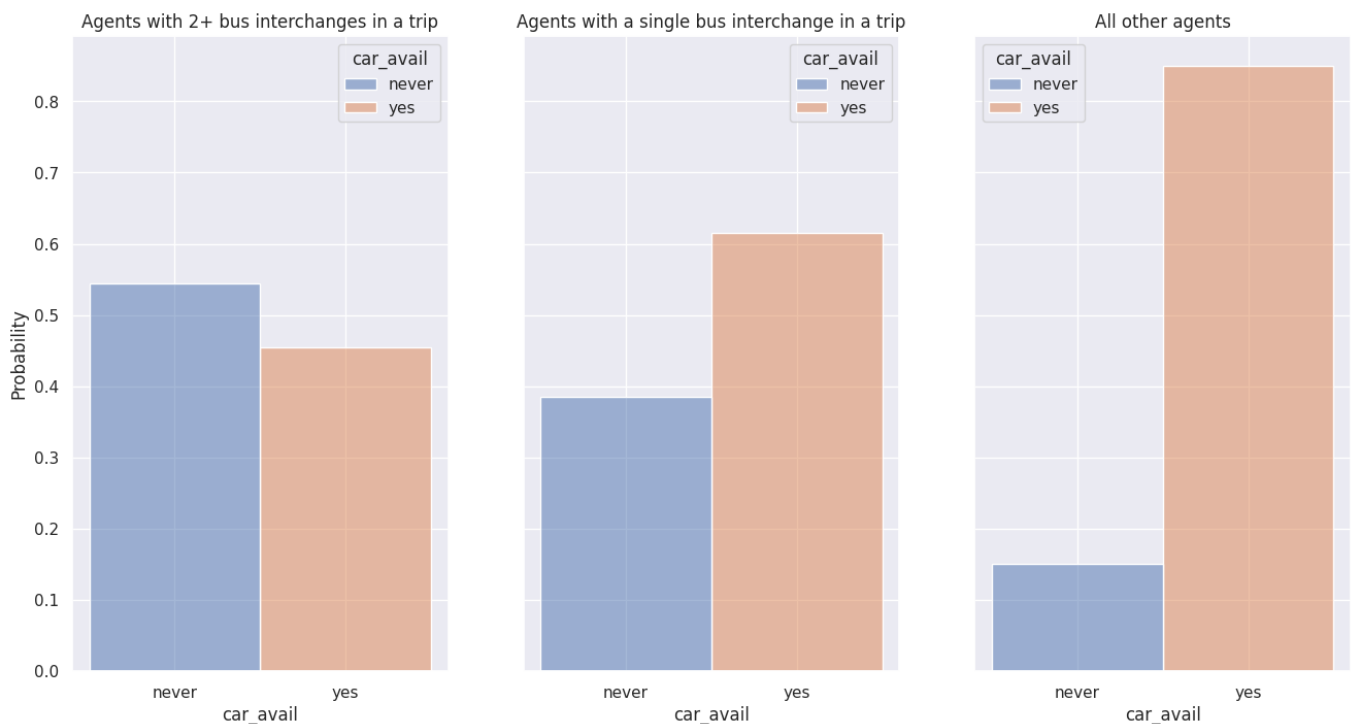


Figure 24: Probability of South Yorkshire transport users taking bus trips with one or more interchanges with or without access to a car or van⁴⁵

The shortcomings relating to the connectivity of the bus network in South Yorkshire have been exacerbated by a significant decline in network mileage operated (see Section 1.3.2.4 above).

1.3.2.7 Complex Fares and Ticketing

⁴⁴ Analysis from Arup's Agent-Based Model

⁴⁵ Analysis from Arup's Agent-Based Model

The Bus Review⁴⁶ found that ticketing options, both within bus and for multi-modal tickets, are varied and confusing for passengers, and it is difficult to link prices to wider societal goals. TravelMaster, South Yorkshire's multi-operator, multi-modal ticketing scheme was, however, received more positively, particularly by passengers who regularly travel across the region and/or use multiple means of transport. Data from the three largest operators indicates that there are at least 100 types of period tickets available (with single tickets in addition to these). The only multi-modal operator-run ticket (Stagecoach Tram and bus) will be withdrawn when the tram operation is brought under MCA control, as the MCA cannot provide a multi-modal ticket that favours just one operator.

The key causes of the challenge linked to fares and ticketing are outlined below:

- Pricing:
 - The ability for the MCA to intervene in fares, beyond introducing concessionary schemes, is limited. An EP allows for greater intervention, particularly around multi-operator fares and fare capping, this is still limited by competition law and depends on agreement with operators. Operators receive income from multiple sources apart from farebox, including Bus Services Operators Grant, concessionary travel reimbursements and off-bus revenue, but have limited control of these other sources of revenue.
 - Perceived and actual competition rules inhibit operators from co-operating on fares in public interest, limiting the impact of the smart ticketing system. Some, but not all, of these barriers are overcome by an EP arrangement.
- Payment mechanisms:
 - Operators utilise different transaction systems, which increases the complexity of implementing multi-operator fares.
- Ticketing solutions:
 - Operators are slow to deploy and promote multi-operator ticketing solutions for customers, adding to the confusion for passengers (other than the TravelMaster system which comes at a higher cost than single-operator tickets)
- Lack of information:
 - The wide variety of tickets available is difficult for passengers to navigate, particularly for new or occasional users.

The South Yorkshire Bus Review also found that the complexity of ticket options available, and the paucity of information concerning these on places other than on the bus, such as at bus stops, was a cause of increased dwell times at stops.⁴⁷ This results in passengers discussing ticket options with drivers, leading to journey times of services being extended, reducing the attractiveness of the bus when compared to alternatives such as the car.

Fares income comprises an average of 61% of total bus operators' income, with 38% being derived from public funding sources including concessionary fares income and less than 1% from other revenue.⁴⁸ Given that fares are the only revenue stream that operators have direct control over, this further reduces operator's incentive to co-operate on a simpler and unified fare structure.

Moreover, early evidence from the DfT concerning the impact of the £2 fare cap, introduced in November 2022 in South Yorkshire and in January 2023 across the UK, suggests that a significant share of bus demand is price-sensitive and that affordable fares could attract more people to using buses⁴⁹. This found that 10% of survey respondents were using buses more due to the fare cap, of which one-third were making more journeys exclusively because of the cap, while for one-half it was the main reason for making more journeys. This indicates the existence of suppressed demand due to the level at which fares have been set and the potential for fare reductions to stimulate demand for bus services.

⁴⁶ South Yorkshire Bus Review, p.14

⁴⁷ South Yorkshire Bus Review, p.45

⁴⁸ Analysis of the accounts of the three largest bus operators in South Yorkshire (First South Yorkshire, Stagecoach Yorkshire and TM Travel)

⁴⁹ £2 bus fare cap evaluation: interim report January 2023, Department for Transport

1.3.2.8 Concerns Around Personal Safety

Passengers, especially vulnerable user groups including women, the elderly and those with disabilities, may feel unsafe while using the bus network, particularly in areas where bus stops are vandalised.

The key cause of this challenge is the poor quality of bus stops:

- Bus stops can be a target of vandalism which can create a sense of an unsafe environment among members of the public.
- Bus stops are not always well lit.

In South Yorkshire, there is evidence of the relationship between bus stop vandalism and bus service performance. For example, the October 2023 timetable changes reference vandalism as a reason for curtailing of some evening services. Additionally, the South Yorkshire BSIP outlines the importance of improving feelings of personal safety at bus stops.

However, another cause of concerns around personal safety may be the lower bus frequencies at night and the lack of busyness at some bus stops, which can cause people to wait for extended periods of time in places which are not busy enough to feel safe.

It is worth noting that bus stops are controlled by the MCA, and that the MCA has committed to measures under the current EP to provide up to 1,500 new or replacement bus shelters and 1,250 additional real-time information displays at bus stops⁵⁰, subject to the necessary funding being forthcoming. The EP also contains a commitment to extending the Safe Places scheme, which supports adults who may feel vulnerable when travelling or in public spaces, to cover the whole bus network.

1.3.2.9 Link Between Performance Issues and Declining Patronage

South Yorkshire's bus network faces a series of challenges which prevent it from fulfilling its role in contributing to the MCA's economic and social aspirations. The poor performance of the network is not the sole reason for the decline in bus usage in South Yorkshire (other contributing factors include increasing vehicle ownership trends nationwide, and recent freezes in fuel duty). For example, in South Yorkshire car ownership increased from 70.5% of households in 2011 to 74.3% of households in 2021⁵¹. However, many of these performance challenges both cause patronage decline and are caused by it, creating a vicious circle which has been exacerbated by the Covid-19 pandemic and appears to have become entrenched under the EP and exacerbated by current low levels of funding available for the network.

A summary of how the challenges identified throughout this section are both caused by patronage decline, and lead to further patronage decline, is provided Table 8.

Table 8: The MCA Bus Network Challenges and their Relationship to Patronage Decline

Challenge	How Patronage Decline Creates This Challenge	Effect on Future Patronage Without Intervention
Poor punctuality and reliability	<p>As demand and thus commercial viability reduces, bus operators reduce costs by removing allowances for recovering from in-service delays. They also cut back on spare drivers and buses to cover for driver sickness or vehicle breakdown.</p> <p>Post-Covid, bus operators struggle to compete with alternative employers offering higher salaries (e.g. HGV</p>	<p>Passengers feel they cannot rely on the bus service, and it therefore becomes less attractive compared to other modes of travel (e.g. car).</p> <p>This further leads to bus services becoming less attractive due to the impact of the resulting additional congestion on journey times, reliability and operating costs, ultimately leading to further service reductions which will decrease</p>

⁵⁰ South Yorkshire Bus Service Improvement Plan, p.59.

⁵¹ 2011 Census and 2021 Census, Gov.uk

Challenge	How Patronage Decline Creates This Challenge	Effect on Future Patronage Without Intervention
	<p>firms), due to a lack of financial resources.</p> <p>Congestion increases and becomes harder to predict due to more car journeys being undertaken, in part due to previous bus passengers switching to car travel. This makes services even less punctual and reliable.</p>	<p>accessibility for employment, leisure and education opportunities for residents and visitors of the region.</p>
Inconsistent standards and vehicle accessibility	<p>Bus Operators have limited incentives to invest in their fleet and may lack the financial resources to do so, meaning vehicle accessibility improvements are not implemented beyond the legal minimum (e.g. Audio-Visual information is only present on limited routes and funded by the MCA).</p> <p>Uncertainty around the size of the future bus fleet and changes to the regulatory structure means that bus operators can't be assured of a return on any fleet investment</p>	<p>The bus network becomes off-putting for specific user groups (e.g. those with prams or wheelchairs), encouraging modal shift or isolating people affected by these concerns. This also feeds into the general sense that the bus network cannot be depended upon.</p> <p>The bus network is challenging for new users to navigate.</p>
Regular service changes	<p>Continuously declining patronage means that services are changed or withdrawn as they become commercially unviable. Local authority budgets are often insufficient to cover the resulting gaps through tendered services.</p> <p>Some service changes have occurred due to bankruptcy of smaller operators, with extremely minimal or no notice.</p>	<p>Existing users feel they cannot depend on the network and so invest in strategies to avoid dependence on it, including the use of alternative modes e.g. car or avoiding the need to travel altogether.</p> <p>Service changes and reductions also affect accessibility to residential areas, and employment/ leisure locations.</p> <p>There is not a coherent service offering to new users and it is hard to provide up-to-date information on the network to them as this network is constantly changing, meaning potential users are less likely to convert into actual users, and occasional users less likely to become regular users.</p>
Variable service frequencies	<p>The financial challenges created by reduced demand restrict the scope of operators to offer journeys that are loss-making (e.g. at quieter times of day), even if these are necessary to build users' confidence in using the bus network more generally, including at busier times of day. The current operating model also reduces the incentive for operators to run these services as timetables are based on commercial viability rather than social needs.</p> <p>Increased congestion caused by modal shift to car makes creating uniform timetables across the day more difficult.</p>	<p>Passengers are concerned about relying on the bus network due to gaps in the service provision at less busy times of day and on Sundays and so opt not to rely on the bus at all.</p> <p>Larger service gaps in the evening present safety issues for some users.</p> <p>These concerns encourage modal shift away from bus, even at times when frequencies are higher.</p>
Poor Connectivity	<p>Bus operators do not have the financial resources to invest in routes</p>	<p>Buses do not serve places with growing demand, or serve them</p>

Challenge	How Patronage Decline Creates This Challenge	Effect on Future Patronage Without Intervention
	<p>that are likely to be loss-making initially, e.g. those serving new developments. They also lack confidence that patronage will grow to profitable levels.</p> <p>Developments cannot rely on a stable bus network and so often do not invest in this or prioritise their connections to the bus network.</p>	<p>poorly, and so the opportunity for trips to these locations to take place by bus is often lost.</p>
Fares and Ticketing	<p>Bus operators lack incentives to invest in common ticketing systems and may also be reluctant to consider fare reductions due to their financial position.</p>	<p>Where fares are expensive, this encourages current and potential users to use alternative modes or not to travel or to reduce the number of trips for which they use the bus, compared to a scenario where fares are cheaper.</p> <p>Where fares are confusing, and the best fare is difficult to ascertain rather than being calculated automatically (e.g. through “tap and cap”) this deters potential new users from shifting to bus, and occasional users from using the bus more regularly. The presence of both single- and multi-operator tickets may also deter users who are unfamiliar with the bus system.</p>
Concerns around Personal Safety	<p>Infrequent services and bus stops that are not busy present safety issues for waiting passengers, with certain groups particularly affected.</p> <p>A lack of investment in shelters and waiting facilities, reflecting wider financial constraints, also impacts the perception of safety.</p>	<p>Passengers are put off using the bus network due to safety concerns.</p> <p>Potential new passengers see the bus network as unsafe and therefore do not use it.</p>

In summary, the challenges facing South Yorkshire’s bus market are largely self-reinforcing, creating a cycle of decline that is extremely likely to continue without market intervention.

1.3.2.10 Challenges summary: A cycle of decline

This section and the preceding section highlight the long-term decline that South Yorkshire’s bus industry has been experiencing, which is worse than that experienced in England as a whole. There is evidence of a vicious cycle affecting bus services, which is shown in Figure 25 and summarised as follows:

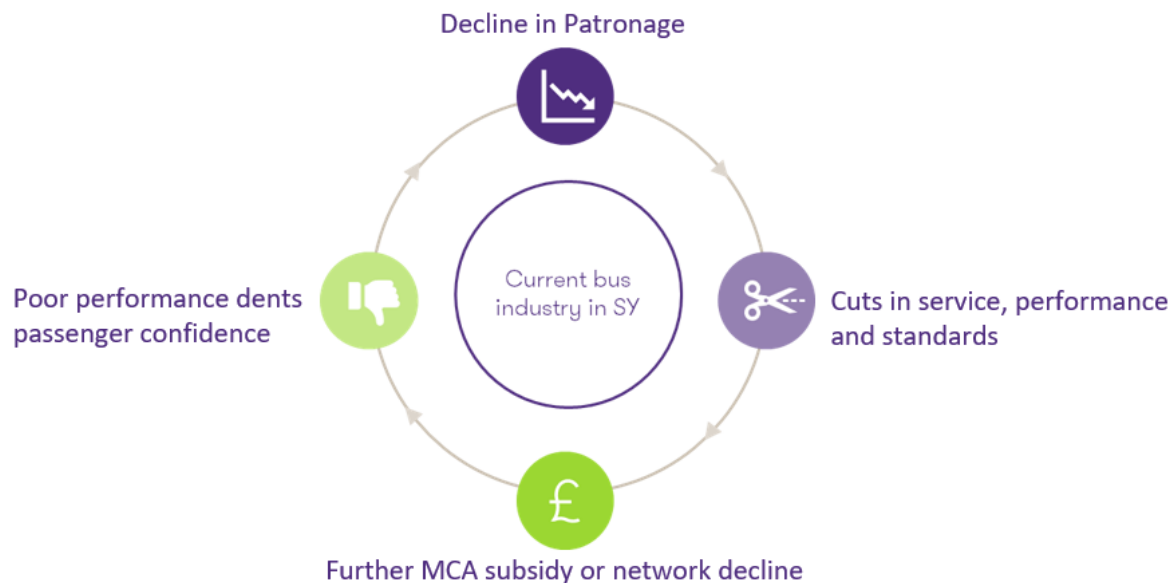


Figure 25: The cycle of decline affecting South Yorkshire's bus services

- Decline in Patronage
 - Bus usage has declined at a faster rate in South Yorkshire than other comparable city regions and in England as a whole (see Section 1.3.1).
 - A decline in patronage causes lower profitability for bus operators which is already at too low a level to encourage sustained investment by operators (see Section 1.3.4.1).
- Cuts in services, performance and standards
 - Due to the declining market and low profitability, bus operators cut bus services, reduce performance standards and/or do not invest in the network as a whole (see Section 1.3.4). This is evident in the network decline that has occurred in recent years.
- Further MCA subsidy or network decline
 - The MCA must choose between either subsidising tendered services or allowing the network to decline.
 - In 2006-7, the network mileage was 43 million miles. By 2024-25, it is anticipated this will have shrunk to under 20 million miles (see section 1.3.2.4).
- Poor performance dents passenger confidence
 - Existing passengers feel they cannot depend on the network and opt to use other modes.

In summary, a series of challenges around performance are currently facing the South Yorkshire bus network. These are largely, though not exclusively, driven by the context of declining patronage within the historical commercial model in South Yorkshire, which has been exacerbated by the Covid-19 Pandemic. While an EP has been in force across South Yorkshire since 2022, these challenges around patronage and network performance remain. This presents a major strategic problem for the bus network as the performance challenges are creating an unattractive network for many users, leading to a further decline in usage which is undermining the long-term viability of the network and harming its ability to play the necessary role in supporting the MCA's strategic goals.

1.3.3 Social Consequences of the Current Shortcomings of the Bus Network

The shortcomings in the current public transport provision in South Yorkshire result in measurable economic and social impacts that are contrary to the aims of the MCA as expressed in the Transport and Energy Strategies and the SEP. While the level of bus provision is not the sole cause of these, buses are the most-used form of public transport and so could play a greater role in tackling them if the service were improved above what is offered currently. The key negative social and economic consequences of the current shortcomings of the bus network are detailed below:

- **Transport Poverty:** Analysis in the South Yorkshire BSIP indicates that 146,000 people across the region are experiencing transport poverty, meaning that they struggle to access both essential services and wider economic and social opportunities, either due to a lack of availability of suitable transport means or the high cost of these relative to incomes. Moreover, the APPG report on Left-Behind neighbourhoods identified 12 neighbourhoods in South Yorkshire (out of a total of 225) are classed as “left behind”, meaning that they suffer from high deprivation according to both the Index of Multiple Deprivation (IMD) and the Community Needs Index (CNI).⁵² Findings from Arup’s Agent-Based Model indicate that a subset of the population is not able to switch to an alternative mode of transport even where their journeys by bus are difficult or time-consuming, as measured by requiring 2 or more interchanges, and therefore experience the strongest negative social impacts from the connectivity issues inherent in the current bus network.
- **Lack of Agglomeration Benefits:** Poor transport connectivity limits people’s ability to access employment and education opportunities and thus also limits the effective size of the labour market for jobs in the region, harming economic growth. The South Yorkshire Bus Review documented several examples of residents being unable to access employment or educational opportunities, or becoming socially isolated, due to gaps in the provision of the bus network. South Yorkshire has higher-than-average economic deprivation across a range of indicators, including unemployment, economic inactivity and the proportion of people who would like a job and do not have one.
- **Congestion and resulting impact on economic growth:** Congestion, in part caused by the dominance of the car for trips within South Yorkshire, is a key cause of productivity decline, and means that some road journeys typically take over 30% longer in the peak than in the off-peak⁵³. While specific statistics are not available for South Yorkshire, congestion was estimated to cost the UK economy £6.9billion, or £894 per driver, per year.⁵⁴
- **Air pollution:** Poor air quality affects significant portions of the region, and 5.5% of all adult deaths in the region can be attributed to this, in line with the UK-wide percentage of deaths attributable to air pollution of 4.9-6.2%.⁵⁵ The costs to the NHS of air pollution across the UK were estimated at between £1.6 billion and £5.56 billion for the period 2017 to 2025, or an average of £180 million to £600 million a year.⁵⁶ Of the seven locations identified as high-risk of non-compliance with air quality standards for 2022 and 2023 in the Sheffield Clean Air Zone (CAZ) Strategic Case, all had an estimated share of NOx/NO2 emissions caused by traffic of above 60%, indicating the key role of traffic as a source of poor air quality in South Yorkshire.⁵⁷
- **CO₂ emissions:** Road transport currently accounts for 36% of South Yorkshire’s carbon emissions, compared to 34% for the U.K. as a whole⁵⁸.

1.3.4 Barriers to a thriving bus network in South Yorkshire

As highlighted in Section 1.4, the MCA has a clear vision for the future bus network of South Yorkshire. The MCA has also identified the challenges that the network currently faces, which are stopping this vision from being realised.

Building on the Bus Review, ten underlying causes have been identified and placed into three categories defined as follows:

- Bus market failures (where the market is not delivering the desired outcomes).
- Wider failures (negative consequence of the current system that are not classical market failures).

⁵²Connecting communities: improving transport to get ‘left behind’ neighbourhoods back on track, APPG for Left-Behind Neighbourhoods, pp.49-59

⁵³ South Yorkshire Transport Strategy, p.24.

⁵⁴ “Congestion cost UK economy £6.9 billion in 2019”, Transport Xtra, 2020.

⁵⁵ Calculation based on “Health Matters: Air Pollution” bulletin, Public Health England (2018) and Death registration summary statistics, England and Wales: 2022, Office for National Statistics

⁵⁶ “Estimating the costs of air pollution to the National Health Service and social care: An assessment and forecast up to 2035” – PLOS Medicine article authored by Laura Pimpin ,Lise Retat ,Daniela Fecht,Laure de Preux, Franco Sassi, John Gulliver, Annalisa Belloni, Brian Ferguson, Emily Corbould, Abbygail Jaccard, Laura Webber

⁵⁷Sheffield & Rotherham Clean Air Plan Full Business Case, Rotherham Metropolitan Borough Council and Sheffield City Council, p.14.

⁵⁸ Transport and environment statistics 2022 – Gov.UK

- Failure to utilise existing capabilities, powers, and processes (where further improvements could be made using the powers available under the current EP).

While the wider failures and the failures to utilise existing capabilities, powers and processes are not directly related to the South Yorkshire EP, this structure, and in particular the separation of powers and responsibilities between local authorities and bus operators, is a contributing factor to these more general failures and their practical impacts on the bus network.

This section examines each of the three above categories in turn and discusses the relationship between these and the current EP operating model.

1.3.4.1 Bus Market Failures

Lack of commercial sustainability

Available commercial information suggests that profits in the South Yorkshire bus market are low or non-existent, leading to cuts in services and a failure to invest and innovate. Analysis prepared for the Bus Review found that, of the two largest operators, Stagecoach Yorkshire made an average profit of 2.6% over the ten years to 2018, which is considered too low a level to encourage re-investment. The other large operator, First South Yorkshire, made an average loss of 1.3%⁵⁹. More recently, First South Yorkshire recorded an operating profit of 13% in the 2020/21 financial year, although this fell to 1% in 2021/22⁶⁰. Meanwhile, Stagecoach Yorkshire made a profit of 5% in 2021 and a loss of 0.5% in 2022⁶¹. These figures also do not indicate a healthy, sustainable bus market as the unusually high profits made in 2020/21 are likely to reflect COVID-19 and the resulting government support provided to operators in this period.

This can trigger a vicious cycle of decline as network connectivity declines due to the withdrawal of unprofitable routes and passengers find alternative modes of travel and/or reduce their propensity to travel, which the data presented in section 1.3.1 indicates has been occurring in South Yorkshire. A declining market makes it increasingly difficult for bus operators to use the proceeds from profitable routes to fund less profitable ones and thereby provide a more comprehensive level of network coverage (consistent with the Competition Act 1998 on predatory competition). At the same time, the Bus Review heard anecdotal evidence that competition for higher volume corridors is undermining profitability on these routes through over bussing, simultaneously diverting vehicles from less profitable areas where they would have a greater social benefit. However, the extent of this may have reduced as part of wider service cuts after the COVID-19 pandemic.

Lack of public funding

Before the COVID-19 pandemic, funding was unable to make up for a shortfall in commercial sustainability and to provide a comprehensive tendered service network. This problem has been exacerbated by patronage falls since the pandemic. Despite the extent of the commercially viable network shrinking, funding for supported services reduced by 39% in real terms between 2009/10 and 2017/18⁶², reflecting the real-terms reduction in the budget of the South Yorkshire Passenger Transport Executive (now the transport arm of the MCA) of 40% in the same period⁶³. This has contributed to the shrinkage of the network that was already occurring due to patronage decline and commercial considerations.

Disincentives to long term investment

⁵⁹ South Yorkshire Bus Review, p.79.

⁶⁰ First South Yorkshire Limited filing history, Gov.UK

⁶¹ The Yorkshire Traction Company Limited filing history, Gov.UK

⁶² South Yorkshire Bus Review, p.77.

⁶³ South Yorkshire Bus Review, p.77.

The risks and rewards for operators and public sector are currently not aligned creating disincentives to long term investment as follows:

- **Operators:** declining patronage negatively affects cash generation, thus depriving operators of the ability to reinvest in system to encourage market growth and break out of cycle of decline. For example, operators are unlikely to invest in new buses or new facilities in their depot (e.g. electric charging points) if they are unsure of the continuing size of their business, or indeed their continuing presence, in the region, or if they are staving off day-to-day competition from a rival operator. Uncertainties about how buses in the region will be regulated in the future may also affect investment.
- **Public sector:** Local authorities and the MCA are unlikely to invest in bus infrastructure (e.g., bus stops, bus suitable roads, bus priority lanes etc.), if they have no confidence that services will continue to run at levels assumed in the business case. For example, the value for money of the MCA investment in bus priority measures can be undermined if operators choose not to run the level of service assumed by the MCA when developing the case for the intervention, or subsequently reduce the level of service. This reflects evidence given by Sheffield City Council to the Bus Review, which noted that operators had reduced or withdrawn services in areas where the council had previously made investments in bus priority⁶⁴, and that therefore the council was no longer prepared to spend public money on such schemes without sufficient control over the bus network and guarantees that the agreed outcomes would be delivered⁶⁵.

Lack of strategic alignment

Under the current framework, the bus network is not managed holistically and lacks integration and consistency, leading to a lack of alignment of the overall bus network and service. For example, the bus network has not been designed to build in connections between routes and different modes of transport, instead being primarily designed on a route-by-route basis. For example, Sheffield city centre to Meadowhall is a key bus corridor, with multiple services provided by two operators, despite also being served by tram and rail services. This is also reflected in the complexity and the variation in ticketing in the bus market, with both single and multi-operator products available, only some of which also enable the use of Supertram services.

1.3.4.2 Wider Failures

Poor stakeholder alignment

There is no single body which is empowered to drive alignment between other stakeholders in order to ensure that policy in relevant areas, such as developments, reflects the desire to increase public transport and active travel uptake (e.g. the MCA, local authorities, National Highways, utility providers, private developers, police etc.). For example, there has been an increase in housing development with limited or no access to public transport, even though under NPPF guidance planning approvals for housing and commercial developments should consider connectivity and transport issues.

This is linked to the current EP operating model, and the previous deregulated operating model, in that the lack of public control over the bus network reduces the ability of public bodies to make decisions based on future levels of bus provision (for example, requiring bus access to new developments) as the level of bus provision may have reduced by the time any decision is implemented. This also links to the bus market failures as there is also a challenge in successfully engaging with and coordinating stakeholders who are in strategic misalignment and facing disincentives for long term investment.

Policy Alignment

Despite the NPPF stipulating that new commercial and residential developments must be accessible by public transport, the Bus Review found that many have limited or no bus service because it has not been

⁶⁴ South Yorkshire Bus Review, p.92.

⁶⁵ South Yorkshire Bus Review, p.43.

considered as part of relevant, associated policy areas. In practice, this has meant that public transport has not been effectively integrated into major new regeneration developments across the region. More generally, the decentralisation of employment has made it difficult to maintain a viable, sustainable and reliable bus network and, as a consequence, stakeholders informed the Bus Review that this has restricted where they can live, work and the type of opportunities they can access⁶⁶.

This is also linked to the limitations of the EP operating model and the divisions in responsibility and control between Operators and the MCA that this involves. An unstable and unreliable bus network in South Yorkshire, with limited public control over the network, has resulted in routine planning of developments with little consideration to existing and future bus provision as the future network and services are so uncertain.

Lack of returns on political investment

Related to issues around policy alignment, there exist system wide challenges in reaping benefits from investing in political capital in the bus ecosystem. For example, workplace parking levies or other parking charges could be implemented to reduce the use of cars in the region, but such measures can be delivered more effectively if local authorities have control of the transport network to drive a switch to other modes of transport.

Lack of Accountability

As no single body has powers over the operation of the bus network as a whole, decision-making regarding services is split between different operators on the one hand, and public bodies, notably the MCA, on the other. This means that there is currently no single organisation that can be held to account for issues relating to the performance of the bus network as a whole.

1.3.4.3 Failure to Utilise Existing Capabilities, Powers and Processes

Failure to leverage existing public powers

Not all public sector powers that exist to manage the bus network are being fully utilised. For example, the Traffic Commissioner has powers to cancel the registration of services, but this is likely only to occur in exceptional circumstances such as where there is an urgent health and safety issue, due to the negative impacts of this on passengers. The MCA could incorporate further contractual requirements to penalise deviations from agreed performance into agreements where the MCA is funding fleet or service enhancements for a commercial service. Given the existing issues around general profitability in the South Yorkshire bus market, there is also the potential for unintended knock-on consequences if operators are penalised for poor performance, or have their licenses restricted or removed, which could lead to operators scaling back investment further or, in a worst-case scenario, potentially withdrawing from the market altogether.

Local authorities adopting “pro-car” policies

The Bus Review highlighted a perception of the local authorities that comprise the MCA area as pursuing policies that are necessary to support the ongoing economic function of towns and centres, but could be perceived to be “pro-car”, despite all having declared a climate emergency. Furthermore, the high proportion of land used for parking in South Yorkshire’s city and town centres, in comparison with the UK and internationally (see Figure 26), reflects historic pro-car policies and practices, which further disincentivise the use of alternative modes such as bus.

These “pro-car” policies reflect the limited policy levers available to local authorities to encourage journeys to town centres. Under the EP operating model, the ability of the MCA and its constituent local authorities to encourage more people to travel to the town centre through improvements to bus journeys is extremely limited due to a lack of control over fares and timetables (apart from tendered services

⁶⁶ South Yorkshire Bus Review, p.12.

whose budget has been cut in recent years, as discussed in Section 1.3.4.1). This also limits these authorities' confidence that buses can fulfil the needs of local residents. In contrast, three of the four local authorities in South Yorkshire (Barnsley, Rotherham and Doncaster), control over 50% of the parking provision in their town centres⁶⁷, making this the main policy lever available for them to reduce the cost of travelling to the town centre. This has resulted in competitively priced car parking charges and/or free parking at designated times of day or days of the week. This is in spite of the consequent negative impacts on bus modal share. Furthermore, the financial consequences of "pro-car" policies on bus services are not felt directly by local authorities, although they experience indirect political and possibly financial impacts when bus services are subsequently reduced or withdrawn by operators.

Examples from cities where buses are publicly controlled (London) or where partnership working has delivered a growth in bus usage (Bristol, Brighton; see Section 1.3.1) indicate that greater confidence in the public transport system on the part of local authorities could encourage them to adopt more pro-public transport policies to support their town centres.

Percentage of land within the city's inner ring road that is used for parking

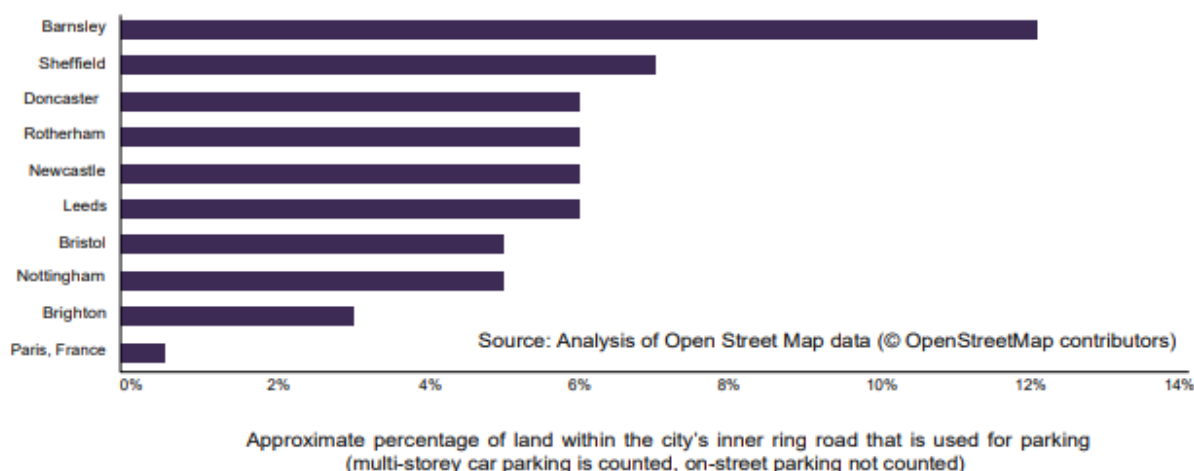


Figure 26: Percentage of town centre land used for parking⁶⁸

1.3.4.4 Barriers to a thriving bus network: conclusion

Overall, the lack of co-ordination between Operators, the public sector and relevant private stakeholders in the planning and operation of the bus network hinders the sustainability of the network and its ability to contribute to wider policy goals. It also weakens the case for public sector investment in measures to support the network, particularly in the context of long-term decline in bus mileage as discussed in section 1.3.2.4. Given the lack of a commercial case for most private sector investment in the network, these barriers reinforce this cycle of decline.

1.3.5 Summary: The Case for Change

The underlying barriers to a thriving South Yorkshire bus network characterised as bus market failures suggest that the current bus market is not operating effectively. Instead, it is in a spiral of decline whereby a combination of unprofitability, lack of public funding and issues with the functioning of the bus market have led to a network that has been continuously shrinking in size and experiencing patronage decline over a sustained period of time. Therefore, the network is not effectively supporting the MCA's wider social and economic goals and is moving further away from delivering this over time.

There is also a relationship between the current EP operating model and the wider failures identified above. This is because of the lack of a clear relationship between the operation of the bus network and wider public policy concerns. Wider decisions that affect the bus network, such as development sites and

⁶⁷ South Yorkshire Bus Service Improvement Plan, p.41.

⁶⁸ South Yorkshire Bus Service Improvement Plan, p.41.

car parking policies in town centres, are taken by bodies, including both private developers and local authorities, that have limited leverage over the current bus network and are only indirectly exposed to the effects of their policies on it. For example, the effect of the local authorities' pro-car policies on bus usage is not directly felt in financial terms by the local authority. Similarly, decisions on the bus network itself are generally made by operators (notwithstanding the limited budgets for supported services) and don't directly take local economic and social needs into account. The current situation reinforces local authorities' reluctance to invest in the bus network, such as by adding bus priority measures, as there is no guarantee that the anticipated bus service will run once the investment is complete. Therefore, the ability to plan and invest in bus services in a way that reflects the wider economic and social context is limited by the current operating model and continuing with the current EP model (Do Nothing option) is considered the least viable option.

Investment into and reform of the bus network, whether through a Franchising Scheme or EP Plus, has the potential to overcome many of these barriers and address the challenges described in section 1.3.2. Reform of the bus operating model impacts the facilitation of investment into the network through how closely aligned the operation of services is to the associated infrastructure delivery owner and the overall incentives to investment. Investment in the network would help to reduce the occurrence of large-scale service changes and could enhance service frequencies and improve connectivity across and beyond the region. It could also go some way to reduce the complexity of fares and ticketing. This can emulate the successes in South Yorkshire's bus network more widely, notably express bus services which connect larger urban centres such as Maltby, Rotherham, Meadowhall and Sheffield city centre and received positive feedback from passengers in the bus review and which were seeing increased patronage prior to the COVID-19 pandemic⁶⁹. However, this comes with both upfront and ongoing costs, which are discussed further in the other cases of this Assessment.

Through a Franchising Scheme the MCA would also have strategic control of the bus network in South Yorkshire (which would not be the case with EP Plus), and the flexibility to make changes within a more sustainable investment model, which could also improve punctuality, reliability and consistency of standards, and vehicle accessibility, and hence could contribute to improving patronage. Franchising could also have a greater impact on addressing the existing challenges around fare and ticketing complexity, as fares policy would solely reside with MCA in this model. A Franchising Scheme would also provide MCA with stronger contractual levers to ensure performance standards (e.g. reliability and punctuality) are maintained.

1.4 THE MCA'S OBJECTIVES FOR THE BUS NETWORK

1.4.1 Overview of Objectives

A series of objectives have been developed to assess the EP, EP Plus and Franchising Options. These objectives were developed through previous work undertaken by SYMCA in October 2022. This work developed a Case for Change for Bus Reform taking into consideration the wider ambition for South Yorkshire, the findings of the Bus Review and the ambitions of the BSIP, whilst also recognising the specific role the regulatory model of South Yorkshire's bus service can play. This work established the rationale for market intervention and established relevant objectives. The impact of the role of the regulatory model was a particularly important consideration as the objectives need to differentiate between the options through this five-case assessment. For this Franchising Scheme, it is the MCA's ability to take strategic control of the network and services, and the flexibility to make changes through franchising that acts as enabler to potentially achieve the objectives.

The objectives will be used to assess the Franchising Options against a Do-Nothing option (or Reference Case), which is the current EP. The objectives will also be used to assess an EP Plus option, which is a scenario of the current EP subject to increased funding and collaboration.

The objectives are grouped by theme in Table 9. For more specific success criteria under each of these objectives, see Table 13 in section 1.4.14.

⁶⁹ South Yorkshire Bus Review, p.36.

Table 9: Delivery Model Objectives

Ref No.	Theme	Objective
1	Affordability	The delivery model must be affordable to the MCA ⁷⁰
2	Value for Money	The delivery model must achieve value for money to the MCA
3	Passenger Demand	The delivery model should drive increases in passenger demand
4	Coverage and Connectivity	The delivery model should increase in coverage and connectivity across the region
5	Punctuality and Reliability	The delivery model should increase in punctuality and reliability of bus services
6	Market Conditions	The delivery model should increase the presence of operators in the bus network
7	Environmental Sustainability	The delivery model should drive an environmentally sustainable bus network
8	Societal Responsiveness	The delivery model should drive improved responsiveness to societal needs through connectivity
9	Supporting Most Vulnerable	The delivery model will support a network that supports society's most vulnerable
10	Equity in Customer Experience	The delivery model will drive equity in experience for customers

In addition to the ten objectives, there is a pass-fail criterion as shown in Table 10. The delivery model must be deliverable, and this will also be used to assess and sift Franchising Options in this Assessment.

Table 10: Pass/Fail Criteria

Ref No.	Theme	Pass / Fail Criteria
11	Deliverability	The delivery model must be deliverable

Each objective, and the role of each option in achieving it, is described below.

The options being assessed are the existing EP as the Do-Nothing option (or Reference Case), an EP Plus option and four Franchising Options (A to D) involving different permutations of depot and fleet ownership. These options are summarised in Table 1 in the Strategic Case Summary, repeated below:

Table 11 Overview of Options

	EP (Do Nothing)	EP Plus option	Franchising Option A	Franchising Option B	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
Revenue Risk	Operators	Operators	MCA	MCA	MCA	MCA

⁷⁰ Affordability is determined by considering whether the net financial position (income minus costs) of the option is sustainable long-term.

1.4.2 Affordability

1.4.2.1 Objective 1: The delivery model must be affordable to the MCA

The Franchising Scheme will have an up-front cost that will need to be provided by the public sector, such as the mobilisation and procurement of service provider and, depending upon the relevant Franchising Option, acquiring depots and/or fleet. These up-front costs will vary depending on the different Franchising Options. In addition, a Franchising Scheme will incur greater ongoing revenue cost to the MCA compared to the EP due to it taking on the responsibility of managing the network. The EP Plus option could also incur revenue and capital costs, including subsidising additional services to counter the trend of network decline, funding a portion of fleet costs covered by the MCA and transition costs associated with unified ticketing. This contrasts with today's situation where commercial operators are responsible for most financial outlays, both on a day-to-day basis and in terms of larger capital items including new buses and depots.

Through a Franchising Scheme, the MCA will also receive income through fares that is currently received by bus operators (the share of off-bus revenue the MCA would receive depends on the Franchising Option chosen), and so the question of affordability is whether the up-front and ongoing costs of the Franchising Scheme exceed the revenue, and whether this net additional cost is acceptable in the short, medium and long term. This also includes the issue of revenue risk, which currently rests with the operators but would transfer to the MCA under a Franchising Scheme. Any uncertainty around the affordability of each option could jeopardise confidence in the service, rendering the model financially unsustainable.

In addition, through a Franchising Scheme, the MCA have the opportunity to make significant changes to the bus network and service provision. Changes upon the effective date of the first Franchising Scheme contract could include frequency and routing changes, with improvements to customer experience (e.g. information, ticketing, marketing) in the short and medium term. Supporting measures, such as bus priority, could boost future patronage, thereby increasing revenue to the MCA and altering the net additional cost of the scheme. As such, a Franchising Scheme has the potential to create a sustainable model that drives investment. However, the net effect of any changes to services may not be revenue-positive, once additional capital and/or operational costs are taken into account and the implications of such changes on the MCA's revenue position, and the ability of the MCA to fund any potential shortfall, would need to be understood before any such changes are put into effect.

The Financial Case will assess the affordability of the options under consideration.

1.4.3 Value for Money

1.4.3.1 Objective 2: The delivery model must achieve value for money to the MCA

It is important that any public sector investment provides value for money, meaning that any public money invested in the bus network must produce an appropriate quantum of economic, social and environmental benefits. As mentioned in section 1.4.2, the Franchising Scheme and EP Plus would result in additional public sector cost; however, it is likely that these options would also generate additional benefits to the EP (Do-Nothing option).

In the short term, the Franchising Scheme is likely to generate benefits through a single, simplified fare structure across all bus services, in contrast to current issues with fare complexity (see Table 8 in section 1.3.2.9). This could increase demand and revenue by drawing more customers towards bus travel and generate journey time savings through faster boarding. Other potential benefits include environmental benefits from a faster roll-out of ZEBs, health benefits, and wider economic benefits arising from a transition to a Franchising Scheme. EP Plus could deliver similar benefits but to a lesser extent, due to restrictions imposed by competition law and the need for operator investment buy-in.

These benefits could be delivered alongside cost reductions by reducing over bussing on services that are currently oversupplied under the Franchising Scheme, although it is noted that under an EP or EP

Plus, maximum frequencies of services could be introduced. This, however, would require agreement of the operators.

Once the Franchising Scheme has been established, in the medium to long term the MCA would have the ability to make further changes to the network, as well as measures to support bus uptake, leading to:

- a boost in bus patronage and fare revenue.
- greater mode shift to bus and associated benefits (journey time savings, highway decongestion, carbon, air quality, noise etc).
- acceleration of the shift to ZEBs, resulting in further carbon, air quality and noise benefits.
- social and distributional impacts as the bus network better serves more deprived areas.
- wider economic impacts including increased employment and productivity from improved bus accessibility.

The Economic Case will assess the value for money of the options under consideration.

1.4.4 Passenger Demand

1.4.4.1 Objective 3: The delivery model should drive increases in passenger demand

The South Yorkshire BSIP⁷¹ identified a number of ambitions that ultimately aim to improve bus services and boost patronage / generate mode shift to bus. These include:

- A cap on daily and weekly fares and free travel for under 18s, plus access to cashless ticketing to create an easy-to-use system.
- A faster, more reliable, and more punctual system, helped by a system of bus priority measures and a review of routes and frequencies.
- A better bus experience from shelters to information, backed by a new customer charter.
- A new zero emission fleet and new on-demand bus services.

Under the EP, the MCA's ability to control some of these desired improvements is limited. While supporting infrastructure such as bus priority measures and improved facilities at stops are already within MCA control, measures relating to fare capping, discounts for selected groups, customer support measures and fleet upgrades would require negotiation with operators and, particularly for fare interventions, are restricted by competition law. Under the EP Plus option, the MCA can have limited increased impact on these ambitions through changes to multi-operator fares (which would require some level of compensation to the operators) and contribution to ZEB fleet costs. However, the EP Plus option would still be limited by competition law and require buy-in from operators (including some level of operator investment).

A Franchising Scheme would bring the bus network under MCA control, which could facilitate the implementation of the improvements in the BSIP in the short to medium term, through a united and focussed effort. A Franchising Scheme also has the potential to support a more sustainable, integrated model of investment, thereby giving confidence for further improvements and measures to support better bus provision and thus improve patronage. Subject to broader political support, these could include reallocation of road space to buses and/or road user charging.

1.4.5 Coverage and Connectivity

1.4.5.1 Objective 4: The delivery model should increase in coverage and connectivity across the region

Bus operators currently undertake planning of the network based on their own commercial strategies and register routes with the Traffic Commissioner as the network regulator, and with the MCA. The MCA

⁷¹ South Yorkshire Bus Service Improvement Plan, Page 4

undertakes its own network planning exercise to determine routes that are needed to support the MCA Transport Strategy. However, its influence over the coverage and connectivity of the network is limited to identifying gaps in the network that have a social need and tendering services to the bus operators to fill the gap. This requires subsidy from the MCA to run the tendered service and a competitive response from one or more operators.

Operators can also drop commercially unviable routes, which is an unsustainable situation as the trend of bus patronage decline continues (see section 1.3.2.10), as the MCA needs to fill more and more gaps via tendered services as more services become commercially unviable.

Through the EP and, to a greater extent, through the EP Plus, there is potential for the MCA to work more closely with the Operators to plan the network collaboratively. However, under this model the network coverage and connectivity will continue to be commercially driven. Through EP Plus and increased investment, the MCA could provide more tendered services to enhance the network and limit decline; however, the network would still be predominantly operator-led. Through a franchising scheme, the MCA have the strategic control of the whole network, enabling them to shape the network from an overarching strategic perspective, leading to optimal coverage and coordinated connectivity across the region.

1.4.6 Punctuality and Reliability

1.4.6.1 Objective 5: The delivery model should increase in punctuality and reliability of bus services

Punctuality and reliability of the South Yorkshire bus network were identified as key issues in the Bus Review, and the reasons behind this are multi-faceted. With ongoing patronage decline, bus operators are under increasing pressure to make savings, which often reduces the resilience of the bus services due to factors such as vehicle breakdowns and driver shortages (see Table 8). This again, creates a negative cycle of underinvestment as bus services become less attractive to potential users.

The MCA can monitor and enforce operators' contractual obligations for tendered services under both the current EP and the previous deregulated model, including late buses. However, the MCA does not have the powers to legally sanction the operators and therefore exerts little influence over the reliability or punctuality of the bus services in the region. Measures that would lead to improve punctuality that are within operators' control, such as additional resilience within bus fleets, are also dependent on external funding and/or agreement with operators, whose willingness to fund such interventions would be affected by the current financial position of the bus network, as discussed in section 1.3.4.1.

Where the MCA can impact the punctuality and reliability of services, is in complementary measures that support faster and more consistent bus journey times, such as in bus priority measures and measures to discourage private vehicle usage including Ultra Low Emissions Zones (ULEZ) and changes to parking policies. However, the cycle of declining patronage in a deregulated market gives uncertainty around the sustainability of the network, undermining the case for supporting investment.

A Franchising Scheme would have the potential to significantly improve the punctuality and reliability of the bus service by creating a resilient and long-term strategy for bus provision. This would establish a sustainable model of investment where complementary measures could confidently support efficient bus services via contracts with performance standards that can be more effectively enforced. Significant investment would be required to deliver these improvements.

Under the EP and EP Plus options there is limited ability for the MCA to enforce poor performance of services due to a lack of contractual control over the commercial bus operators. The limited enforcement powers of the MCA are predominantly available through the MCA's contractual rights of enforcement relating to underperformance of the tendered services.

1.4.7 Improve Market Conditions

1.4.7.1 Objective 6: The delivery model should increase the presence of operators in the bus network

The South Yorkshire bus market currently does not benefit from strong market competition. There are three dominant operators (Stagecoach Yorkshire, First South Yorkshire, and TM Travel) that operate just over 90% of mileage in the region, and the MCA experience a poor market response to tendered routes. This means there is little incentive for operators to provide a better service for lower cost to the customer, and so a negative cycle of underinvestment ensues - patronage decreases as bus services become less attractive to potential users, and therefore less attractive to the operator (see section 1.3.2.10).

Under a Franchising Scheme, competition would move from predominantly taking place “on road” (with the exception of the MCA’s existing tendered service contracts), for individual passengers, to being directed towards securing contracts to operate services on behalf of the MCA. As there is no competition on the road in a Franchising Scheme, this is described as “competition for the market”, whereas under the existing EP and EP Plus options competition within the market dominates.

There is a need to create more optimal market conditions to enable greater competition for the market between operators so that the bus provision is constantly improving and better serving customers, and that there is confidence that all non-commercial routes will be served (for best possible Value for Money). This is distinct from competition within the market, which can create issues for passengers including over bussing and the lack of ticketing co-ordination between buses operating on the same route.

This objective also covers the presence of Small and Medium Operators (SMOs) in the bus network. While some SMOs do operate in South Yorkshire, these hold a small overall market share (see above), and they are currently hindered from developing further by the presence of the larger operators whose more extensive existing networks, combined with greater financial backing, militate against competition on commercial routes by smaller operators.

It is very difficult for the MCA to influence this under the current EP operating model or EP Plus. With a Franchising Scheme, the MCA can support competition by packaging routes tailored to the market and by providing a sustainable model (where the MCA takes more of the risk) that supports further investment – both by the operators and by the public sector - creating a positive cycle of investment that further improves the bus service.

The Commercial Case will assess the likely impact that the Franchising Options will have on the market.

1.4.8 Environmental Sustainability

1.4.8.1 Objective 7: The delivery model should drive an environmentally sustainable bus network

The MCA (then the Sheffield City Region Combined Authority) declared a climate emergency in November 2019⁷² and set a target to achieve net zero carbon emissions by 2040. The public transport system is key to this, in enabling mode shift from private vehicles to sustainable modes, and in the emissions of the public transport system itself.

Generating mode shift to bus and boosting bus patronage has been described under Objective 3; however, transitioning to ZEBs also remains a challenge for the next decade and beyond. It has been difficult to achieve headway in transitioning the South Yorkshire bus fleet to ZEBs under the EP operating model. In particular, the greater up-front cost for ZEBs over diesel equivalents and associated infrastructure have deterred uptake in a climate of low operator margins, low confidence in the future of the South Yorkshire bus market, and low existing levels of fleet investment, whether in diesel or zero-emission vehicles.

⁷² Sheffield City Region Net Zero Work Programme, Urban Foresight (for South Yorkshire Mayoral Combined Authority), p.1

The MCA has made progress in overcoming this and other barriers through the ZEBRA scheme, which will see the region's first electric bus fleet in operation. As the pressure to decarbonise fleets continues on a national scale, the transition to ZEBs would likely happen under the EP as operators have no choice but to eventually move away from diesel. However, the approach is likely to be piecemeal and not necessarily aligned with South Yorkshire's timeline. It is also worth noting that Sheffield has set a target of net-zero carbon emissions by 2030, which will require a concerted effort without delay.

Under EP Plus, the MCA could subsidise faster roll-out of ZEBs; however, this will require some level of operator investment and agreement, and will still be dependent on operator appetite. A Franchising Scheme would give the MCA greater control over the roll-out of ZEBs, enabling them to align this with their 2040 target for net-zero carbon emissions. Even under a Franchising Scheme, however, the MCA's roll-out may be affected by funding considerations and the logistical complexities of adapting fleets and depots to zero-emission.

1.4.9 Societal Responsiveness

1.4.9.1 Objective 8: The delivery model should drive improved responsiveness to societal needs through connectivity

The current EP operating model operates on a broadly commercial basis, notwithstanding the service quality standards in force under the EP. Therefore, if a route is no longer commercially viable it will likely be discontinued. The MCA maintains an important role to ensure that people can continue to access bus services, and therefore undertakes network planning to ensure these societal needs are identified. Currently, it remedies any gaps in the network through tendering services; however, subsidy from Central Government continues to decline while the number of services that are commercially viable is decreasing. Furthermore, profits from the remaining commercial routes are not currently used to fund loss-making services, as profits accrue to the bus operators while funding tendered services is the responsibility of the MCA and its constituent authorities. This hinders the development of a societally responsive, complete and coherent network. Through increased investment to tendered services and creating a more societally responsive network, EP Plus could more greatly fulfil societal needs; however, this would provide less overall network flexibility than the Franchising Scheme.

By taking strategic control of the network through a Franchising Scheme, the MCA has the potential to make some changes in bus coverage and connectivity in the short term (reallocation of duplicated services), and larger changes in the long term (reviewing the network and reinvestment of fares into service improvement), to better respond to the societal needs of the region. This shift in the delivery of services puts societal responsiveness at the heart of South Yorkshire's bus network, rather than a necessary reaction to commercially driven decision-making under very limited public resources. However, the development of a network that is significantly more responsive to social needs than the current one is reliant on public funding and so, without a step-change in the level of funding, the extent to which this aim can be achieved is likely to be limited regardless of the Franchising, EP or EP Plus option chosen.

1.4.10 Supporting Most Vulnerable

1.4.10.1 Objective 9: The delivery model will support a network that supports society's most vulnerable

Section 1.4.9 describes how a Franchising Scheme could improve responsiveness through societal needs through connectivity, and this can support society's most vulnerable by putting these communities at the centre of network planning. In addition to this, franchising can support vulnerable groups in the following ways:

- Through a Franchising Scheme, the MCA can take control of fares and subsidise these to make the bus network more affordable to users, in a manner that is restricted by laws relating to competition and state aid under the EP operating model, thereby improving the accessibility of

the network and connecting people from low-income groups to opportunities in work, education, leisure and health etc.

- The MCA would also be able to develop a single information and ticketing platform across all services, making the network easier to understand and more accessible to groups with specific needs, such as the elderly. Under EP Plus some changes towards a more unified ticketing system can be made, improving comprehension and affordability. However, under EP Plus this ticketing system would still be bound by the same restrictions as under EP.
- A Franchising Scheme would allow the MCA to invest in the quality of the bus service in a coordinated way to address the needs of vulnerable user groups, such as through a vehicle specification that supports neurodivergent communities or setting high standards for safety through on-board CCTV provision, for example. Improvements to bus stops, including high safety standards, could be made under both an EP, EP Plus and a Franchising Scheme.

While an EP or EP Plus would allow for the MCA to intervene in the areas of fares, fleet standards and network planning, the extent of each of these interventions would be limited by competition law and require the consent of a majority of bus operators under the terms of the EP. Therefore, there would be a greater scope for intervention in these areas under a Franchising Scheme.

1.4.11 Equity in Customer Experience

1.4.11.1 *Objective 10: The delivery model will drive equity in experience for customers*

Under the EP operating model, the level of collaboration between Operators is limited due to factors including commercial drivers, such as the need for each operator to maximise their revenue and profitability, and competition law. This results in disparate experiences for customers related to environment, fares, information and ticketing. Through the EP, Operators have agreed to implement a common branding across the South Yorkshire transport network, although this has yet to be delivered. Doing so will improve equity in experience for customers. However, there remain challenges in establishing a single, interoperable platform for information and ticketing that is needed to ensure customer experience is consistent across the region. Under EP Plus some impact could be made to improve equity for customers through the subsidising premiums of multi-operator tickets, making it easier for customers to use the same ticket across services. However, this would still be restricted by operator offers and the impact on customer experience would be reliant on operator information. EP Plus could also improve branding through investment from the MCA; however, would again rely on operator buy-in.

Through a Franchising Scheme, the full vehicle fleet would be specified by the MCA, providing a consistency in the vehicle environment and facilities. The MCA would have the means of setting consistent and integrated fares that are easy for users to understand, and to provide up-to-date information for all journeys within and beyond South Yorkshire. The price of fares, the extent of information provided and the baseline facilities on board buses would depend on the availability of public funding.

1.4.12 Deliverability

The pass/fail criterion of deliverability has been included in addition to the objectives. In this context, deliverability refers both to the ability of a given management structure to be implemented (including procuring and implementing change) and sustained, and the potential for this structure to deliver the policy goals of the MCA in relation to the transport network. Deliverability is impacted by the commercial model, and the ability to support a competitive procurement process, where relevant (i.e. any option where the depots are owned by operators is not deemed deliverable).

The former criterion is a key area that favours the existing regulatory model of an EP over any prospective franchising model (although there are differences in deliverability between the different Franchising Options). This is due to the transition risks inherent in any change from the current EP to franchising, the new capabilities which the MCA would have to assume on a permanent basis (unless the Franchising Scheme were revoked at a later date), and the potential for ongoing additional funding requirements when compared to a continuation of the current EP.

However, the current EP option is unlikely to pass a deliverability test based on the latter criterion, without substantial additional investment in the bus network by the MCA. This is because the network has continued to face the challenges highlighted in section 1.3.2 under the current EP. In both the Franchising Options and EP Plus option, the network will very likely experience further decline without additional investment.

The risks to the deliverability of the options are assessed in more detail in the subsequent cases of this Assessment, particularly in the Commercial Case and the Management Case.

1.4.13 Additional measures to support the MCA's objectives

In addition to changes to the regulatory structure of the bus market, other measures that would have an impact on the objectives discussed above are available to the MCA and/or its constituent local authorities. Possible measures are shown in Table 12. Some of these may have different impacts in regulated or deregulated environments, and so any applicable differences are shown in the table below.

Where a measure has a positive impact on an objective/s, these are shown with a (+) suffix in the table below. Where the impact is negative, a (-) suffix is used. This is because some measures may have a positive impact on some objectives and a negative impact on others.

Table 12: Potential Additional Measures to Improve Bus Services

Measure	Impact on Objectives	Differences in Franchising Scheme and EP
Measures proposed in the South Yorkshire Bus Review:		
Fare subsidies- could be universal or targeted at specific groups. The Bus Review recommends a special offer for apprentices, for example.	Affordability (-) Value for Money (+/-) Passenger Demand (+) Social Responsiveness (+) Supporting Most Vulnerable (+) Equity in Customer Experience (+)	The MCA already subsidises single fares for all passengers, with further discounts for specific groups of people (e.g. U18s). Difficulties in subsidising multi-operator tickets under an EP e.g. period tickets due to competition law. Additional funding under the EP Plus option could subsidise multi-operator ticketing; however, competition law restrictions would still apply and this would require agreement with the operators. Easier to create a standard, subsidised period fare offering across all routes under a Franchising Scheme.
Bus priority measures	Affordability (+/-) Value for Money (+) Passenger Demand (+) Coverage and Connectivity (+) Punctuality and Reliability (+)	Journey time and reliability impacts, and consequent positive impacts on perceived value for money and actual operating costs, equal regardless of a Franchising Scheme, EP or EP Plus. However, greater certainty for the MCA/local authority that priority bus areas will continue to be used at anticipated rates under a Franchising Scheme, encouraging investment.
Customer service measures	Passenger Demand (+) Supporting Most Vulnerable (+) Equity in Customer Experience (+)	Possible to undertake some initiatives to centralise and improve customer services in the current market structure. However, ability to provide unified branding under an EP is limited and depends on co-

Measure	Impact on Objectives	Differences in Franchising Scheme and EP
		<p>operation of operators. The EP Plus option relies on this co-operation of operators.</p> <p>A single, unified brand significantly easier under a Franchising Scheme, as reflected in other assessments, notably Greater Manchester. The EP Plus option could improve the unification of branding somewhat but would require buy-in from operators.</p>
Universal service offer for passengers with health conditions or impairments ("helping hand" assistance cards and Wheelchair Taxi Guarantee Scheme, modelled on best practice in Brighton & Hove)	<p>Affordability (possible -)</p> <p>Passenger Demand (+)</p> <p>Supporting Most Vulnerable (+)</p> <p>Equity in Customer Experience (+)</p>	<p>Under an EP or EP Plus option, this scheme requires the co-operation of operators. This could be readily forthcoming, although the existing low profit margins of bus operations in South Yorkshire may affect the terms that operators are willing to agree to without additional financial assistance.</p> <p>Under a Franchising Scheme, universal service standards can be specified as part of franchise contracts.</p>
Other measures:		
Better facilities at bus stops/ interchanges, e.g. additional real-time information, new or improved shelters, seating and lighting	<p>Passenger Demand (+)</p> <p>Supporting Most Vulnerable (+)</p> <p>Equity in Customer Experience* (+)</p> <p>*Possible impact depending on how consistently improvements are applied</p>	N/A
Network enhancements- increased spending on tendered services	<p>Affordability (-)</p> <p>Passenger Demand (+)</p> <p>Coverage and Connectivity (+)</p> <p>Improve Market Conditions (+)</p> <p>Societal Responsiveness (+)</p> <p>Supporting Most Vulnerable (+)</p>	<p>Under an EP, ability to integrate non-commercial services into a wider network plan is more limited- these instead fill gaps in the commercial network. An increased level of funding under an EP Plus option would increase the number of tendered services to fill gaps in the network.</p> <p>Under an EP and EP Plus option, if non-commercial services are run by smaller operators, these may then be excluded from single-operator products offered by the dominant operators, increasing costs for those needing to change buses.</p> <p>Under a Franchising Scheme, it is possible to plan non-commercial services as part of a co-ordinated network instead of in isolation.</p>
Wider measures to discourage car use	<p>Value for Money (+)</p> <p>Passenger Demand (+)</p> <p>Coverage and Connectivity (+)</p> <p>Punctuality and Reliability (+)</p>	<p>Journey time and reliability impacts of having fewer cars on the road, and consequent positive impacts on perceived value for money and actual operating costs, equal regardless of regulatory option.</p> <p>However, in EP and EP Plus options, it is much more difficult to ensure</p>

Measure	Impact on Objectives	Differences in Franchising Scheme and EP
		<p>that bus services increase in response to measures discouraging car use (e.g. workplace parking levies, road pricing, higher parking charges, lower levels of parking provision) over the long-term. This depends on effective partnership working with operators being sustained over the long term and so they must be willing to invest.</p> <p>Under a Franchising Scheme, it is easier to predict and control the improvements by the bus network in response to measures taken to discourage car use, which may make discouraging car use easier politically.</p>

1.4.14 Success Criteria

Success criteria have been identified for each objective described above. An assessment of the overall vision of the MCA, the transport specific vision for the region, wider relevant MCA supporting goals and improvements proposed under the South Yorkshire BSIP were considered when establishing the success criteria. Table 13 highlights the success criteria relating to each of the objectives proposed in this report. Some related objectives have overlapping success criteria. Specific success criteria are grouped under the relevant objective. All objectives are to be assessed over a long-term timeframe (5+ years). Subsequently, the identified success criteria are used as a framework to contribute to establishing the RAG rated performance of options against objectives in section 1.6.

Table 13: Table of Objectives and Success Criteria

Objective	Success Criteria
Affordability	<ul style="list-style-type: none"> Sustainability of public sector funding (agree level and operate within a certain tolerance and drive downward trend over long term) Minimising public sector funding subsidy in line with achieving strategic objectives
Value for Money	<ul style="list-style-type: none"> GVA per £ spent compared to other reasonable public sector benchmark Standard customer service measures (as per existing processes) Social value benefit (environment, access to healthcare, access to family/friends, access to employment, access to education) (approach to measuring to be determined)
Passenger Demand	<ul style="list-style-type: none"> Number of services provided in the network (measuring reverse of the trend) Relative decline in car journeys in proportion to total trips made (increase in active travel still a win) Absolute growth in bus usage
Coverage and Connectivity	<ul style="list-style-type: none"> The number of economically active people living within 30 minutes of key employment locations and universities by public transport The number communities that are further than 15 minutes travel time from their nearest regional hub via public transport 100% of new residential developments (500 dwellings or more) or large economic hubs, health care, education over the next 10 years have bus connectivity.
Punctuality and Reliability	<ul style="list-style-type: none"> 99.5% for reliability 95% for punctuality
Improve Market Conditions	<ul style="list-style-type: none"> Number of operators submitting bids per tender during procurement

Objective	Success Criteria
	<ul style="list-style-type: none"> Small & medium sized operators should contribute up to 10% of the network whilst still providing the same quality of service to passengers
Environmental Sustainability	<ul style="list-style-type: none"> Modal switch relevant here 30% of zero emission vehicles (EV and / or hydrogen buses) of the bus fleet for the start of each Franchise Scheme contract
Social Responsiveness	<ul style="list-style-type: none"> Routes, service frequency and fares support sustainable and inclusive growth areas and not focused solely on the high density corridors Standard customer service measures, including high standard for safety
Supporting the Most Vulnerable	<ul style="list-style-type: none"> % of income spent on transport (especially low-income households)
Equity in Customer Experience	<ul style="list-style-type: none"> A single unified but network system is introduced with application of consistent standards (Yes/No) Improvement to customer satisfaction measured through standard customer service measures

1.4.15 Objectives and policies of Neighbouring Transport Authorities

This section summarises the transport objectives, and the relevant policies, of the authorities that border South Yorkshire. These authorities are most likely to be affected by the adoption of a Franchising Scheme within South Yorkshire, due to the presence of cross-boundary services between these areas and South Yorkshire.

The neighbouring authorities are: West Yorkshire, North Yorkshire, the East Riding of Yorkshire, Derbyshire, North Lincolnshire and Nottinghamshire.

1.4.15.1 West Yorkshire

West Yorkshire borders South Yorkshire to the north and there are several cross-boundary services between them. While some routes predominantly operate in South or West Yorkshire and only cross the boundary for a short distance, there are others with large sections in both areas, such as routes connecting Barnsley with Pontefract, Wakefield and Leeds.

West Yorkshire's transport objectives are expressed in the Transport Strategy 2040⁷³, which was adopted by the West Yorkshire Combined Authority (WYCA) and its constituent district councils in 2017.

The objectives of the transport strategy are:

- Economy: Create a more reliable, less congested, better connected transport network
- Environment: Have a positive impact on our built and natural environment
- People and Place: Put people first to create a strong sense of place.

Of the supporting policies, those relating to "one system public transport" (WYCA's plan for an integrated transport network) and buses are of the most potential relevance to any regulatory changes in South Yorkshire.

Key relevant policies include:

- Policy 36: "We will better integrate all tiers and modes of transport, including physical interchange, timetabling, ticketing and payment."
- Policy 37: "We will ensure the local public transport system across the City Region is 'High Speed' and 'Northern Powerhouse Rail' ready. We will align our public transport investment with improvements to the motorways and our local roads, for a truly integrated transport system."

⁷³ Transport Strategy 2040, West Yorkshire Combined Authority

- Policy 46 (a set of seven co-ordinated policies for buses):
 - *“We will provide consistent, excellent customer services across the bus system*
 - *We will provide modern, coherent and integrated bus services*
 - *We will provide integrated, simple and affordable bus fares for all*
 - *We will provide easily accessible and reliable travel information*
 - *We present the bus system as a single network*
 - *We will provide a modern bus system which improves air quality*
 - *We provide an inclusive and accessible bus system”*

While WYCA did not specifically cite any bus corridors that cross into South Yorkshire in its Transport Strategy, key relevant concerns for South Yorkshire with regards to cross-boundary services in this area include WYCA’s desire for all buses in West Yorkshire to be presented as part of an integrated network. This may affect cross-boundary services over the sections where they operate in West Yorkshire.

WYCA published a notice of intent to prepare an assessment of a proposed Franchising Scheme in June 2021⁷⁴, and therefore if WYCA decides to pursue franchising after this assessment is concluded, some bus services that primarily operate in West Yorkshire but have more limited sections in South Yorkshire may operate under a future WYCA-led Franchising Scheme. There is also a potential for co-operation between the MCA and WYCA with regards to the procurement and operation of cross-boundary services if both authorities opt to pursue franchising in the future.

1.4.15.2 North Yorkshire

One cross-boundary term-time only service operates between South Yorkshire and North Yorkshire, which serves Selby College in Selby, North Yorkshire. There are currently no other scheduled bus services (excluding coach services).

The key relevant policy document for North Yorkshire is the North Yorkshire Transport Plan 2016-2045⁷⁵, which was adopted in 2015 and has the following objectives:

- Economic growth - contributing to economic growth by delivering reliable and efficient transport networks and services.
- Road safety – improving road and transport safety.
- Access to services - Improving equality of opportunity by facilitating access to services.
- Environment and climate change - Managing the adverse impact of transport on the environment.
- Healthier travel - promoting healthier travel opportunities.

The most relevant policies to any future re-regulation of buses in South Yorkshire are the following bus and community transport policies:

- *“We will look at innovative ways of enabling people to access services they need and remain active and independent in their communities.*
- *We will assist the commercial sector to help facilitate access to services across North Yorkshire*
- *We will consider our duties under transport and equalities legislation to decide whether the commercial network caters sufficiently for the needs of the community having regard to the transport needs of members of the public who are elderly or disabled. We will consider whether there is a need to procure additional services and what funding is available to deliver these.”*

Any future regulatory changes in South Yorkshire should therefore seek to limit any adverse commercial impacts on current or future services that cross the boundary between North and South Yorkshire, while there may be a potential to co-operate with North Yorkshire County Council (NYCC) on innovative transport services that cross the boundary (e.g. Demand Responsive Transport (DRT) services) and if NYCC identifies the need for additional supported services that cross the boundary into South Yorkshire.

⁷⁴ Notice of Intent – The West Yorkshire Combined Authority to prepare an assessment of a proposed franchising scheme

⁷⁵ North Yorkshire Local Transport Plan 2016-2045

1.4.15.3 East Riding of Yorkshire

Currently, the only identified bus service (excluding coach services) which serves both South Yorkshire and the East Riding of Yorkshire is the bus connecting Thorne with Selby College in Selby, North Yorkshire, which passes through East Yorkshire on its route.

The key relevant policy document for the East Riding of Yorkshire is the council's Local Transport Plan (LTP) 2021-2039⁷⁶. This has the following objectives:

- Objective 1: Improve the maintenance and management of the existing transport network
- Objective 2: Support sustainable economic growth and regeneration
- Objective 3: Reduce carbon emissions and encourage healthy lifestyles
- Objective 4: Improve road safety
- Objective 5: Improve access to key services.

While the LTP does contain specific policies related to buses, these are concentrated in areas of the county that are not adjacent to South Yorkshire, namely Hull, or focus on short-distance trips within East Riding of Yorkshire settlements, and so these are unlikely to affect the operation of cross-boundary services.

1.4.15.4 North Lincolnshire

Bus services operating between South Yorkshire and North Lincolnshire primarily consist of services between Doncaster and Scunthorpe and parts of Doncaster's wider urban area bus network that extend across the boundary to serve villages in the west of North Lincolnshire, such as Epworth and Haxey.

North Lincolnshire's current Transport Strategy is contained within the LTP 2011 to 2026⁷⁷. Chapter 4- Local Transport Goals⁷⁸ contains the following vision for transport in North Lincolnshire:

"A well-maintained transport system that supports sustainable communities within a safe and prosperous environment and which contributes to the wider environmental, economic and social wellbeing of the people who live and work in North Lincolnshire"

This is supported by the following local transport goals:

- Facilitate economic growth by targeting transport improvements in key development areas and along key strategic network corridors.
- Reduce transport related carbon dioxide emissions and protect and enhance the natural and built environment through sustainable transport solutions.
- Improve transport safety and security relating to death or injury from transport, in order to contribute towards safer and stronger communities.
- Provide equal opportunities through improvements in accessibility to key local hubs and services by sustainable modes of transport.
- Enhance people's health and wellbeing through the promotion of healthy modes of travel and provision of a high-quality integrated transport system that contributes towards long term sustainable regeneration.

The strategy also contains targets for access to services and facilities by public transport, walking and cycling, bus punctuality, and the percentage of working-age people with access to employment by public transport.

⁷⁶ East Riding of Yorkshire Council's Local Transport Plan 2021 - 2039

⁷⁷ North Lincolnshire Local Transport Plan 2011-2026

⁷⁸ North Lincolnshire Local Transport Plan 2011-2026 Chapter 4 – Local Transport Goals

Doncaster to Scunthorpe could be considered a strategic corridor, while, as mentioned above, Doncaster is the local urban centre for parts of western North Lincolnshire and is connected to these by bus services. Therefore, any reforms to regulation in South Yorkshire will need to account for the impact on the Scunthorpe to Doncaster corridor, and ensure that bus services connecting communities in western North Lincolnshire with Doncaster are at a minimum not adversely affected by any future changes to bus regulation within South Yorkshire.

1.4.15.5 Nottinghamshire

Key cross-boundary service groups between Nottinghamshire and South Yorkshire include routes linking North-East Nottinghamshire with Doncaster and Rotherham with Worksop. There are also some longer-distance bus services linking Nottinghamshire with Sheffield.

The Nottinghamshire LTP 2011-2026 distinguishes between three spatial levels, the most expansive of which encompasses areas outside of Nottinghamshire and has the following aim:

“To connect our towns, district centres and villages to other parts of the Plan area and beyond (including regional and national trip generators). This will include safe and sustainable strategic links by road and rail for both people and goods.”

The overall objectives of the Transport Strategy are as follows:

- Provide a reliable, resilient transport system which supports a thriving economy and growth whilst encouraging sustainable and healthy travel.
- Improve access to key services, particularly enabling employment and training opportunities.
- Minimise the impacts of transport on people’s lives, maximise opportunities to improve the environment and help tackle carbon emissions.

The LTP also has twelve subsidiary objectives of which the following are most relevant to South Yorkshire in the context of any potential Franchising Scheme:

- Improve connectivity to inter-urban, regional and international networks, primarily by public transport.
- Improve access to employment and other key services particularly from rural areas.
- Provision of an affordable, reliable, and convenient public transport network.

As stated above, some towns and cities in South Yorkshire, notably Sheffield, Rotherham and Doncaster, are accessible by direct bus from parts of Nottinghamshire and so some Nottinghamshire residents may depend on buses into South Yorkshire for access to employment, services and the wider transport network. Therefore, any Franchising Scheme in South Yorkshire would need to consider the impact on these services and ensure that the access these routes provide for residents of Nottinghamshire is not compromised by any future regulatory changes within South Yorkshire.

1.4.15.6 Derbyshire

Sheffield acts as a key trip attractor and urban centre for parts of North-Eastern Derbyshire and the Peak District, as reflected in the multiple bus routes linking Sheffield with these areas.

Derbyshire’s LTP 3⁷⁹ covers the period from 2011 to 2026 and contains the following overarching transport goals:

- Supporting a resilient local economy.
- Tackling climate change.
- Contributing to better safety, security and health.
- Promoting equality of opportunity.
- Improving quality of life and promoting a healthy natural environment.

⁷⁹ Derbyshire Local Transport Plan 2011-2026

The LTP recognises that collaboration with stakeholders in other regions will be necessary to maximise the delivery of the LTP's objectives and to facilitate improved cross-boundary travel. Therefore, any changes to the regulatory environment for buses in South Yorkshire should account for Derbyshire County Council (DCC) to work together with neighbouring councils on cross-boundary services and this would require consultation and/or co-operation with DCC as far as is feasible.

1.4.16 Impact of South Yorkshire Franchising Scheme on Neighbouring Local Authorities

In line with the Franchising Guidance, the impact of the potential the Franchising Scheme on neighbouring local authorities' policies, and passengers travelling from these local authorities, has been considered. This is set out in Table 14.

Table 14: Potential impact of a potential Franchising Scheme on neighbouring authorities' policies

Local Authority	Impact of potential Franchising Scheme on this Authority's transport plans and policies	How the scheme could contribute to the implementation of this Local Authority's policies	Impact of Franchising Scheme on this Authority – differences between options	Impact on this Authority's passengers
WYCA	No likely impacts identified	The West Yorkshire Combined Authority is seeking to deliver an integrated "one system public transport" network and is currently in the process of a franchise assessment. Through co-operation between the two authorities, the MCA could ensure that franchised services that cross into West Yorkshire also function as part of West Yorkshire's integrated public transport system, in support of this aim.	No likely impacts identified	Potential positive impacts from co-operation with regard to the management of cross-boundary services. Franchising would give the MCA greater control than under EP in this regard, enabling cross-boundary services to be fully integrated in both South Yorkshire and West Yorkshire's transport systems.
NYCC	Any impact of the franchising proposals on North Yorkshire and the East Riding of Yorkshire is likely to be extremely limited, as only one school service, and no other public bus services, have been identified as serving both South Yorkshire and these local authority areas.			
East Riding of Yorkshire				
North Lincolnshire	A Franchising Scheme could negatively impact on the accessibility of areas of North Lincolnshire by bus to key urban centres by reducing integration for cross-boundary services with the existing network in Doncaster (which is the main urban centre for parts of North Lincolnshire; affected bus services generally operate as part of Doncaster's bus network currently).	If services that operate predominantly in South Yorkshire but extend into North Lincolnshire are franchised, and such services are improved as part of the Franchising Scheme, this would have a positive impact on accessibility from North Lincolnshire, which would support North Lincolnshire's transport policies.	No likely impacts identified	These depend on how the Franchising Scheme affects cross-boundary services. If integration (e.g. fares, timetables) between these and franchised services is reduced, this could lead to worse accessibility or greater expense for passengers wishing to access South Yorkshire's bus network. If this integration is facilitated or improved, it could lead to greater accessibility and/or better value for money for passengers seeking

Local Authority	Impact of potential Franchising Scheme on this Authority's transport plans and policies	How the scheme could contribute to the implementation of this Local Authority's policies	Impact of Franchising Scheme on this Authority – differences between options	Impact on this Authority's passengers
				to access a wider area of South Yorkshire from North Lincolnshire.
Nottinghamshire	Doncaster and Rotherham are major urban centres for parts of northern Nottinghamshire, while some longer-distance services extend into Sheffield. One of Nottinghamshire's transport policies is to "improve access to key services, particularly enabling employment and training opportunities". A Franchising Scheme could hinder this aim by reducing or removing integration between cross-boundary services and those wholly within South Yorkshire.	Depending on the integration of cross-boundary services with other services, this could either support or hinder Nottinghamshire's aim of strengthening links with regional and national trip attractors	No likely impacts identified	These depend on how the Franchising Scheme affects cross-boundary services. If integration (e.g. fares, timetables) between these and franchised services is reduced, this could lead to worse accessibility or greater expense for passengers wishing to access South Yorkshire's bus network. If this integration is facilitated or improved, it could lead to greater accessibility and/or better value for money for passengers seeking to access a wider area of South Yorkshire from Nottinghamshire.
DCC	Derbyshire's Local Transport Plan specifically refers to the importance of cross-boundary services. Changes to these must consider the needs of Derbyshire's residents accessing South Yorkshire, particularly Sheffield, to avoid existing direct connections between these areas and Derbyshire being reduced or lost. In particular, some cross-boundary services from Derbyshire are currently integrated into South Yorkshire's ticketing structure and there is a potential risk of this integration being reduced or not.	The conditions placed on cross-boundary services could facilitate the integration of some services, notably those operated by smaller operators, with South Yorkshire's wider network, which would support Derbyshire County Council's aims concerning cross-boundary services.	Given that some urban services in and around Sheffield are currently operated from Chesterfield bus depot, a franchise model where the MCA owns the depots (Options B and D) could see the depot locations of these services changed, which may lead to changes to the affected services and possibly unintended knock-on implications for how services are provided between Derbyshire and Sheffield.	While some passengers are likely to experience improved integration between their local services and South Yorkshire's network (e.g. those operated by smaller operators, depending on the conditions placed on cross-boundary services), others may experience less convenient journeys due to conditions that could be placed on cross-boundary services that run parallel to other local services in Sheffield, such as limiting the stops these routes are allowed to serve. In the long term, this could harm the viability of such cross-boundary services and lead to worse passenger outcomes.

1.4.17 Engagement with Neighbouring Local Authorities

In accordance with the Franchising Guidance for this Assessment, the MCA is currently undertaking a programme of engagement with the above local authorities to gain a deeper understanding of how the proposed Franchising Scheme would affect their plans, policies and passengers. Discussions to date have indicated that the neighbouring authorities do not perceive the potential Franchising Scheme to be a barrier to their ambitions for their local bus networks, with authorities expressing a desire to work together with the MCA during the development and implementation of any Franchising Scheme. This engagement is ongoing, and subsequent discussions will take place once any decision concerning franchising has been made, with a focus on the relationship of the scheme to cross-boundary services and the service permit regime.

1.4.18 Conclusion

The objectives discussed in this section will achieve the MCA's goals of creating a sustainable, attractive bus network that drives modal shift by targeting the components of a successful bus network. The objectives aim to achieve the ambition of the BSIP, while also ensuring affordability and value for money to the MCA. While there are wider measures that the MCA can undertake to help the bus network achieve these objectives through EP or EP Plus, many of these would be facilitated by the introduction of franchising and the enhanced control that it would give the MCA over the bus network.

An analysis of neighbouring local authorities' transport objectives and policies indicates that the MCA's aims of improving the bus network support neighbouring authorities' aims of improving their bus networks and encouraging greater use of sustainable transport modes. Some local authorities, notably Nottinghamshire and Derbyshire, also make reference to improving provision to neighbouring authorities including South Yorkshire. Therefore, none of the aims of these authorities' need be compromised by the introduction of a Franchising Scheme within the South Yorkshire area. This Assessment has been supported by the engagement with the neighbouring local authorities carried out at the time of writing this report. However, continued co-ordination and engagement is required with these authorities to ensure that the introduction of a Franchising Scheme in South Yorkshire does not adversely impact on these networks. This would include the introduction of a service permit regime for cross-boundary services that encourages existing and future cross-boundary bus services.

1.5 OPTIONS FOR BUS MARKET REFORM

1.5.1 Comparison of Enhanced Partnership and Franchising

Table 15 sets out the differences between the current EP, the potential of EP under additional investment (a form of which is the EP Plus option), and what levers the MCA could additionally use to achieve its objectives under a Franchising Scheme. This reflects the fact that, while some further measures could be undertaken to better align the bus network with the MCA's objectives without franchising, other changes would not be possible under EP. A more detailed discussion of the differences between EP (or EP Plus) and the Franchising Scheme for the key areas of bus planning and operation identified is provided below.

The categories outlined below summarise the core elements contributing to a successful bus network as defined by attractiveness and passenger demand (with attributes taken from the South Yorkshire Bus Review 2019) and alignment to regional climate goals (with the transition to a net-zero fleet as outlined in the Sheffield City Region Net Zero Work Programme).

Table 15: Scope of different options by category

Category	Existing EP Scope	Potential EP Plus Scope (dependent on funding where labelled)	Franchising Scheme Scope (dependent on funding where labelled)	Differences Between Potential EP Plus and Franchising Scheme
Network and Timetable Planning	<p>Bus operators develop network based on commercial objectives.</p> <p>The MCA augments this network with socially necessary services, based on criteria including social need and resource availability.</p> <p>Network changes limited to twice-yearly.</p>	<p>Closer working between the MCA and bus operators on bus routes and timetables, for example to avoid the overprovision of services on key corridors ("over-bussing"). However, operators' decisions will remain primarily dictated by commercial objectives.</p> <p>Funding dependent: the MCA better able to fill in gaps in the commercial network using an expanded tendered services budget, providing a more comprehensive overall network offering than today.</p>	<p>Network and timetable planning undertaken as a single-stage process, with commercial and non-commercial routes planned together, with all decisions based on social cost-benefit analysis as opposed to commercial criteria.</p> <p>Funding dependent: A greater range of socially desirable but not commercially self-sustaining services provided, resulting in a more comprehensive overall network offering than today</p>	<p>Commercial and non-commercial services would be planned separately under all forms of an EP, with the former planned by operators and the latter by the MCA in order to fill in gaps in the commercial network. Resource allocation on the commercial network would be based on commercial priorities rather than wider social considerations.</p> <p>Under a Franchising Scheme, commercial and non-commercial services would be planned together as part of the same process, which could lead to a more coherent overall network, including through network efficiencies that are not possible under an EP (e.g. combining commercial and non-commercial journeys into one route).</p> <p>In South Yorkshire, the overall size of the network and coverage provided is primarily determined by the level of funding available rather than the regulatory model chosen. This reflects the low potential for cross-subsidy arising from the limited profitability of the commercial network.</p>
Bus Priority Infrastructure	<p>Accountability divided between the MCA and local authorities, with operators consulted and informed, but not directly responsible for improvements.</p> <p>The MCA can work with bus operators to identify network delay hot spots (based on actual vs timetabled information) in order to target bus priority measures.</p>	<p>Closer working between the MCA, local authorities and bus operators to determine key locations for bus priority improvements and how these should be implemented, and to ensure that bus priority measures are coordinated with plans for maintaining or expanding bus services.</p> <p>Funding dependent: Faster and more widespread rollout of bus priority measures.</p>	<p>Single organisation responsible for planning and implementing bus priority measures and specifying the operation of services over them (namely, the MCA).</p> <p>The MCA directly experiences the revenue (additional fare-paying passengers) and operational benefits of bus priority measures (i.e. fewer buses and drivers needed due to reduced journey times, reducing costs) arising from bus priority measures.</p> <p>Funding dependent: Faster and more widespread rollout of bus priority measures</p>	<p>Accountability for the delivery of bus priority measures and operation of bus services is divided between the MCA (bus priority) and operators (operation) under an EP.</p> <p>Under a Franchising Scheme, both of these functions are held by the MCA. The MCA would also directly experience the revenue and operational benefits of bus priority under franchising, and would have greater certainty of the continuing operation of routes using bus priority infrastructure (as this would be specified in franchise contracts).</p> <p>This may lead to an increased pace of bus priority roll-out compared to an EP, depending on funding, and to better targeted bus priority measures, although these impacts are uncertain, particularly as bus priority measures are more likely to be rolled out on highly used</p>

Category	Existing EP Scope	Potential EP Plus Scope (dependent on funding where labelled)	Franchising Scheme Scope (dependent on funding where labelled)	Differences Between Potential EP Plus and Franchising Scheme
				corridors where operators have a commercial interest in maintaining and enhancing services under an EP.
Fares and Ticketing	<p>The MCA already involved in subsidising certain fares, with operator consent (i.e. £2 fare cap, concessionary schemes and discount schemes).</p> <p>Review of single-operator ticket products and of premiums charged for multi-operator tickets.</p>	<p>Further multi-day tickets and introduction of multi-operator tap-and-cap facilities, with fares set at a level that removes multi-operator premiums entirely.</p> <p>Development of further off-bus travel purchase options for all ticketing products e.g. the MCA travel shops, ticket machines or in other retail locations.</p> <p>The MCA could set fares for tendered services – in practice these tend to mirror commercial services for consistency.</p> <p>Funding dependent: Further discounts for target groups and/or reductions in overall prices of tickets, supported by funding from the MCA.</p>	<p>Full MCA control over fare levels and structures, as well as control over where and how tickets are sold.</p> <p>Funding dependent: Further discounts for target groups and/or reductions in overall prices of tickets, supported by funding from the MCA</p>	<p>An EP cannot restrict the price of single operator ticketing products, hindering the development of a fully integrated fares system. However, in practice these may become redundant if targeted subsidy is used to reduce the price of multi-operator tickets below the single-operator level.</p> <p>Changes to whole-network fares and ticket sales arrangements would be simplified under a Franchising Scheme (assuming a model where the MCA takes the full revenue risk, as the models under consideration in this assessment do) as these would not require negotiations with operators, unlike under an EP.</p> <p>The overall level of fares, and the provision of discounts for targeted groups, would be dependent on the overall level of funding available regardless of the regulatory model chosen.</p>
Branding and Marketing	<p>A single brand for South Yorkshire is planned, potentially including a single livery for all vehicles (budget allocated but not yet implemented at time of writing). However, operators are still likely to maintain elements of their own branding on vehicles, such as their brand name and logo.</p>	<p>Potentially funding dependent: Closer working together between the MCA and operators on marketing, for example on a co-ordinated marketing campaign to increase bus use.</p>	<p>Bus livery, branding and marketing fully controlled by the MCA, unless operators are given responsibility for any of these elements in the franchise contracts.</p>	<p>Under an EP, the MCA and operators could work more closely on branding and marketing, which is reflected in current plans for a single brand for South Yorkshire's bus network. Under an EP, some own-operator branding, such as brand names and logos could remain.</p> <p>Under a Franchising Scheme, both on-bus branding and marketing of the bus network would be fully controlled by the MCA, unless the MCA chose to give responsibility for these elements to operators under the franchise contracts.</p>

Category	Existing EP Scope	Potential EP Plus Scope (dependent on funding where labelled)	Franchising Scheme Scope (dependent on funding where labelled)	Differences Between Potential EP Plus and Franchising Scheme
Travel Information	<p>The MCA operates a travel information hub, but operators also offer their own apps and services, including journey planners and real-time information.</p> <p>Travel information is available on the MCA website.</p>	<p>Potentially funding/ resource dependent: The MCA are aiming to provide a single, integrated source of information, using the Travel SY app, with a condition under the existing EP scheme that operators must promote this once developed. Operators' own apps are likely to continue to exist alongside this.</p>	<p>Potentially funding/ resource dependent: Development of a single, comprehensive source of information, using the Travel SY app.</p> <p>No competition from single-operator apps as operators are not incentivised (unless required to under contract) to provide these under franchising.</p>	<p>Under an EP, operators' individual apps are likely to remain active alongside a centralised source of travel information for South Yorkshire.</p> <p>Under a Franchising Scheme, there would be a full consolidation of travel information as this would be the sole responsibility of the MCA and not of the bus operators (unless the contracts assigned this responsibility to individual operators). However, the depth and standard of this may depend on available funding and resource.</p>
<p>Transition to a Zero-Emission Fleet</p> <p><i>In considering this point, it should be noted that many of the operators are committing to ZEB fleet transition by 2035, and that the whole-life costs of ZEBs may become competitive with diesel buses as zero-emission technology matures.</i></p>	<p>The current EP contains a commitment to review fleet replacement and retrofitting to achieve a zero-emission fleet. Zero-emission electric fleets are currently being delivered on three routes across South Yorkshire through the UK government's ZEBRA fund.</p>	<p>Funding dependent: An increased pace of transition through a zero-emission fleet, with the MCA working with operators to ensure full use of all available regional and national funding to achieve this (the national funding component is dependent on future funding and policy decisions by the UK government). This would involve the operators funding the base cost of replacing vehicles with diesel, with UK/the MCA funding covering the difference in costs.</p> <p>Funding dependent: ZEBs mandatory on all tendered services.</p>	<p>Funding dependent: Accelerated roll-out of ZEBs across South Yorkshire's network, with these being mandatory on all franchise contracts from a suitable date</p>	<p>Under an EP, the MCA could negotiate with operators to increase the pace of ZEB roll-out on commercial services, including by providing funding assistance where appropriate and subject to State Aid and Subsidy Control rules if the MCA is expected to provide funding. ZEBs could also be made mandatory on tendered services.</p> <p>However, the transition to ZEBs would also be dependent on operators' own commercial priorities and fleet strategies, which have historically included the cascade of older vehicles to South Yorkshire, a practice that would delay the transition to ZEBs in the region.</p> <p>Under a Franchising Scheme, the MCA has full control of the pace of the transition to ZEBs as they would either choose when to purchase ZEBs or when to require operators to do so, depending on the vehicle ownership model chosen.</p> <p>Despite the MCA's greater control over the bus fleet under franchising, the pace of transition to ZEBs would still depend on the funding available.</p>
Performance Management	<p>The MCA has a performance management team which analyses bus operator data to ensure that</p>	<p>Potentially funding dependent: Adoption of a more stringent performance management processes for tendered services. This may increase the prices</p>	<p>Minimum performance standards and targets would form a part of the franchise contracts, with potential penalties and rewards on operators' performance against the targets. Potential for the MCA to change operators at contract renewal and to exclude poorly</p>	<p>Under an EP, the MCA can manage the performance of tendered services through the tendered services contracts, but its ability to control commercial services' performance is much more limited as the legal sanctions for these rest with the Traffic Commissioner. The MCA does have powers to cancel a service due to poor</p>

Category	Existing EP Scope	Potential EP Plus Scope (dependent on funding where labelled)	Franchising Scheme Scope (dependent on funding where labelled)	Differences Between Potential EP Plus and Franchising Scheme
	<p>contractual obligations on the tendered network are fulfilled.</p> <p>The MCA does not consistently make full use of powers available to fine or sanction operators for tendered services.</p> <p>The MCA discusses poor performance with bus operators, but cannot legally sanction operators for poor performance on commercial services as this power rests with the Traffic Commissioner.</p>	<p>charged by operators to the MCA for these services.</p> <p>The MCA could also cancel services, whether commercial or tendered, that are not meeting the conditions of the EP. However, in practice the cancellation of commercial services is unlikely due to the potential for this to create gaps in the network and lead to a worse experience for customers, while impacting on the MCA's relationship with operators.</p>	<p>performing operators from bidding for other contracts. Performance targets would need to be set at a realistic level that would not deter operators from bidding for contracts.</p>	<p>performance, but these are unlikely to be used in practice.</p> <p>Under a Franchising Scheme, minimum performance standards and targets would form a part of the franchise contracts, meaning that performance would affect the amount paid to operators and could also be a contributing factor to the MCA's choice of operator at contract renewal.</p> <p>Overall, a Franchising Scheme would give the MCA significantly greater control over the management of the performance of all bus services, in contrast to the current situation where many of its performance management powers are restricted to tendered services.</p>

1.5.1.1 Detailed Comparison

This section discusses each of the elements in the above table in more detail, highlighting the limits of what could be delivered under an EP or EP Plus, and comparing these to what a Franchising Scheme could deliver.

Network and Timetable Planning

Under an EP, operators could co-operate more closely with the MCA when planning routes and networks, for example to ensure that a key corridor is not subject to overprovision of services (“over bussing”). However, the division in network and timetable planning functions, with operators planning commercially viable services while the MCA subsidises and plans non-commercial, socially necessary routes. This means that the network is not planned in a single process, and instead responsibility is split between the operators of commercial services and the MCA.

Under a Franchising Scheme, the MCA would have strategic control of the network and the ability to make allocate resources to make changes to routes and timetables.

Bus Priority Infrastructure

The delivery of bus priority infrastructure is not dependent on the regulatory model. However, under a Franchising Scheme, the MCA would be better able to align bus priority improvements with a consistent assessment of need / benefit across the network, as it would have full control over network planning (see section 1.4.13). This does not necessarily mean that there would be significant differences in the utilisation of priority infrastructure in franchising as compared to the EP option, as bus priority measures are more likely to be implemented on busier and thus more commercially viable corridors.

Fares and Ticketing

Under an EP, fare integration between different operators could increase through operators choosing to withdraw single-operator products and/or by reducing the premium applied to multi-operator ticketing solutions. The current EP contains a commitment for operators to review the removal of certain single-operator products. Subject to a technological solution being developed that all operators are willing and able to adopt, multi-operator ‘tap and cap’ technology could also be introduced, giving passengers greater confidence in the fares system. In practice, there may be difficulties in implementing multi-operator tap-and-cap under an EP due to differences in the ticketing technology currently used by operators in South Yorkshire.

The MCA already effectively sets the prices of fares that it subsidises, with operator consent, including a £2 single fare cap for adult fares (which was introduced in South Yorkshire prior to its roll-out nationally) and discount schemes for targeted groups. The MCA could exercise further leverage over fares by setting the fares for tendered services directly. However, these are currently generally designed to mirror fares on the commercial network and so any changes to fares on tendered services would reduce this alignment.

There are some limits on fare control and coordination under an EP as compared to franchising. Competition law places limits on fare coordination between operators, although multi-operator tickets such as TravelMaster are permitted under a block exemption from this. Operators’ own commercial considerations would also restrict any changes in fare structure under an EP, with any wholesale changes to fare levels or structures requiring operator consent. This may hinder the development of an integrated fare structure that is in line with the MCA’s policy goals.

Under a Franchising Scheme, net revenue from fares and available public funding become the ruling constraints on fare policy, with operators’ individual commercial considerations no longer a relevant issue.

Branding and Marketing

The EP already contains a commitment to a single public transport brand for South Yorkshire, which will be applied to the bus fleet in due course. However, this will co-exist alongside some level of operator branding. Under a Franchising Scheme, the MCA would be able to standardise branding on buses further.

Travel Information

The MCA is currently aiming to provide a single, integrated source of travel information under the Travel SY app, which operators will be required to promote once this is active under a condition in the current EP. However, single-operator apps are likely to remain active under an EP, as these support the sale of single-operator ticket products where the operator desires to retain these for commercial reasons. These are likely to remain a duplicate source of travel information under an EP.

Performance Management

Under an EP, the MCA could enforce performance standards on tendered services more robustly to ensure these are performing well. However, the MCA's ability to sanction the operators of commercial services for poor performance is limited as the relevant powers remain with the Traffic Commissioner, who remains the registration authority under the current EP. The Traffic Commissioner's full powers to sanction operators are unlikely to be used in practice except where there are urgent health and safety concerns, given the consequent impacts on passengers and the bus network, for example if the traffic commissioner were to cancel the registration of a service.

Under a Franchising Scheme, minimum performance standards and targets would form a part of the Franchising Scheme contracts, with potential penalties and rewards on operators' performance against the targets.

1.5.2 Overview of Assessment Options

The Franchising Options relate to ownership of the depots and/or vehicle fleet. A further option has been considered, which is an EP Plus option. The EP Plus option represents the potential of the current EP under increased investment and collaboration.

All options cover the South Yorkshire area in its entirety. The MCA is not proposing to apply different interventions in different areas, rather each option would be implemented across the full four Districts of South Yorkshire (Barnsley, Doncaster, Rotherham and Sheffield).

Under a Franchising Scheme, revenue risk would transfer to the MCA in full. This means that the MCA would collect all fare income from operators and use this income to fund the Franchising Scheme contracts, and would receive any net profits or fund net losses arising from the bus network. Under the current EP and EP Plus, revenue risk predominantly rests with operators, with the MCA's exposure to revenue risk limited to tendered services.

The key assumptions for the Franchising Options are: (i) Design Phase (preparation for Franchising Scheme) Financial Year 2024-25 to 2026-27, (ii) Transition Period (procurement of franchise contracts) Financial Year 2027-28 to 2029-30, followed by (iii) Business as Usual (all franchise contracts in operation) from Financial Year from 2030-31.

Under EP Plus and all Franchising Options, accelerated roll-out of ZEBs is planned during transition and beyond and it is currently anticipated that 50% of all vehicles would be ZEBs at the start of each franchise contract.

Table 16 summarises how ownership of depots, vehicles and revenue risk varies under the proposed six options (EP as Do-Nothing, EP Plus and four Franchising Options).

Table 16: Summary of Options

	EP (Do Nothing)	EP Plus	Franchising Option A	Franchising Option B	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

	EP (Do Nothing)	EP Plus	Franchising Option A	Franchising Option B	Franchising Option C	Franchising Option D
Revenue Risk	Operators	Operators	MCA	MCA	MCA	MCA

1.5.3 Enhanced Partnership (Do-Nothing option)

An EP is in place between the MCA and operators running Local Qualifying Bus Services (the 'Operators'). This existing regulatory model will form the Do-Nothing option (or Reference Case) for the assessment.

Under this model, the operators own and manage their own depots and fleet, with the exception of Doncaster depot, which is owned by the MCA and leased to the operator. The operator procures and maintains the fleet and the MCA can influence the composition through schemes such as the DfT's ZEBRA funding route. The MCA could also mandate cleaner bus fleets through low emission zones, although this may result in operators withdrawing services given that such investment may not be commercially viable in the current South Yorkshire operating environment. However, large-scale transition to ZEBs would be delivered at the operators' discretion.

Under EP, the MCA does not have strategic control of the network and therefore lacks the flexibility to make changes beyond tendered services. The operators specify the network design based on their commercial strategies and operate services to the performance standards specified by the MCA. The MCA has the powers to monitor and enforce the performance standards on each route but cannot legally sanction the operator as this lies with the Traffic Commissioner.

The MCA identifies where there are needs of the community that are not being met by the commercial services, and where possible, tender services to the Operators to fill this gap. The network as a whole is declining and this trend is anticipated to continue. The MCA also work with the operators to identify where improvements to the network are needed, such as pinch points to improve bus journey time, and work with local authorities to make these improvements. It also has a key role in managing cross-boundary matters across different districts.

Through the current EP, it has been agreed to implement single branding for buses in South Yorkshire; however, the next step of identifying what that brand should be has not yet been taken. Currently, operators have their own information systems and set their own fare structures and prices for single-operator tickets. TravelMaster (an independent company owned by the region's transport operators) sets fare structures and prices for multi-operator tickets across South Yorkshire and the MCA develops concessionary fare structures for designated demographics. The existence of multi-operator products alongside similar single-operator products presents challenges for public understanding of different ticket types and thus the ease-of-use of the bus system.

1.5.3.1 Enhanced Partnership Plus

An EP Plus option builds on the existing EP with additional investment and interventions around network, fares and ticketing, fleet, and branding.

The EP Plus option includes a larger network than EP due to an increase in investment in tendered services. Unlike EP, there is a requirement for continued investment under EP Plus to ensure there is no further shrinkage of the network. For the purposes of the Assessment, the same network has been assumed to be deliverable under the EP Plus as the Franchising Scheme. However, this would be delivered via tendered services contracts.

A portion of renewal and upgrade of fleet costs to move towards a faster rollout of ZEBs is assumed to be covered by the operators securing third party grant funding, with the remaining costs covered directly by the operators. A unified ticketing service could be provided with additional compensation provided to operators for loss of their own ticketing revenue. The full cost of rebranding existing vehicles would be funded by the MCA with the cost of branding of renewals to be covered by operators.

Under this model operators would own and manage their own depots and fleet, as under the EP option. As in the EP option, the MCA could influence the composition of fleet through schemes such as the DfT's ZEBRA funding route and the introduction of low emission zones. It has been assumed that comparable outcomes on ZEB upgrades could be achieved under EP Plus, although the MCA would not have full control over this with operators retaining ownership of the fleet and depots.

The MCA could influence the network design through the tendered services under the EP Plus option. However, this would still be predominantly operator led and any network changes would require buy-in from operators.

1.5.4 Franchising Scheme

1.5.4.1 All Franchising Options

Under all four Franchising Options (A to D), the MCA will have strategic control of the overarching network and will therefore be able to design and specify the network, routes and service provision. The MCA will more easily be able to specify, monitor and enforce performance standards on each route, and can set consistent fare structures and prices across South Yorkshire. It would also own and operate overarching ITS infrastructure, including ticketing systems, real time travel information, contract and procurement/performance management systems. The MCA would also specify requirements for Operators to integrate and ensure interoperability. Further details of the ITS infrastructure required are provided in the Management Case. Fleet would be operated and maintained to the MCA standards, as specified in franchise contracts, with the MCA also having control over depots under Franchising Options B and D options.

1.5.4.2 Franchising Option A – Operator Owned Depots and Fleet

Under the Franchising Option A, the Franchising Scheme would be implemented with the MCA gaining control of the full network and service design, but operators would continue to retain ownership of their depots and fleet. New operators would need to provide their own depot facilities and fleet.

The only depot directly owned by the MCA would be in Doncaster, as this is already owned by the MCA. Operator owned depots would remain as they are today and may be leased to other operators.

The MCA would work with the operators to consider enhancements to the depots and fleets, such as transition to zero emission technologies. The operators would then be responsible for financing, procuring and delivering these enhancements.

As the MCA would not own the fleet they may have a more limited influence over its composition, but they could still set standards.

1.5.4.3 Franchising Option B – MCA Owned Depots and Fleet

Under the Franchising Option B, the Franchising Scheme would be implemented with the MCA gaining control of full network and service design. Depots and fleet would be acquired by the MCA and be made available to all bidders, with the MCA-owned depot to be used for each contract to be included under the contract terms.

All depots within the MCA region would be acquired in addition to the depot in Doncaster already owned by the MCA. In addition, the MCA would likely acquire the legacy fleet from operators, with prices for these vehicles depending on age and vehicle condition.

Another possibility could be to build new depots to service the franchised network, in place of all or some of the existing depot provision. However, this Assessment assumes that existing depot provision would initially be used.

The MCA would be responsible for financing, funding, procuring and delivering enhancements to the depots and fleet, with the operators being responsible for routine maintenance of the fleet and depots.

1.5.4.4 Franchising Option C – Operator Owned Depots and MCA Owned Fleet

Under the Franchising Option C, the Franchising Scheme would be implemented with the MCA gaining control of full network and service design, but operators would continue to retain ownership of their depots. New operators would need to provide their own depot facilities. The fleet would be acquired by the MCA and be made available to bidders.

The MCA would not acquire any depots as part of the mobilisation process. The only depot directly owned by the MCA will be in Doncaster, as this is already owned by the MCA. Operator owned depots would remain as they are today and may be leased to other operators. The MCA would acquire the legacy fleet from operators.

The MCA would be responsible for financing, funding, procuring and delivering enhancements to the fleet, but would need to work with the operators to consider enhancements to the depots.

1.5.4.5 Franchising Option D – MCA Owned Depots and Operator Owned Fleet

Under the Franchising Option D option, the Franchising Scheme would be implemented with the MCA gaining control of full network and service design, but operators would continue to retain ownership of their fleet. Depots would be acquired and be made available to bidders.

All depots within the MCA region would be acquired in addition to the depot in Doncaster already owned by the MCA. As the MCA would not own the fleet they may have a more limited influence over its composition, but they could still set standards.

The MCA would be responsible for financing, funding, procuring and delivering enhancements to the depots, and specifying the standards of the fleet.

1.5.5 Longlisting and Shortlisting of Options

The options described above represent all of those that were generated for this Assessment. These options were developed by the MCA prior to the Assessment as part of the October 2022 work to develop the original Case for Change and formulate options for Bus Reform. These options were further refined once the Assessment work commenced and represent the long list of options considered for the Assessment. The following section compares each of these options against the objectives outlined earlier including Franchising Options A to D as well as against the Do-Nothing option of an EP, and the EP Plus option. As well as the Strategic Case, the Commercial Case also provides more details about the commercial implications of all six of these options as commercial factors account for most of the distinction between the options. The remaining Assessment including the Economic, Financial and Management cases focus on a short-list of options including the Do-Nothing option of an EP, EP Plus and Franchising Option B (the best performing Franchising option). If the MCA opts to take forward Bus Reform as the future approach for regulating the region's bus services, this will better enable the MCA to take a decision on the most appropriate form of reform option to implement.

1.6 COMPARISON OF OPTIONS AGAINST OBJECTIVES

The options described above were then assessed against the objectives using a multi-criteria assessment framework, with the results scored according to a red/amber/green rating system, where the colours have the following meanings:

- Green: The objective is substantially achieved
- Amber: The objective is partially achieved, or the probability of it being substantially achieved is uncertain
- Red: The objective is not achieved or is very unlikely to be achieved (either in whole or in part).

RAG ratings were established through an evaluation of the anticipated implication on objectives for each option. This included an evaluation of the ability of different options to facilitate measures that are anticipated to contribute towards the achievement of objectives, as outlined in Table 12.

Additionally, the success criteria aligned to the objectives outlined in Table 13 has been used to inform the scoring of options against objectives. However, as the success criteria often relates to specific performance outputs, the narrative under "Implications" for each option's RAG assessment often refers to more overarching objective-related principles to provide a more robust evaluation given limitations in forecasting. For example, outlining the ability to realise a more comprehensive network has been used as opposed to direct reference to the success criteria of "The number of economically active people living within 30 minutes of key employment locations and universities by public transport".

In addition, some objectives have been scored as green/amber or amber/red, reflecting the uncertainties in terms of the extent to which these would be achieved under the given option and effectively creating a five-point rating scale.

The scoring presented in this section in the Strategic Case represents the extent to which each operating model could achieve the referenced objective. This is to identify the limits of capability of each operating model. The economic case appraises the operating models under a set of assumptions which have been defined to test the options in a robust and conservative way. For example, for passenger demand, the strategic case evaluates the ability of options to facilitate increased demand under a qualitative assessment of the limits of the operating model's capabilities. However, the economic case establishes demand for modelling purposes through defined quantitative assumptions that are established to give the benefit of the doubt to EP+ in that similar outcomes to Franchising can be achieved. This is so that the options are assessed on a comparable basis. These two assessments are complementary but are evaluated under slightly different conditions to provide a fuller assessment.

The results of this assessment are presented in Sections 1.7.1 to 1.7.5.

1.6.1 Enhanced Partnership

The expected performance of the EP option with regard to the MCA's objectives is shown in Table 17.

Table 17: Comparison of the EP option against the MCA Objectives

Ref*	Objective	Implications	RAG Rating
1	The delivery model must be affordable to the MCA	No funding required for initial implementation, as this is the current operating model, but ongoing costs are likely due to the further network decline under this option. This is the lowest-cost option for the MCA.	
2	The delivery model must achieve value for money to the MCA	Value for money of this option has not been quantified as it forms the Do-Nothing scenario in which to assess the EP Plus and Franchising Options. It is expected that this option would provide limited benefits against limited costs in its current form, with costs likely to increase in order to sustain the network.	
3	The delivery model should drive increases in passenger demand	Limited strategic control (especially of network, routes and services) hinders the MCA's ability to boost patronage and generate mode shift. The MCA can influence through performance assessment, multi-operator fares and service provision, but network is still principally determined by operators on a commercial basis.	
4	The delivery model should increase in coverage and connectivity across the region	Driven by operator network design, service provision, ticketing/fares specification and performance standards – the MCA can influence at the margins but little leverage over operators.	
5	The delivery model should increase the punctuality and reliability of bus services	Driven by operator network design, service provision, ticketing/fares specification and performance standards – the MCA can influence at the margins but little leverage over operators.	
6	The delivery model should increase the presence of operators in the Bus network	Existing market as it is today so does not increase presence of bus operators on its own. Does not improve the conditions under which SMOs operate in the market.	

Ref*	Objective	Implications	RAG Rating
7	The delivery model should drive an environmentally sustainable bus network	Scope to work with operators to improve composition of fleet towards zero emission.	
8	The delivery model should drive improved responsiveness to societal needs (connectivity)	Limited as network still driven by operators on a commercial basis, but the MCA can mandate socially necessary bus routes and introduce / maintain discounted travel for desired demographics e.g. ENCTS.	
9	The delivery model will support a network that supports society's most vulnerable	Little impact as network still driven by operators on a commercial basis.	
10	The delivery model will drive equity in experience for customers	Little impact as network still driven by operators on a commercial basis.	
11	The delivery model must be deliverable	Already part of existing delivery plans and thus avoids transition risks inherent in franchising. However, achievement of the MCA's policy goals through this option would require further investment.	

*See Table 8

The expected performance of the EP Plus option with regard to the MCA's objectives is shown in Table 18.

Table 18: Comparison of the EP Plus option against the MCA Objectives

Ref*	Objective	Implications	RAG Rating
1	The delivery model must be affordable to the MCA	The EP Plus option is not affordable on a cumulative basis over the 30-year appraisal period.	
2	The delivery model must achieve value for money to the MCA	The EP Plus option would deliver VfM to the MCA.	
3	The delivery model should drive increases in passenger demand	Limited strategic control hinders the MCA's ability to boost patronage and generate mode shift. The MCA can influence through unified ticketing, potential for network design if there is operator buy in. Operator ownership of depots and fleet may reduce ability to meet long-term aspirations for performance and efficiency, which would impact on patronage.	
4	The delivery model should increase in coverage and connectivity across the region	The MCA can influence network design however this will rely on buy in from operators. Realisation of a network that improves coverage and connectivity is dependent on ongoing higher levels of funding.	
5	The delivery model should increase the punctuality and reliability of bus services	The MCA can influence network design, service provision, ticketing/fares specification and performance standards however this will still be predominantly operator led.	
6	The delivery model should increase the presence of operators in the Bus network	Existing market as it is today so does not increase presence of bus operators on its own. Does not improve the conditions under which SMOs operate in the market.	
7	The delivery model should drive an environmentally sustainable bus network	The MCA can facilitate bus fleet decarbonisation through capital contributions towards renewal and upgrade of fleet. However reduced control over move to ZEBs as the MCA does not own the assets	
8	The delivery model should drive improved responsiveness to societal needs (connectivity)	Limited as network still predominantly driven by operators on a commercial basis, but the MCA can mandate socially necessary bus routes and introduce / maintain discounted travel for desired demographics e.g. ENCTS. Additionally, the MCA can influence network design to allow flexibility in the long-term.	
9	The delivery model will support a network that supports society's most vulnerable	Limited impact as network still predominantly driven by operators on a commercial basis.	
10	The delivery model will drive equity in experience for customers	Limited impact as network still predominantly driven by operators on a commercial basis.	
11	The delivery model must be deliverable	It has been assumed that the EP Plus option could deliver comparable outcomes to a Franchising Scheme. However, achievement of the MCA's policy goals through this option would require further investment and agreement from the Operators as part of the EP Board.	Pass

1.6.3 Franchising Option A: Operator Owned Depots and Fleet

The anticipated performance of the proposed the Franchising Option A (operator owned depots and fleet) with regard to the MCA's objectives is shown in Table 19.

Table 19: Comparison of the Franchising Option A against the MCA Objectives

Ref*	Objective	Implications	RAG Rating
1	The delivery model must be affordable to the MCA	Franchising Option A is not affordable on a cumulative basis over the 30-year appraisal period.	
2	The delivery model must achieve value for money to the MCA	Franchising Option A would deliver VfM to the MCA..	
3	The delivery model should drive increases in passenger demand	Driven by the MCA network design, service provision, ticketing/fares specification and performance standards – provides long-term strategic control to make changes. However, operator ownership of depots and fleet may reduce ability to meet long-term aspirations for performance and efficiency, which would impact on patronage.	
4	The delivery model should increase in coverage and connectivity across the region	Driven by the MCA network design and specification for service provision – provides long-term control to make changes in line with the MCA's strategic priorities. However, realisation of a network that improves coverage and connectivity dependent on ongoing higher levels of funding.	
5	The delivery model should increase in punctuality and reliability of bus services	Driven by the MCA performance standards contractually enforced through franchise agreements, but lack of asset ownership may undermine long-term punctuality and reliability as not under direct control.	
6	The delivery model should increase the presence of operators in the Bus network	Favours legacy incumbent operators who own depots and fleet – unlikely to attract new bidders with significant cost of depot and fleet investments. Hinders involvement of new SMOs in the network due to high purchase costs of depots (though SMOs with existing bus services in South Yorkshire could continue to participate in the franchised network).	
7	The delivery model should drive an environmentally sustainable bus network	Reduced control over move to ZEBs as the MCA does not own the assets, albeit mirrored ownership could facilitate enhancements.	
8	The delivery model should drive improved responsiveness to societal needs (connectivity)	Driven by the MCA network design and service provision specification – can be flexible in the long-term.	
9	The delivery model will support a network that supports society's most vulnerable	Driven by the MCA network design, service provision and ticketing/fares specification – can be flexible in the long-term.	
10	The delivery model will drive equity in experience for customers	Driven by the MCA network design and service provision and ticketing/fares specification– can be flexible in the long-term.	
11	The delivery model must be deliverable	Whilst there are no changes to depot and fleet ownership, it is likely to be extremely difficult to run a consistently competitive commercial tendering process as incumbents are favoured due to their ownership of strategically located depots. To enter the market would require a prospective Operator to buy one of these depots or construct a new depot, representing a high barrier to entry.	Fail

*See Table 8.

1.6.4 Franchising Option B: MCA Owned Depots and Fleet

The anticipated performance of the proposed the Franchising Option B (MCA-owned depots and fleet) with regard to the MCA's objectives is shown in Table 20.

Table 20: Comparison of Franchising Option B against the MCA Objectives

Ref*	Objective	Implications	RAG Rating
1	The delivery model must be affordable to the MCA	Franchising Option B is affordable on a cumulative basis over the 30-year appraisal period.	
2	The delivery model must achieve value for money to the MCA	Franchising Option B would deliver VfM to the MCA..	
3	The delivery model should drive increases in passenger demand	Driven by the MCA network design, service provision, ticketing/fares specification and performance standards – provides long-term strategic control to make changes.	
4	The delivery model should increase in coverage and connectivity across the region	Driven by the MCA network design and service provision specification – provides long-term strategic control to make changes.	
5	The delivery model should increase in punctuality and reliability of bus services	Driven by the MCA performance standards contractually enforced through franchise agreements, asset ownership would give maximum flexibility to manage / utilise assets more efficiently and effectively to drive improvements in punctuality and reliability. Synergies from having control over depots and fleets.	
6	The delivery model should increase the presence of operators in the Bus network	The provision of depots and fleet to operators would reduce incumbency advantage and provides the potential for a more competitive market with more entrants. Facilitates access to SMOs due to lower barriers to entry, although the MCA may need to explicitly prioritise SMOs in the tendering process.	
7	The delivery model should drive an environmentally sustainable bus network	Greatest control of composition of fleet and depots would allow transition to zero emission whenever the MCA required.	
8	The delivery model should drive improved responsiveness to societal needs (connectivity)	Driven by the MCA network design and service provision specification – can be flexible in the long-term	
9	The delivery model will support a network that supports society's most vulnerable	Driven by the MCA network design, service provision and ticketing/fares specification – can be flexible in the long-term	
10	The delivery model will drive equity in experience for customers	Driven by the MCA network design and service provision specification – can be flexible in the long-term	
11	The delivery model must be deliverable	Acquiring the depot and fleet assets could be a lengthy process and a difficult commercial negotiation with operators. However, once conducted, the tendering process may be more commercially and legally viable.	Pass

*See Table 8.

1.6.5 Franchising Option C: Operator Owned Depots and the MCA owned Fleet

The anticipated performance of the proposed the Franchising Option C (Operator Owned Depots and the MCA owned fleet) with regard to the MCA's objectives is shown in Table 21.

Table 21: Comparison of Franchising Option C against the MCA Objectives

Ref*	Objective	Implications	RAG Rating
1	The delivery model must be affordable to the MCA	Franchising Option C is not affordable on a cumulative basis over the 30-year appraisal period.	
2	The delivery model must achieve value for money to the MCA	Franchising Option C would deliver VfM to the MCA..	
3	The delivery model should drive increases in passenger demand	Driven by the MCA network design, service provision, ticketing/fares specification and performance standards – provides long-term strategic control to make changes.	
4	The delivery model should increase in coverage and connectivity across the region	Driven by the MCA network design and service provision specification – provides long-term strategic control to make changes.	
5	The delivery model should increase in punctuality and reliability of bus services	Driven by the MCA performance standards contractually enforced through franchise agreements, asset ownership of fleet would give some flexibility to manage / utilise fleet assets more efficiently and effectively to drive improvements in punctuality and reliability. However, depot assets would still be owned by operators, who could decide on their locations.	
6	The delivery model should increase the presence of operators in the Bus network	The provision of fleet to operators would reduce some incumbency advantage but depots are likely to be a much greater barrier. This would hinder the participation of new SMOs in the bus network, although barriers to participation for SMOs with existing depots in South Yorkshire would remain equal or be reduced.	
7	The delivery model should drive an environmentally sustainable bus network	Control of composition of fleet and would allow transition to zero emission whenever the MCA required but depots would be more difficult to retrofit as not under the MCA control	
8	The delivery model should drive improved responsiveness to societal needs (connectivity)	Driven by the MCA network design and service provision specification – can be flexible in the long-term	
9	The delivery model will support a network that supports society's most vulnerable	Driven by the MCA network design, service provision and ticketing/fares specification – can be flexible in the long-term	
10	The delivery model will drive equity in experience for customers	Driven by the MCA network design and service provision specification – can be flexible in the long-term	
11	The delivery model must be deliverable	Acquiring the fleet assets could be a lengthy process and a difficult commercial negotiation with Operators. Subsequent to fleet acquisition, it is likely to be extremely difficult to run a consistently competitive commercial tendering process as incumbent Operators are favoured due to their ownership of strategically located depots. To enter the market would require a prospective Operator to buy one of these depots or construct a new depot, representing a high barrier to entry.	Fail

*See Table 8.

1.6.6 Franchising Option D: MCA Owned Depots and Operator owned Fleet

The anticipated performance of the proposed the Franchising Option D (MCA Owned Depots and Operator owned fleet) with regard to the MCA's objectives is shown in Table 22.

Table 22: Comparison of the Franchising Option D against the MCA Objectives

Ref*	Objective	Implications	RAG Rating
1	The delivery model must be affordable to the MCA	Franchising Option D is not affordable on a cumulative basis over the 30-year appraisal period.	<div><div></div><div></div></div>
2	The delivery model must achieve value for money to the MCA	Franchising Option D would deliver VfM to the MCA..	<div><div></div></div>
3	The delivery model should drive increases in passenger demand	Driven by the MCA network design, service provision, ticketing/fares specification and performance standards – provides long-term strategic control to make changes. However, fleet would still be owned by operators.	<div><div></div><div></div></div>
4	The delivery model should increase in coverage and connectivity across the region	Driven by the MCA network design and service provision specification – provides long-term strategic control to make changes.	<div><div></div></div>
5	The delivery model should increase in punctuality and reliability of bus services	Driven by the MCA performance standards contractually enforced through franchise agreements, asset ownership of depot would give some flexibility to manage / utilise depot assets more efficiently and effectively to support effective maintenance of vehicles. Fleet assets would still be owned by operators which may create interface issues at depots.	<div><div></div><div></div></div>
6	The delivery model should increase the presence of operators in the Bus network	The provision of depots to operators would reduce incumbency advantage and provides the potential for a more competitive market with more entrants. However, requirement to own fleet and associated finance requirements may deter SMOs from participating in the market when compared to a model where the fleet is owned by the MCA.	<div><div></div><div></div></div>
7	The delivery model should drive an environmentally sustainable bus network	Reduced control over move to ZEB as the MCA does not own the fleet, albeit ownership of depots could facilitate the infrastructure transition required	<div><div></div></div>
8	The delivery model should drive improved responsiveness to societal needs (connectivity)	Driven by the MCA network design and service provision specification – can be flexible in the long-term	<div><div></div></div>
9	The delivery model will support a network that supports society's most vulnerable	Driven by the MCA network design, service provision and ticketing/fares specification – can be flexible in the long-term	<div><div></div></div>
10	The delivery model will drive equity in experience for customers	Driven by the MCA network design and service provision specification – can be flexible in the long-term	<div><div></div></div>
11	The delivery model must be deliverable	Acquiring the depot assets could be a lengthy process and a difficult commercial negotiation with operators. However, once conducted, the tendering process is likely to be more competitive as participating operators will not require an existing depot in the region	Pass

*See Table 8.

1.6.7 Summary of performance of options against the MCA objectives

A comparison of all EP and Franchising Options against the MCA's objectives is provided in Table 23.

Table 23: Comparison of all Franchising Options against the MCA Objectives

Ref	Objective	RAG Rating: Enhanced Partnership	RAG Rating: Enhanced Partnership Plus	RAG Rating: Franchising Option A	RAG Rating: Franchising Option B	RAG Rating: Franchising Option C	RAG Rating: Franchising Option D
1	The delivery model must be affordable to the MCA						
2	The delivery model must achieve value for money to the MCA						
3	The delivery model should drive increases in passenger demand						
4	The delivery model should increase in coverage and connectivity across the region						
5	The delivery model should increase in punctuality and reliability of bus services						
6	The delivery model should increase the presence of operators in the Bus network						
7	The delivery model should drive an environmentally sustainable bus network						
8	The delivery model should drive improved responsiveness to societal needs (connectivity)						
9	The delivery model will support a network that supports society's most vulnerable						
10	The delivery model will drive equity in experience for customers						
11	The delivery model must be deliverable		Pass	Fail	Pass	Fail	Pass

1.7 OVERALL CONCLUSION OF THE STRATEGIC CASE

Overall, this Strategic Case has highlighted why South Yorkshire's bus network is not currently delivering the desired outcomes of the MCA's wider policy and strategy documents, and the connection between this and the current EP operating model. To address this, six options for the future operating model of the bus network (continuing with the EP, EP Plus or adopting a Franchising Scheme under four different depot/fleet ownership models – Franchising Options A to D) have been proposed and considered against the MCA's objectives for the future bus network.

An analysis of neighbouring local authorities' transport objectives and policies indicates that none of the aims of these authorities need be compromised by implementation within South Yorkshire of any of the options outlined in this Assessment. Initial engagement has not identified any significant issues with the potential Franchising Scheme for bus services in these authority areas, with authorities expressing a desire to work with the MCA during the implementation phase of any future Franchising Scheme. Continued co-ordination with these authorities is required to ensure that the introduction of a Franchising Scheme in South Yorkshire does not adversely impact upon services that cross between these areas and South Yorkshire. This would include the introduction of a service permit regime for cross-boundary services that encourages existing and future cross-boundary bus services.

Assessment of the options against the MCA's strategic objectives demonstrated that the Franchising Options more readily facilitate improved responsiveness to social needs, a network that supports society's most vulnerable and equity in experience for customers. This is as the network can be more holistically planned through MCA network design to be in line with the MCA's strategic priorities. However, this will be dependent on ongoing higher levels of funding.

Affordability

Franchising Options vary in terms of affordability, with Franchising Option B being the most affordable option and is affordable on a cumulative basis showing a modest surplus at the end of the appraisal period. This is mainly due to a large proportion of capex being funded through CRSTS grant funding up to 2032. EP Plus is not affordable over the appraisal period, and this is mainly due to higher costs arising through private sector borrowing.

Value for Money

The EP Plus option and Franchising Options are all currently shown to generate more benefits and revenue than the costs it would incur to implement and operate the options, relative to the Reference Case, the existing EP. This shows that all options would generate VfM for the MCA. All Franchising Options result in a higher NPV and BCRs when compared with the EP Plus option.

Other Criteria

Franchising Options more readily drive increases in passenger demand, connectivity across the region and improvements to reliability and punctuality of bus services. This is driven by the MCA network design, service provision, ticketing/fares specification and performance standards which could provide long-term strategic control to make changes to improve drivers of demand i.e., connectivity, reliability, punctuality. However, for Franchising Options with operator ownership of depots and fleet the ability to meet long-term aspirations for performance and efficiency may be reduced, which would impact patronage.

Franchising Options B and D also support the MCA objective to increase the presence of operators in the Bus network through supporting greater competition in franchise contracts, with Franchising Option B (where both depot and fleets are provided by the MCA) better meeting this objective than Franchising Option D.

Deliverability

Deliverability, increased presence of operators in the network and a drive to an environmentally sustainable bus network is variable between EP, EP Plus and Franchising Options. For EP, EP Plus and those Franchising Options (A and D) with operator ownership of fleet there is reduced control over a move to ZEBs as the MCA does not own the assets, albeit mirrored ownership could facilitate enhancements.

Similarly for those Franchising Options (A and C) with operator ownership of depots, whilst there are no changes to ownership from the existing EP facilitating delivery, it is likely to be extremely difficult to run a consistently competitive commercial tendering process as incumbents are favoured due to their ownership of strategically located depots. To enter the market would require a prospective Operator to buy one of these depots or construct a new depot, representing a high barrier to entry potentially reducing the presence of operators in the network. For these reasons, Franchising Options A and C are not commercially viable. Conversely, Franchising Options B and D (where the MCA owns the depots) are assessed as being commercially viable as they would facilitate competition for franchise contracts,

although it is noted that there are risks and challenges with the MCA securing the remaining strategic depots in the region.

Preferred Option

From this Assessment, 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 was considered deliverable particularly as it maximises competition for franchise contracts when compared to other Franchising Options.

Franchising Option B better meets the MCA's objectives when compared to the EP Plus option. Franchising provides the MCA with greater control when compared to EP and EP Plus, and therefore provides confidence in the delivery of required outcomes. The delivery of required outcomes with EP Plus is contingent on reaching agreement with operators, which is a significant risk.

Franchising Option B (where the MCA owns both the depots and fleet) is therefore considered to be the preferred option as it is affordable, demonstrates VfM, is deliverable and better meets the MCA's objectives when compared to other options. For this reason Franchising Option B, as the Preferred Franchising Option, is evaluated alongside EP and EP Plus in the Economic Case, Financial Case and Management Case.

2.0 Economic Case

2.1 SUMMARY

Section 123B of the Transport Act 2000 (as amended by the Bus Services Act) requires authorities to consider, as part of their assessment, whether the proposed Franchising Scheme would represent value for money (VfM). This Economic Case forms a part of the five-case assessment of the Franchising Scheme and sets out the economic appraisal of the proposed Franchising Scheme options to determine whether the scheme would provide Value for Money (VfM).

The Economic Case of the Franchising Assessment involves analysing the differences between the performance of two operating models, namely the EP Plus and the proposed Franchising Scheme, and the current EP (the Do-Nothing option or Reference Case). The EP options assume that bus services would continue to be run by private bus operators who decide on the routes, frequencies, fares and standards across the bus network in South Yorkshire.

The proposed Franchising Scheme option evaluated in this Assessment is Franchising Option B on the basis that it was the best performing option in options assessment outlined in the Strategic Case.

The Economic Case sets out the approach to the overall economic appraisal including the derivation of demand for the purpose of the Franchising Assessment, the benefits (both Level 1 and Level 2 as set out in the DfT's Transport Appraisal Guidance (TAG)) and the costs (as set out in the Financial Case).

The modelling undertaken to support the Economic Case considers the bus network as follows:

- The Reference Case (an EP operating model), which is based on the network as it operated from the end of October 2023 (taking into account timetable changes implemented at the end of October), as well as a reduction in Tendered Services budget which would occur once the level of funding currently committed reduces (from approximately £23m to £13.5m) in March 2025.
- The EP Plus and Franchising Scheme network, which considers the network as it operated from the end of October 2023 with the tendered services budget restored over the course of the transition period. This same network has been assessed for the EP Plus option and Franchising Options.

As the network used to assess the Franchising Options and EP Plus option has a greater network coverage than the Reference Case, the overall impacts show an increase in bus passenger demand relative to the Reference Case, as well as some journey time and reliability improvements in certain areas.

These networks have been assessed for the options outlined in Table 24.

Table 24 Summary of Options for the Assessment

	Reference Case (Current EP)	Enhanced Partnership Plus	Franchising Option B
Depots	Operator Owned	Operator Owned	MCA Owned
Vehicles	Operator Owned	Operator Owned	MCA Owned

There are different approaches to estimate the benefit cost ratio (BCR), in terms of what is included in the benefits and costs categories. In accordance with economic case convention, the 'Present Value of Costs' for each option are defined as 'the total cost to the MCA budget'. All other cost impacts (for example to private sector bus operators) are captured within the 'benefit' calculation.

For this assessment, the Franchising Guidance places greater emphasis on the Net Present Value (NPV) than on the BCR, given that the transfer of costs and revenues between the private and the public sector can make the BCR a less useful comparative metric of the economic performance of each of the options (with private sector costs and revenues reported as part of the Present Value of Benefits (PVB))

and public sector costs and revenues on the Present Value of Costs (PVC) in the standard TAG definition of the BCR).

The EP Plus and Franchising Options are all currently shown to generate more benefits and revenue than the costs it would incur to implement and operate, relative to the EP option or Reference Case. The results for the core assessment are summarised in Table 25.

Table 25 Summary of results – core assessment

	EP Plus option	Franchising Option B
	£000s, 2010 prices	
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

Franchising offers a stronger NPV when compared to the EP Plus option. The overall conclusions do not change from the core assessment when the wider economic benefits (e.g. health and social value benefits) are considered.

2.2 INTRODUCTION

2.2.1 Background

One of the requirements of the Franchising Guidance, which provides Mayoral Combined Authorities with the powers to implement bus franchising, is consideration of whether the options for Bus Reform, which include a Franchising Scheme, would provide Value for Money (VfM). The Economic Case sets out the economic appraisal of the proposed options to determine whether the scheme would provide VfM. It forms a part of the five-case assessment of the Franchising Scheme, as required under section 123B of the Act and the Franchising Guidance. This Franchising Assessment has also been undertaken in accordance with HM Treasury's Green Book Guidance and TAG.

In an assessment that is similar in structure and detail to an Outline Business Case, the effects of the Franchising Options are assessed in the context of affordability, stakeholder management, risk, service capacity, skills and experience. This Economic Case assesses the relative benefits of an EP Plus and the Franchising Options. It seeks to quantify these benefits against the economic costs by comparing an EP Plus model and Franchising Options to a Reference Case, which is the expected future bus network that would operate under an EP without any further investment from the MCA (this also being the Do-Nothing option).

2.2.2 Policy Context

There is a critical need for the MCA to tackle the challenges facing South Yorkshire's bus system including poor punctuality, poor reliability, inconsistent standards and vehicle accessibility and regular, large-scale service changes. Additionally, variable service frequencies, poor connectivity, complex fares and ticketing and concerns around personal safety have limited the success of the current bus system. A successful bus system can enable a productive and well-performing labour market through agglomeration benefits whilst minimising congestion impacts and support stronger and more resilient town and city centres. Also, more equitable growth, improved health, inclusion and a healthier environment can occur through an effective bus system with a reduction in physical inactivity, reduced time and cost barriers to socialisation, reduced deaths from air pollution and reduced carbon emissions through mode shift to bus use.

2.2.3 Economic Rationale for Franchising

Under a Franchising Scheme, the MCA would take strategic control of local bus services, including routes, timetables and fares, and operators would bid competitively to run those services on its behalf.

The MCA would also assume the revenue risk. Given that the MCA would have strategic control of the overarching network, it is expected that the MCA would be able to design and specify an optimal network, with associated routes and provision of services. The MCA should be able to specify, monitor and enforce performance standards more easily on each route, and can set consistent fare structures and prices across South Yorkshire. This section examines the economic rationale for implementing a Franchising Scheme model, as well as considering the economic rationale for the alternative EP Plus option.

2.2.3.1 De-Regulation

Bus services outside of London were deregulated under the Transport Act 1985, meaning bus services operate in a free market framework. Bus operators can determine the network design and routes based on profit maximisation and commercial imperatives, subject to minimum safety and operating standards set by the Traffic Commissioners for Great Britain.

2.2.3.2 Current Arrangements and Competitive Market Theory

Under the current EP model in South Yorkshire, bus operators can determine the services that they provide, the price that they charge and the fleet that they use. In theory, the current EP model is a competitive market under which economic theory would dictate that services are delivered efficiently, in terms of price, as making excess profits would attract new market entrants who would compete on price and quality to drive profit levels back to a normal level.

Market competition plays a crucial role in shaping consumer surplus. Consumer surplus is an economic concept that measures the additional benefit consumers receive from a product or service when they pay less than what they were willing to pay. Some ways in which market competition affects consumer surplus are:

- Lower prices: In competitive markets, operators have to keep bus prices relatively low to attract consumers and gain a larger market share. This leads to a higher consumer surplus as consumers pay less than what they are willing to pay.
- Increased consumer benefits: Market competition allows consumers to enjoy a higher consumer surplus. When operators compete, they strive to provide better quality products, improved customer service, and innovative features to attract consumers. This results in a higher consumer surplus or effectively, better outcomes for consumers.

Through an EP model (the current EP or under an EP Plus option), the operators also crucially bear a significant portion of the risk as they bear the revenue (fares) and cost (fleet, depots, operational cost) risks, although the MCA is indirectly exposed to revenue risk through Tendered Services.

2.2.3.3 Market Failure

The current EP model is in fact not a truly competitive market; there is strong evidence of market failure. In theory it is competitive, but, in practice, most bus services in South Yorkshire are operated by two or three companies who rarely compete against each other on routes, particularly outside of Sheffield. This is a result of genuine and significant barriers to entry that mean the market is not always contestable by potential new entrants, including:

- Significant up-front costs and risk associated with purchasing land to be used for depots (including obtaining planning permission) and for purchasing a fleet of vehicles.
- There are significant revenue risks as patronage numbers (at local and national level) are not always stable, which can deter SMOs that do not operate in larger markets where operator risk is shared across different geographies.
- The ability of incumbent operators to redirect resources to routes where new entrants are trying to enter the market and employ predatory pricing models in the short term.

The EP model also exposes the MCA to revenue risk indirectly (through Tendered Services). The MCA spends its annual budget for bus services in a reactive manner and is exposed to the risk of declining

passenger revenues in the South Yorkshire bus market. The EP model provides no additional certainty to the MCA. The degree to which the public sector and the MCA in particular have a “de facto obligation” to provide services has been highlighted by the arrangements needed to deal with the collapse in ridership due to the COVID-19 pandemic.

2.2.3.4 Bus Franchising Benefits

The deregulated bus market would be suspended under a bus Franchising Scheme model and brought under the control of the MCA, meaning that operators would only be able to provide services under contract to the MCA secured through a competitive tendering process. This brings competitive pressures to the provision of bus services, where pressures come through a tendering process when multiple operators bid for rights to operate given services over a specified period of time.

Franchising Schemes bring together the strengths of operators in efficient service delivery, but with a more co-ordinated and planned network design, and a greater requirement to drive better value for the public. Franchising Schemes could be delivered under a number of models. A Franchising Scheme model would allow the MCA to set the expected outcomes and define contractual regimes for monitoring, incentivising and enforcing good operator performance. Financial rewards could be applied to measurable service aspects such as reliability, punctuality, cancellations (or lack thereof) and customer satisfaction. The potential for such regimes is discussed in the Commercial Case of this Assessment, however, such incentives have not financially been considered as part of this Franchising Assessment.

Importantly, with a Franchising Scheme, the MCA would assume revenue risk for franchised bus services, which makes the commercial position less risky and therefore more attractive for operators, and particularly for SMOs. This incentivises operators to focus on contractual performance incentives and quality of service, instead of the management of farebox revenue, to deliver profit maximisation. Operators would continue to bear the majority of cost risk during the contract term through operations but are again incentivised by the Franchising model to deliver cost efficiencies in operation and asset management as the operator effectively ‘keeps’ any costs saved, and, at the point that contracts are re-let, franchise routes could be lost to rival operators who are able to deliver contracts for a cheaper value.

Some of the proposed Franchising Options assume that the MCA would provide the fleet and depots as part of the franchise contract and provide these to the operators via a lease for a nominal rent value. Again, this reduces the barriers to entry and risks for potential entrants and creates a more competitive, contestable market.

As discussed, introducing a more competitive market environment, reducing barriers to entry, reallocating risks, and enforcing quality will bring several benefits. These are summarised below. For passengers it could provide:

- Simple and integrated ticketing under one brand with a single sales channel.
- Setting fares with the potential for fares to be cheaper. However, for the purposes of this assessment, no fare reductions have been considered.
- Single identity for bus services which is easy to understand for new users.
- Consistent standards of service and network coverage.
- One accountable body with integrated real time information acting as a single point of contact for customers.

For the MCA, a Franchising Scheme would provide full autonomy over the network design and allow it to put in place more stringent performance measures and incentives than is possible under EP. It would provide for:

- Greater and more consistent levels of connectivity where more effective cross-subsidy allows for the development of a more comprehensive network, enabling more people to access employment, education, leisure and key services – particularly for areas with low car ownership.
- Ability to better integrate bus services with other transport models such as the tram (and any future mass transit systems), heavy rail services and walking and cycling routes.
- Place greater emphasis on reliability and ease of use, which may increase patronage numbers.

- Allow better alignment of policies to support growing patronage and improving service.

For bus operators, the Franchising Scheme can provide a de-risked and stable operating environment with contractual incentives to ensure a focus on service delivery, reliability, customer care and delivering on all contractually agreed standards.

2.2.4 Document Purpose

This document sets out the approach to the Economic Case including data inputs, assumptions made in forecasting and monetising impact of proposals. The Economic Case seeks to assess the VfM of the proposed Franchising Options and an EP Plus option against the current EP model and helps with assessing and evaluating different Franchising Options.

2.2.5 Document Structure

This Economic Case follows a standard structure of the appraisal of transport schemes. This includes:

- Section 2.3 outlines the forecasting framework.
- Section 2.4 provides an overview of the general approach to the economic case.
- Section 2.5 describes the baseline scenario with a focus on the methodology.
- Section 2.6 defines the EP model (the Do-Nothing option or Reference Case).
- Section 2.7 assesses the impacts of the EP Plus options and Franchising Options.
- Section 2.8 outlines the capital and operating costs of the scheme, which are evaluated with reference to optimism bias.
- Section 2.9 provides the benefits, which are calculated alongside a detailed discussion.
- Section 2.10 summarises the non-monetised impacts.
- Section 2.11 outlines the Distributional Impact Assessment.
- Section 2.12 outlines the value for money assessment which compares the different options.
- Section 2.13 sets out the sensitivity tests undertaken.
- Section 2.14 outlines a number of Economic Case Risks.
- Section 2.15 provides a conclusion to the Economic Case.

2.3 FORECASTING FRAMEWORK

A Forecasting Framework was developed to forecast the impacts of the proposed Franchising Options including impacts on demand, economic benefits and costs.

Figure 27 outlines the individual components of the Forecasting Framework and the relationship between these components. The base year scenario is incorporated into the spreadsheet-based model to establish the base year level demand, journey times and fares to act as a comparison to the future scenarios. TEMPro growth factors (refer to Section 2.5 for further detail), generalised journey time elasticity, diversion factors and bus fare elasticity are used as parameters to calculate the do something scenarios and produce the benefits associated with the different scenarios.

Benefits include generalised journey time savings, simplified ticketing, marginal external costs, social value of buses, health benefits and wider economic impacts. These benefits are evaluated as the VoT, simplified ticketing, social impact and health benefits. The benefits are compared against associated operating costs and capital costs, including optimism bias.

Both benefits and costs are discounted over a 30-year appraisal period, applying discount factors and a GDP deflator to finally produce the BCRs of the short-listed options and an appraisal summary table.

In addition to quantified and monetised benefits and costs, non-monetised benefits were also considered to provide a more comprehensive assessment of VfM.

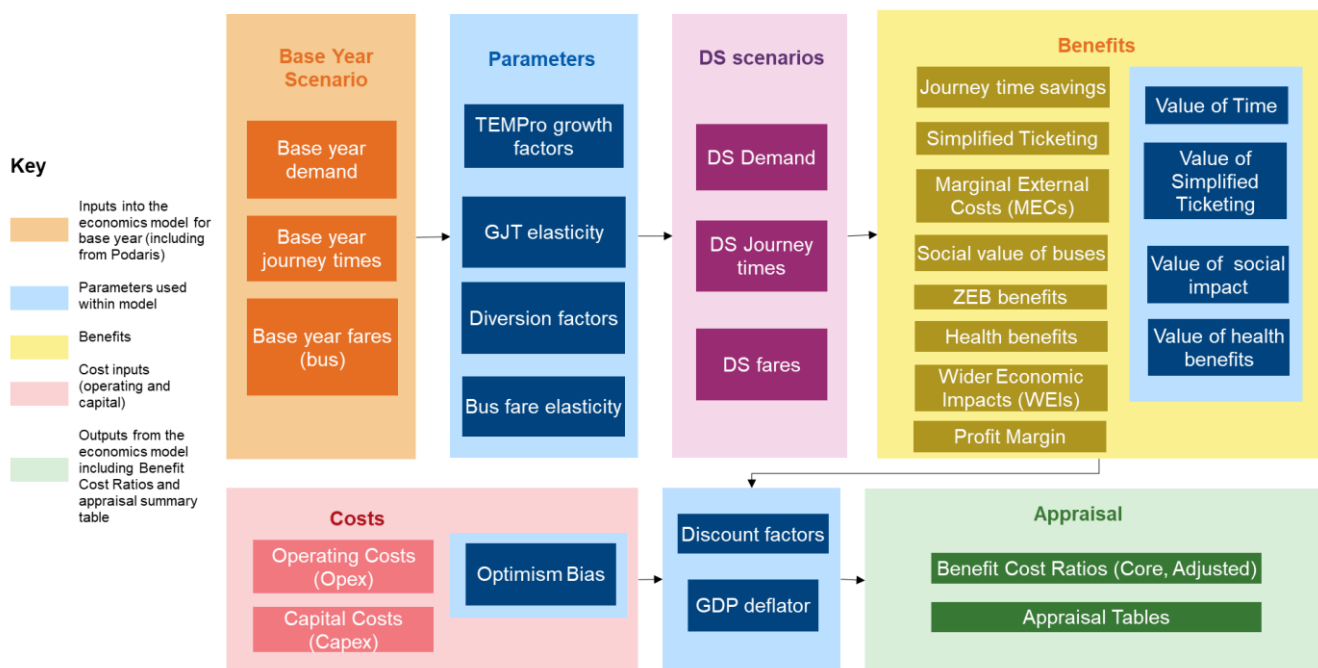


Figure 27 South Yorkshire Bus Franchising Economic Appraisal Framework

2.4 APPROACH TO ECONOMIC CASE

2.4.1 General Approach

Cost benefit analysis is an economic evaluation tool, based upon the principles of welfare economics, which is often applied to public sector projects. It is used to assess public spending in terms of the benefits and costs that will accrue to society, as opposed to those in the private sector which are concerned primarily with a financial analysis of revenues and profits for the firm.

The various costs and benefits of a proposed infrastructure project are monetised and compared to help evaluate whether a project should proceed, whether it would be an efficient allocation of resources and the value of any benefits that would accrue as a result (i.e. net economic worth of a project).

This Economic Case follows the principles and guidance in the HM Treasury Green Book (2020) alongside the DfT's TAG and the Franchising Guidance.

The modelling and economic assessment considered the whole of South Yorkshire and includes all tendered and commercial bus services operated by operators, including SMOs. Demand Responsive Transport (DRT) and Community Transport were not included. School services which are supported with MCA funding however are within scope.

The primary mechanism through which bus improvements are translated into higher demand and benefits for users is through adjustments to the actual or perceived cost of travel. An industry-standard approach has been taken to estimating benefits, drawing on the DfT's TAG and best practice in economic evaluation. The economic assessment model considers estimates of the impact of the interventions for each option on bus patronage, based on calculating the GJT benefits of each relevant change.

Two levels of benefits have been considered in line with TAG:

- Level 1 benefits include conventional transport user benefits, both in terms of journey time and quality, and marginal external costs of vehicles such as congestion benefits, improved air quality and potential reduction in greenhouse gases.
- Level 2 benefits include wider economic impacts assuming no land use changes such as productivity benefits associated with static agglomeration and labour supply. Level 2 benefits also include distribution impacts on health and wellbeing, social value and equity.

The aim is to monetise costs and benefits on a comparable basis in line with guidance, to allow the calculation of the NPV (the difference between benefits and costs) and the BCR (the ratio of benefits to costs). Non-monetised benefits are also considered in line with HM Treasury's Green Book guidance.

A guiding principle for demand modelling and economic assessment is proportionality, which refers to striking a balance between the level of detail and the cost of the modelling, considering factors such as the required functionality, data availability, and robustness and resource and time constraints. It was not considered proportional to assess every corridor in South Yorkshire in detail. For the economic and patronage assessment, a simplified zoning system was produced, differentiating between urban and rural areas.

2.4.2 Assessment Options

The Economic Case focuses on assessing the VfM of different Franchising Options and an EP Plus option over and above the EP option as the Reference Case. The Reference Case assumes the current EP continues to be delivered, as set out in the Strategic Case, with no additional investment from the MCA, other than investment already committed. This assumes a further decline in the network in the future once the current level of committed funding is reduced from March 2025. This affects the level of funding the MCA can spend on Tendered Services and will form the base case (referred to as the Reference Case) against which the EP Plus and Franchising Options will be considered.

The EP Plus and Franchising Options considered vary from the Reference Case in terms of two key components:

1. Ownership of depots and vehicles; and
2. Network assumptions.

While the first component of the options has an impact on costs only, the second component affects both benefits and costs as it has an impact on bus users directly.

One Franchise Option (B) along with the EP Plus option have been assessed as part of this Economic Case. Under Franchising Option B, it is assumed that they ownership of both the depots and vehicles would move from Operators to the MCA, as outlined in Table 26.

Table 26 Summary of Options for the Assessment

	Reference Case (Current EP)	Enhanced Partnership Plus	Franchising Option B
Depots	Operator Owned	Operator Owned	MCA Owned
Vehicles	Operator Owned	Operator Owned	MCA Owned

From a network perspective, two different networks were considered:

- The Reference Case (the current EP operating model), which is based on the network as it operated from the end of October 2023 (taking into account timetable changes implemented at the end of October), as well as a reduction in Tendered Services budget which would occur once the level of funding currently committed reduces (from approximately £23m to £13.5m) in March 2025. The Financial Case indicates that operators would operate at a loss if they continued to service this network. In the absence of a network remodelling exercise and without further reductions to services, this network is held as a constant as part of the Reference Case.
- The EP Plus and Franchising Scheme network, which considers the network as it operated from the end of October 2023 with the tendered services budget restored over the course of the transition period. This same network has been assessed for the EP Plus option and Franchising Options.

2.4.3 Intervention

The following high-level categories of interventions are assumed to be included in the Franchising Scheme, driving benefits (and disbenefits) for passengers and the wider the MCA region in terms of direct or wider economic, social and environmental benefits. The interventions that are considered as part of the EP Plus are also provided in Table 27 below.

Table 27 Summary of Interventions Considered Across EP Plus and Franchising and Impact

Component	EP Plus Impact	Franchising Scheme Impact
Network changes	<ul style="list-style-type: none"> Network recovers to current (October 2023) level with recovery of the tendered services budget that would be lost from April 2025 Improved GJTs through changes in journey times. 	<ul style="list-style-type: none"> Network recovers to current (October 2023) level with recovery of the tendered services budget that would be lost from April 2025 Cross-boundary service operation in a franchised network. Improved GJTs through changes in journey times.
Fares and ticketing	<ul style="list-style-type: none"> Improved ticketing technology, including across operators. No reduction in fare proposed. Existing fare yield assumed to grow in line with RPI. 	<ul style="list-style-type: none"> Further simplified and improved ticketing technology, including across operators with a single point of sales. Improved GJTs through generalised minutes reduction for simplified and single ticketing/fare structure due to reduced stop dwell times due to the additional benefits achieved in simplifying ticketing. Although simplified ticketing is associated with generalised minutes improvement, it does not represent a time saving. No reduction in fare proposed. Existing fare yield assumed to grow in line with RPI.
Vehicles/Fleet	<ul style="list-style-type: none"> Assumed initial replacement of 27 buses in 2023/24 for the Reference Case. For the Franchising Scheme option, it is assumed that 30% of all vehicles will be ZEBs at the start of each tranche of Franchising. This results in two phases ZEB rollouts, one from 2027/28 to 2035/36 and the other from 2042/43 to 2048/49), at which point all vehicles would be ZEBs. While it will be an operator responsibility, it is assumed that the fleet renewal for the EP Plus option would be similar to the Franchising Options. Under these options, buses will be replaced at the end of their useful life of 15 years to match the MCA's ambitions for a newer fleet. Under the Reference Case, buses are replaced when they reach 20 years old to match the slower renewal profile that has been observed historically in South Yorkshire. 	
Infrastructure quality	<ul style="list-style-type: none"> Assumption that no additional infrastructure investment (for the purposes of the assessment) – if there were, these would have a positive impact on GJT through journey quality factors. 	
Branding and marketing	<ul style="list-style-type: none"> Consistent branding across the services for an EP Plus with the MCA and operators sharing the cost of branding upgrades for fleet. Benefit is not quantified. 	<ul style="list-style-type: none"> Consistent branding across the services for a Franchising Scheme with the MCA bearing all of the cost of branding upgrades for fleet. Benefit is not quantified.

2.4.4 Network Changes

The networks used to inform the assessment for the Reference Case, EP Plus option and for the Franchising Scheme are described in Section 2.4.2.

The current network (as it operated since the end of October 2023) forms the basis of the network used to inform the assessment (for the Reference Case, EP Plus option and Franchising Option). The network was established using TransXChange data⁸⁰ downloaded (at the beginning of November 2023) for the area of South Yorkshire (shown on Figure 28). It includes the network and timetable information for all bus routes and tram routes within, from and/or to South Yorkshire.

⁸⁰ A UK nationwide standard for exchanging bus schedules and related data



Figure 28 Map showing South Yorkshire Boundary for which TransXChange Data Was Downloaded

In order to finalise and establish the network used for the various options, the TransXChange data was inspected to ensure all relevant local and cross boundary bus services are included in the analysis and coach services are excluded from the analysis. Figure 29 presents the extant local and cross boundary services that have been considered.

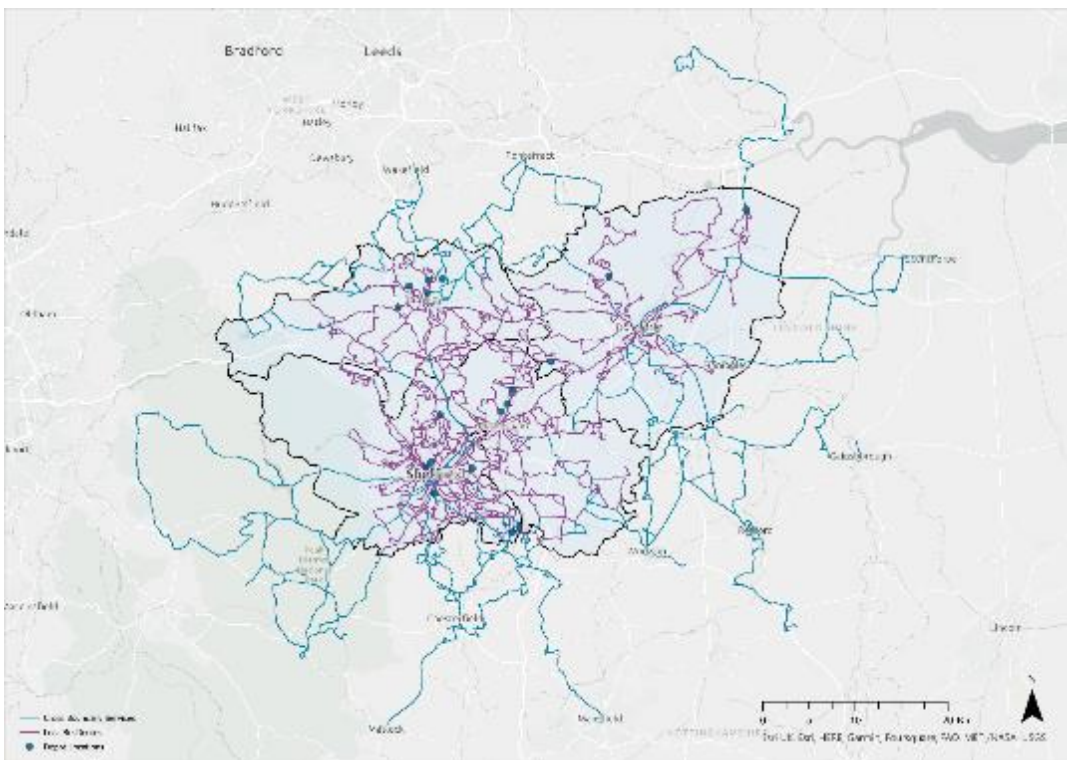


Figure 29 Map showing base network with local and cross boundary services

The network was coded into Podaris to reflect the current service provision and frequencies and allowed for further change to the network to be applied to develop the scenarios.

This leads to potential changes in actual or perceived reductions in GJT. Changes in GJT are converted into a monetary value by applying the TAG (Unit A1.3) VoT. Values for 'commuter', 'working – PSV passenger' and 'other' journey purposes have been applied.

2.4.4.1 Reference Case Network

The Reference Case aims to reflect the current baseline position within the MCA for the EP they have with operators and the MCA's Medium Term Financial Plan.

Using the current (October 2023) network, the Reference Case network has been derived through making an assumption on the likely further decline that would be experienced from the end of March 2025, meaning that the current level of Tendered Services could no longer be supported with the budget for Tendered Services reducing from approximately £22m per year to approximately £13.5m per year.

The primary resulting change with the assumed future network is that all remaining evening and Sunday Tendered Services would no longer operate. The removal of the remaining evening and Sunday Tendered Services would still leave a budget shortfall and therefore a further assumption has been made on a potential indicative permutation of Tendered Services that would be removed to achieve the reduced budget. The assumed services that would be removed include:

- Non-statutory school services
- The following daytime services:
 - Sheffield 76a
 - Doncaster 86/86a
 - Rotherham 117
 - Doncaster 65
 - Sheffield/Rotherham X7
 - Sheffield 5
 - Sheffield M17
 - Sheffield 35a
 - Doncaster 14

In reality, in advance of the funding being reduced in March 2025, the MCA would consider which services would be reduced and therefore this may differ from the list above.

The Reference Case was also coded into Podaris to allow for comparison with the EP Plus and Franchising network. This leads to potential changes in actual or perceived reductions in GJT. Changes in GJT are converted into a monetary value by applying the TAG (Unit A1.3) values of time (VoT) which are set out in Table 37. Values for 'commuter', 'working – PSV passenger' and 'other' journey purposes have been applied.

These Reference Case assumptions were developed through professional judgement and the MCA's experience with the bus network in recent years. This indicated that beyond March 2025 after the decline had happened there was a possibility of some stability in the short to medium-term. Given the historic volatility of the network there is some uncertainty around this. It was judged on balance to not make further assumptions about what operators may do to the network beyond March 2025. This is a prudent assumption as the Reference Case maintains a more stable network throughout the period than it may do in practice given the uncertainty. The Financial Case, therefore, highlights that the Reference Case may not be sustainable either from a network or financial perspective for the MCA (if they had to fund the gap via tendered services).

2.4.4.2 EP Plus and Franchising Scheme Network

For the purposes of the Franchising Assessment, it is assumed that the network would recover to the current (post-October 2023) level as part of an EP Plus or Franchising Scheme model. For the Franchising Scheme, it is assumed that any Tendered Services lost under the Reference Case would be reintroduced once the depot it is associated with becomes part of the Franchising Scheme. A similar timeline of network recovery has been assumed for the EP Plus.

The Tendered Services budgets in 23/24 and 24/25 were funded by temporary sources, including a combination of reserves and discretionary BSIP+ funding (for which there is no long-term certainty over).

As a result, as part of the MCA's Medium Term Financial Plan, by 25/26, the tendered services budget would reduce back down to a 'baseline' level since these sources of funding were not available. Under the EP Plus and Franchising option, this level of decline also happens but once EP Plus or and Franchising are implemented in 27/28, these Tendered Services are restored. Therefore, these options benefit in appraisal terms from these additional services.

As noted above, it is assumed that the network would be similar to the current network in terms of coverage, mileage and frequencies. However, a more detailed network planning exercise with input from key stakeholders is expected to be undertaken prior to the implementation of a Franchising Scheme, so the implemented network could look different. This may not mean extra mileage, but it could mean that a different more efficient network could be delivered for similar mileage and vehicle/driver resources.

2.4.4.3 Network Scenarios

Taking into account the network, two options have been considered as part of the assessment: EP Plus and Franchising as shown in Table 28.

Table 28 Summary of assessed options

	EP Plus	Franchising Option B
Depots ownership	Operator	MCA
Vehicles Ownership	Operator	MCA
Network Type	Post-October 2023	Post-October 2023

2.4.5 Appraisal Assumptions

The appraisal assumptions are summarised in Table 29. The assumptions for GMCA's Franchising Assessment can also be found in the table for comparison, given that that business case has been subject to significant levels of scrutiny, showing similarities in the approaches taken.

Table 29 Appraisal Assumptions

Assumption	GMCA	The MCA	Approach and source for The MCA
Start year of operations	2021	2027	Based on programme plan in the Management Case
Appraisal period	30	30	Consistent with Franchising Scheme in GMCA Assessment, September 2019 Applying a relatively short appraisal period is appropriate in this case as this is a regulatory intervention with significant uncertainty. This ensures evaluation of costs and benefits are made over the medium term.
Discount rate	3.5%	3.5%	HM Treasury Green Book discount rate
Price base year	2010 prices	2010 prices	TAG, November 2023 v1.22 Price conversions are made using TAG's GDP Deflator
Fares Growth	RPI + 1.4%	RPI	Fares are assumed to be constant in real terms
Benefit Decay	No decay	No decay	-

2.5 DEMAND AND MODELLING APPROACH

2.5.1 Baseline Demand

This section describes how the baseline demand matrix was developed which underpins the economic assessment. A key part of developing the matrix of demand by origin and destination (OD) was developing a proportionate zoning system that allows for granular analysis while also being proportionate and not overly complicated for the analysis. The approach to the zoning and demand matrix development is presented below.

2.5.2 Zoning

South Yorkshire consists of 172 Middle Super Output Areas (MSOA) as shown in Figure 30, and is aggregated to the 10 zones presented in Figure 31 for the purposes of the economic analysis. This takes into account various factors, such as the major road network, distance from the city centre, existing geographical features (including built environment and agricultural land use), significant trip generators and attractors, and topographical characteristics, as well as the Office for National Statistics' Rural Urban Classification of MSOAs in England.

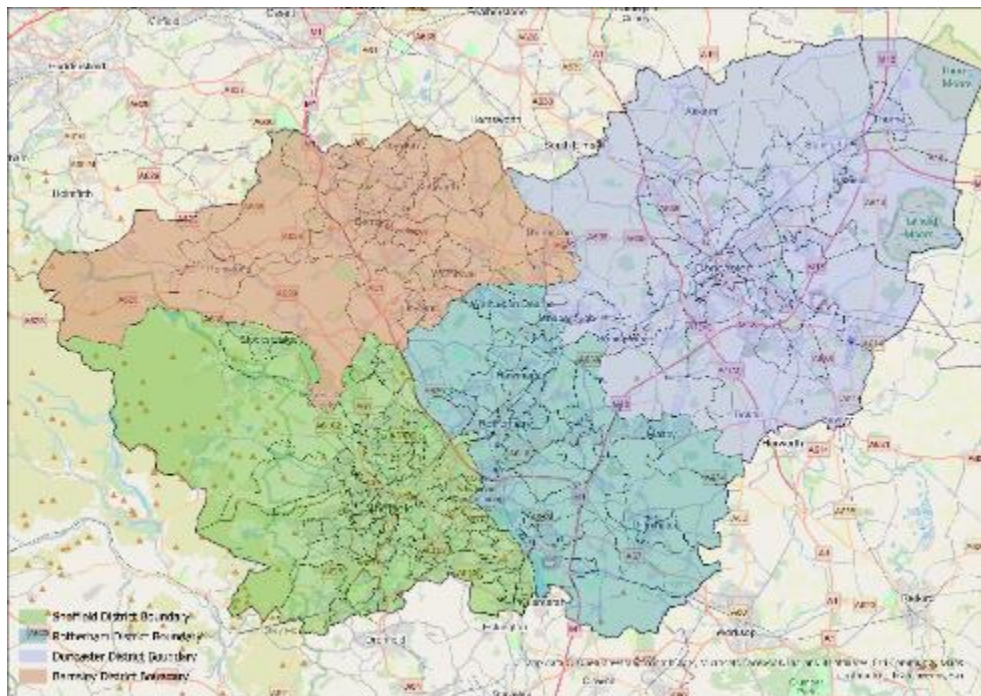


Figure 30 MSOAs and District Boundaries

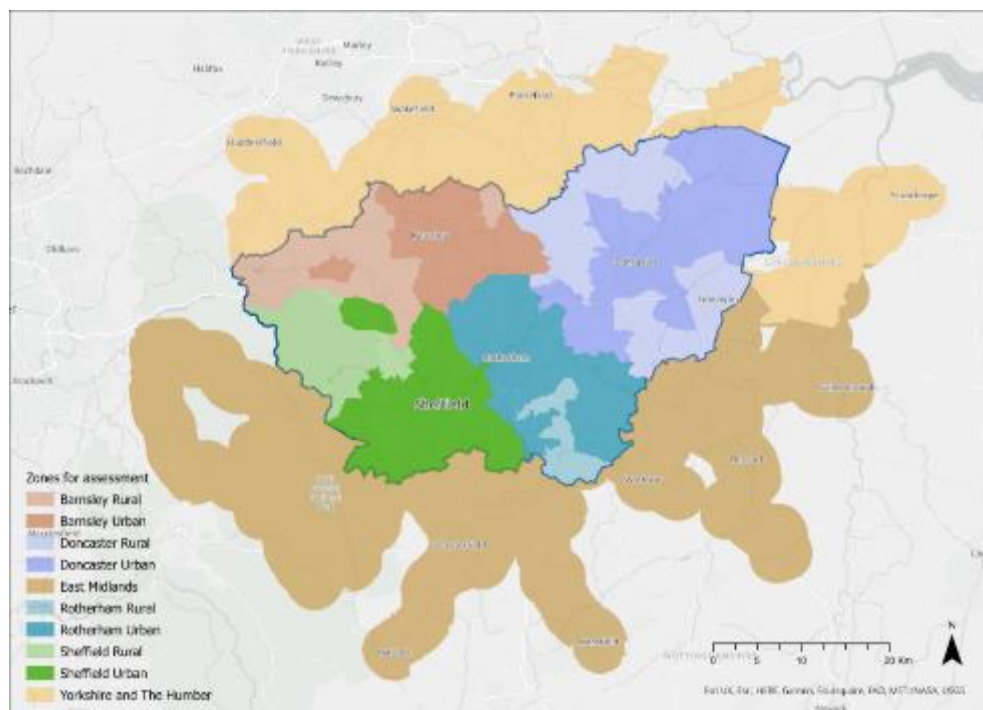


Figure 31 MSOA Zone Aggregation

2.5.3 Bus Demand Matrix

The existing demand on the network was established using TEMPro⁸¹ base year data for 2023 for commuting, business, and other trip purposes on an average day. The TEMPro (Trip End Model Presentation Program) software allows users to view the DfT's National Trip End Model (NTEM) dataset and provides forecast of trip end. This data was evaluated at an MSOA level for areas within South Yorkshire and in-scope MSOAs in relevant parts of the East Midlands (Derbyshire), West Yorkshire and the Humber Region (including North Lincolnshire). Demand was assessed for two modes, bus and car.

A demand matrix for South Yorkshire was established through the following three-step approach.

2.5.3.1 Step 1: Establishing a Reliable Data Source

There is limited availability of data to derive bus and car demand, particularly at an origin and destination level. As such, there is inherent uncertainty in the actual demand that is used in this analysis and a comprehensive demand forecasting exercise was not commissioned as part of this assessment. Rather, this analysis focuses on the relative costs and benefits of franchising or an EP plus scenario against a conservative Reference Case. For the economic analysis it was essential to derive demand matrices for bus and car to reflect the impacts on the following three trip purposes:

- Commuting (comprising all home and non-home-based work trip ends).
- Business (comprising all home and non-home-based employers business trip ends).
- "Other" (comprising all home and non-home-based education, shopping, personal business, recreation/socialising, visiting friends and relatives and holiday/daytrip trip ends).

TEMPro data provides origin and destination trip ends by mode for different trips purposes (including commuting, business, retail, education and leisure) for the year 2023. Therefore, TEMPro data was used to derive demand for bus and car at the MSOA level for all MSOAs in South Yorkshire for this study. Demand from zones outside of South Yorkshire (identified relevant East Midlands and wider Yorkshire) were also considered.

2.5.3.2 Step 2: Calculation of Bus Demand

TEMPro data provides *total* journeys originating and terminating for each MSOA, therefore destination MSOA trip ends were used to proportionately distribute origin MSOA trip ends. This ensured the total originating trips were maintained. The total destination trips were matched with TEMPro trips end in Step 3.

2.5.3.3 Step 3: Matrix Estimation

The demand matrices were then calculated using the fixed origin and destination totals to estimate the trips between each origin and destination pair (using an industry standard approach). This method would ensure that the origin totals and destination totals of the matrices match the TEMPro trip ends. The outcome was a doubly constrained matrix for each of the three trip purposes (i.e. commuting, business and other). The process is depicted in Figure 32.

⁸¹ Data was collated using TEMPro version 8.0.

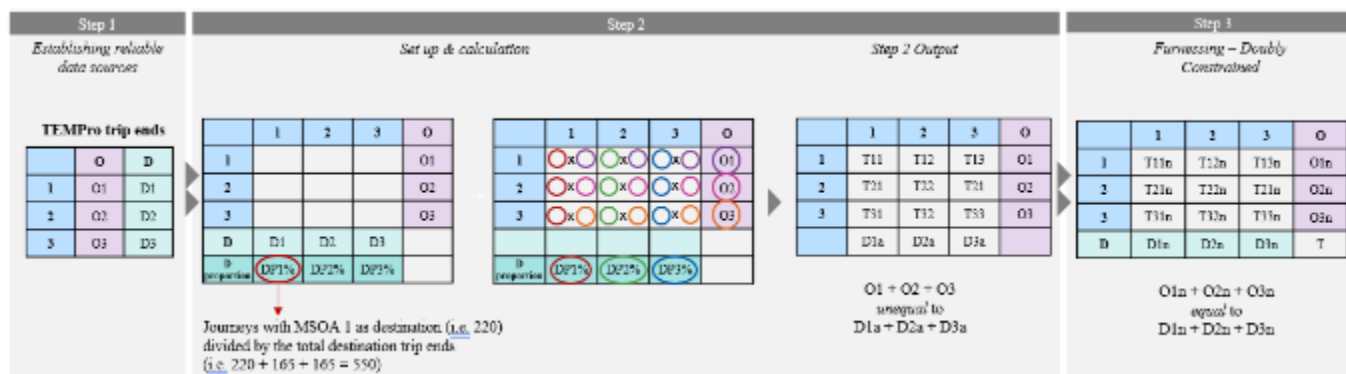


Figure 32: Furnessing process

This above-described process was used to obtain commuting, business and “other” trip matrices for bus and car. This methodology assumes there are existing bus journeys between all MSOAs, some of which would require passengers to interchange. An assessment of existing South Yorkshire bus routes and the MSOA boundaries revealed that all MSOAs have bus routes operating to, from or through them.

The TEMPro demand was validated against patronage figures obtained from three major operators (First, Stagecoach and TM Travel) for the services running within South Yorkshire.

2.5.4 Bus Journey Times

A journey time matrix representing journeys across South Yorkshire has been constructed in Podaris⁸² for movements between population centres of each of census area MSOA. These outputs were then aggregated based on a higher level at a zoning system at a district level used for the appraisal.

The network for each of the scenarios was input into Podaris and journey times are recalculated to reflect the impact of the network changes between the Reference Case and the EP Plus and Franchising Scheme networks. Journey time impacts were assessed for the worst peak, i.e., the AM Peak. Bus journey times are assumed to be the same across all years included in the appraisal period.

The following data was extracted from the model to calculate the average journey time:

- In vehicle time (IVT) (in minutes) was extracted for the journey successful trip with the least GJT.
- Access time (in minutes) was extracted for the journey successful trip with the least GJT.
- Wait time (in minutes) was extracted for the journey successful trip with the least GJT.
- Number of Transfers made for the journey successful trip with the least GJT wait time.
- Egress Time (time required to exit the bus) (in minutes) was extracted for the journey successful trip with the least GJT.

The results from the Podaris model were extracted at the MSOA level using a matrix with 84,108 Origin-Destination pairs. An excerpt of a zonally collated Podaris output table is shown in Table 30.

Table 30 Excerpt of Zonally Collated Podaris Output

Origin	Destination	Avg Access Time (mins)	Avg Wait Time (mins) + Avg Transfer Time (mins)	Avg Number of Transfers	In-vehicle time (mins)	Egress Time (mins)
Sheffield Urban	Sheffield Urban	5.30	23.08	0.54	39.49	0.10
Sheffield Urban	Sheffield Rural	4.64	40.99	0.88	45.22	0.04
Sheffield Urban	Doncaster Urban	5.43	29.33	1.26	86.03	0.08
Sheffield Urban	Doncaster Rural	9.60	39.50	1.10	71.87	0.02

⁸² Podaris is an online collaborative platform for transport planning. It can be used to plan transport infrastructure and transport engineering whilst also facilitating stakeholder engagement. It can accurately and quickly plan potential routes and transport scenarios. It allows for cross-discipline real-time collaboration. It can also be effectively deployed to communicate transport plans to non-technical stakeholders.

Aggregated GJT changes by zone origin are provided in Table 31.

Table 31 Aggregated GJT Changes by Origin Zone

Origin	Average GJT Change (minutes)
	EP Plus & Franchising Network
Sheffield Urban	-26.34
Sheffield Rural	-3.12
Doncaster Urban	-4.87
Doncaster Rural	-9.56
Rotherham Urban	-29.99
Rotherham Rural	-10.98
Barnsley Urban	-6.54
Barnsley Rural	-1.75
East Midlands	-13.94
Yorkshire	-1.04

This shows a reduction in the aggregate GJTs in all origin zones, meaning that bus movements from all zones will experience a GJT benefit, with some zones experiencing a greater level of benefit than others due to the level of service provision and the changes in the network between the Reference Case and the EP Plus option and Franchising Options. However, the overall change from the base GJTs is small and generally less than 2% change showing that while the network changes between the Reference Case and the EP Plus option and Franchising Options do result in a benefit in the GJTs, this benefit are modest. As part of a Franchising Scheme, the MCA would, however, have the ability to redefine the network to increase coverage and connectivity, which could improve on these benefits.

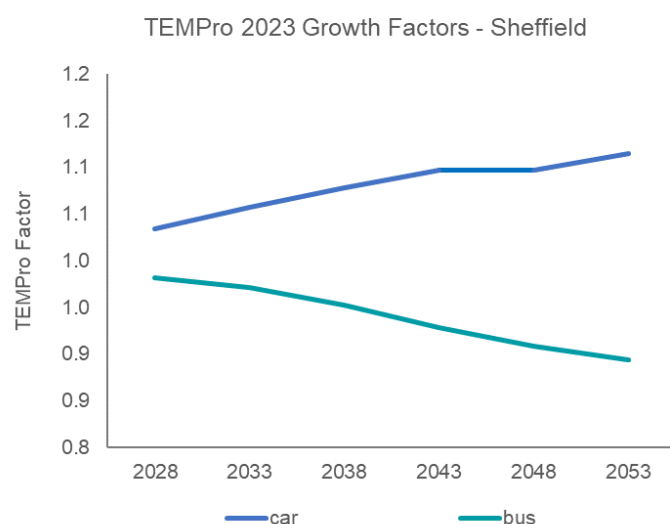
2.6 ENHANCED PARTNERSHIP

The EP scenario is considered the Reference Case within this Franchising Assessment. No network enhancements are expected to be delivered under this scenario, which is expected to include only committed schemes. The Reference Case also assumes there will be a further decline on the network without further investment or intervention. This would be experienced from the end of March 2025, when the current level of tendered services can no longer be supported. This EP option assumes that demand will continue to reduce in line with current trends in line with DfT's forecasts.

To establish Reference Case forecasts for all future years of the assessment, annual 2023 base year demand was uplifted using TEMPro factors across the whole appraisal period. Growth factors from 2023 to 2028 and subsequent five-year intervals were exported from TEMPro for districts/zone for all modes and purposes. These were aggregated where necessary to derive factors for car (driver and passenger) and bus/coach for commute, business and other purposes. Factors were interpolated between the five-year intervals.

TEMPro forecasts a gradual increase in car and decrease in bus demand across all districts through the appraisal period and this is shown for Sheffield in Figure 33.

Figure 33 Car and bus TEMPro forecasts for Sheffield



2.7 ASSESSING IMPACTS FROM THE EP PLUS AND FRANCHISING SCHEME

2.7.1 Passenger Demand Impact

The demand modelling provides a means to illustrate the potential change in passenger numbers under an EP Plus or Franchising Scheme over and above the Reference Case.

The calculations require two key sets of inputs:

- Estimated current passenger journey numbers and their origin-destination pattern (see previous section); and
- Estimated journey times before and after network and other improvements have been implemented based on analysis undertaken in Podaris, including reliability assumptions and ticketing improvements (expressed in GJT units).

The model is not a forecasting model; it is instead a means to present an illustration of potential bus passenger growth and the relative importance of measures aimed at achieving that growth.

2.7.2 Generalised Journey Time

With minor exceptions (such as extended hours of operation and investment in branding and marketing), the primary mechanism through which bus improvements translate into higher demand and benefits for users is through adjustments to the actual or perceived cost of travel, which is expressed as GJT.

The potential uplift in passenger demand was calculated by applying an elasticity of demand with respect to GJT (where elasticity is a parameter which determines the relationship between changes in GJT and changes in demand).

The value of the elasticity was based on recommended values identified in a 2018 study undertaken by RAND Europe and SYSTRA for the DfT⁸³. These are set out in Table 32.

Table 32 Elasticity Values

Journey Type	GJT Bus Elasticity Value
Commute	-1.15
Leisure (used for Other)	-1.05
Overall (used for Business)	-1.10

⁸³ https://www.rand.org/pubs/research_reports/RR2367.html

2.7.3 Assessment Parameters – GJT and Quality Factors

Podaris provides the following journey time components:

- Walk time
- Wait time
- Number of interchanges
- In vehicle time
- Egress Time

The journey times and frequencies are converted into generalised journey times by summing in-vehicle times and average wait times for each journey. In accordance with TAG (Unit A1.3), multipliers are applied to the components of GJT to reflect the fact that people place a higher value on time spent waiting for a bus or interchanging than time spent in transit. The penalties are shown in Table 33.

Table 33 GJT Penalties

GJT Component	Weight – Franchising (A-D Options)
In Vehicle Time	1.0
Access Time ⁸⁴	2.0
Interchange Time ⁸⁵	1.0
Wait Time ⁸⁶	2.0
Reliability ⁸⁷	2.5
Interchange Penalty ⁸⁸	7.5 minutes

Financial year 2022-23 operator data (scheduled and actual hours) for First and Stagecoach has been used in the calculation of reliability penalties to include within the generalised cost calculation. At the time of assessment, complete data from TM Travel was not available to include within the calculations. The percentage difference between scheduled and actual hours for bus routes can be used to calculate factors by district (as shown in Table 34) and ultimately a factor for each Origin-Destination pair.

Table 34 Reliability Percentages by District

District	Percentage to apply to IVT
Sheffield	4.6%
Doncaster	1.0%
Rotherham	6.8%
Barnsley	2.2%
East Midlands/Yorkshire	1.0%

This factor is applied to in vehicle time (IVT) to obtain the reliability penalty. A consistent approach was used across both datasets i.e. removing routes with data capture less than 50%, exclusion of consistent periods within the year, and excluding negative differences where actual hours exceeded scheduled.

2.7.4 Revenue

Under a Franchising Scheme, the MCA would benefit directly from its investment in terms of reduced costs. For example, investment in bus priority measures would benefit the MCA as it should lead to quicker journey times resulting in schedules needing fewer buses which in turn results in reduced

⁸⁴ TAG A1.3 4.4.1

⁸⁵ TAG A1.3 4.4.1

⁸⁶ TAG A1.3 4.4.1

⁸⁷ TAG A1.3 6.5.3

⁸⁸ TAG Unit M3.2 midpoint between the range specified (5 to 10 minutes)

operating costs. Faster journey times and reduced operating costs can also drive patronage growth, in line with the MCA's objective (as set out in the Strategic Case) which has a direct implication on average fare yields.

Average yield by district and customer type is calculated from operator data (First, Stagecoach and TM Travel) for financial year 2022-23 and is shown in Table 35. Average yields by district are assumed to grow with inflation and therefore remain constant in real terms. Given limitations in the modelling (the heavy rail network was not modelled) and the fact that a detailed fares forecasting exercise was not conducted alongside this assessment, it should be noted that net public transport revenue is sensitive to policy changes and potential abstraction from other public transport modes.

Table 35 Average Yield (Operator Data), 2022 prices

District	Customer Type	Average yield (£)
Barnsley	Fare paying	1.60
Doncaster	Fare paying	1.41
Rotherham	Fare paying	1.49
Sheffield	Fare paying	1.45
Barnsley	Concessionary	1.43
Doncaster	Concessionary	1.42
Rotherham	Concessionary	1.43
Sheffield	Concessionary	1.45

2.8 COSTS

Both capital and operating costs have been estimated for the Reference Case, EP Plus option and Franchising Option B. 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.

To compare the costs required to implement the Franchising Options or EP Plus as opposed to the Reference Case, the difference between all Franchising Options and the EP Plus option, and Reference Case net costs were calculated. These nominal prices of net costs were then converted from financial to calendar year. To reflect the effects of inflation across the appraisal period, GDP deflator factors were used to get real prices, rebased to 2010 prices. The adjusted numbers were then subjected to discounting factors, which convert future value into their present value. The present value of net costs to the MCA after accounting for revenue from the total costs included in the denominator of the BCR for the different Franchising Options and is compared against the present value of net costs for the Reference Case.

Table 36 presents a high-level summary of the difference in the present value of costs for the MCA under each scenario, compared against the Reference Case, including the transition period before the Franchising Scheme would be expected to be implemented (in 2027). A detailed analysis and breakdown of the costs and revenue (other than fare box revenue) are included in the Financial Case.

Table 36 Difference in costs (total surplus/deficit) between the options and the Reference Case (real terms, including Optimism Bias) in 2010 prices, £,000s

	EP Plus option	Franchising Option B
Present Value Costs	102,019	97,367

This shows that show that the option where the MCA owns the fleet result in the higher PVC (which are the net costs for the MCA).

The PVC for the EP Plus option is higher and the total deficit (before consideration of the Transport Levy apportionment and other funding) is higher largely due to an overall lower level of revenue generated.

2.9 BENEFITS CALCULATIONS

This section summarises the benefits associated with the short-listed options against the Reference Case. 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.

In addition to this, DfT's TAG classifies impacts by level, depending on the level of uncertainty associated with the type of benefits. There are overall three levels of benefits in TAG, with Level 3 assuming land use changes. For the purposes of this business case, it has been assumed that changes would not be sufficiently transformational and therefore no land use changes are assumed. Level 1 and Level 2 benefits are assessed below.

2.9.1 Level 1 Benefits

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.

2.9.2 User Benefits

User benefits include time savings due to network changes and reliability as well as simplified ticketing systems.

2.9.2.1 Time Savings

The value of time from TAG for monetising time savings are summarised in Table 37.

Table 37 Values of Time (£ per hour)

GJT Component	Value of Time in 2023 (2010 Prices)
Commuter	10.93
Working (PSV passenger)	11.00
Leisure	4.99

Due to the level of recovery in the network assumed between the Reference Case and the EP Plus option and Franchising Option, there are overall time savings for both scenarios (Table 38). The time saving would be the same for all Franchising Option, as the network would be the same irrespective of the Franchising Option taken forward.

Table 38 Results of the Time Savings Benefits Analysis

User benefit	£'000s (2010 Prices)	
	EP Plus	Franchising Option
Time Savings	97,079	97,079

As the same network has been assumed for the EP Plus option and Franchising Option, the time saving benefits are the same for all options, demonstrating the ability of both EP Plus option and Franchising Option to delivery improvements in punctuality and reliability.

2.9.2.2 Simplified Ticketing

In order to account for a fully simplified and integrated ticketing structure that could be implemented as part of a Franchising Scheme (over and above the level that could be achieved as part of an EP or EP Plus due to the ability to sell tickets through a single point of sales), a 0.84 minute GJT improvement⁸⁹ is applied to 50% of fare-paying commuter journeys. The proportion of trips affected reflects the fact that

⁸⁹ TAG M3.2.1

not all journeys would benefit from simplified ticketing (i.e. single leg trips, or those where multi-operator tickets are already available). The GJT improvement for business and other purposes is derived by applying the VoT ratios to the commuter GJT improvement as specified in TAG. The GJT improvement in minutes are shown in Table 39.

Table 39 GJT Improvement by Journey Purpose for Simplified Ticketing

Journey Purpose	GJT improvement (minutes)
Commuting	0.84
Business	0.85
Other	0.38

The generalised minutes reduction from the simplified ticketing is run through the elasticity model to derive the change in demand due to simplified ticketing, which impacts the revenue and profit calculations, as well as the marginal external cost benefits due to diversion from car. It is noted that almost the same ticketing measures could be implemented under EP Plus, but this comes with the additional cost of holding operators harmless. Under a Franchising Scheme, the policy lever used to improve ticketing is the franchising payment, which transfers some ticketing improvement risks/costs from the operators to the public sector. This is not the case for EP Plus where neither the additional benefits of comprehensive ticketing improvements nor the cost of absorbing the operator risk for ticketing improvements is applied.

2.9.2.3 Branding and Marketing

Under a Franchising Scheme arrangement, the MCA would be able to standardise branding on buses further. Franchising could facilitate MCA-led marketing efforts as any revenue benefits from these would accrue directly to the MCA rather than to operators, as in an EP or under an EP Plus model. However, there is no robust approach to quantify this benefit, so no benefits have been claimed. Costs have, however, been considered.

2.9.3 Non-User Benefits

2.9.3.1 Mode Shift from Car

Non-user benefits, such as a reduction in greenhouse gas emissions due to mode shift from car to bus, can impact a geographical area and not just the individual user of the bus services. This equates to a benefit to wider society, including impacts such as a reduction in congestion and pollution. The non-user benefits associated with transport use include congestion, greenhouse gas emissions, local air quality impacts, accidents, noise, infrastructure costs and indirect taxation.

To evaluate these non-user benefits, the TAG approach to estimate marginal external costs was used, as set out in Table 40. A diversion factor of 24% (TAG) has been used to estimate the proportion of new bus demand that can be attributed to mode shift from car or taxi to bus.

Table 40 Benefits Due to Mode Shift from Car

Benefit	£'000s (2010 Prices)	
	EP Plus	Franchising Options
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

The benefits due to the mode shift from car are slightly higher for the Franchising Option than for the EP Plus option, showing that a Franchise Scheme has the ability to driver a greater level of mode share than an EP Plus option due to the additional GJT benefit achieve from the additional integrated ticketing benefits that can be achieved through a Franchising Scheme, thus demonstrating that the delivery model can contribute to providing an environmentally sustainable bus network in line with the MCA objective (refer to the Strategic Case).

2.9.3.2 Operator Implied Profits

Within this Franchising Assessment, the private operator implied profits have been included as part of the benefits, as set out in Table 41. This is based on the difference between implied profits provided by the financial modelling team over the appraisal period for each option (EP Plus and Franchising Options) and the Reference Case. Further details on the operator profit margins are outlined in the Commercial Case.

Table 41: Operator Implied Profit benefits

Difference between scenario and reference case profits (£'000s, 2010 prices)	
EP+	Franchising Option B
158,185	78,162

Table 41 outlines that the Franchising Option B results in the lowest level of operator implied profit benefit.

2.9.3.3 Zero Emission Buses (ZEBs)

Under the EP, the committed ZEB fleet under the ZEBRA programme is assumed, which is 27 ZEBs in 2023/2024 with no further investment assumed (given that no funding is currently committed). Under the Franchising Options, an accelerated profile of ZEB replacement has been allowed for, with an assumption made that 30% of the vehicles allocated for the first tranche of franchising being ZEBs. This results in two phases of ZEB rollouts, one from 2027/28 to 2035/36 and the other from 2042/43 to 2048/49). This demonstrates a further commitment to the MCA's objective to an environmentally sustainable bus network (refer to the Strategic Case). A similarly phased roll-out has been assumed for the EP Plus option.

Table 42 summarises the value of benefits associated with ZEBs across the appraisal period for EP Plus option and Franchising Options compared to the Reference Case. This includes the further carbon, air quality and noise benefits as well as operating costs and capital cost savings.

Table 42 Results of the ZEB Benefits Analysis

ZEB Benefits – Appraisal Period (£,000s, 2010 prices)	
EP Plus option	Franchising Option B
31,505	31,505

As a similar assumption on the ZEB rollout has been applied to the EP Plus option and Franchising Options, the benefit is the same. This provides a conservative approach as in reality, the rollout of ZEBs under an EP Plus model may be slower without the commitment of investment under an EP Plus and as the market roll-out may be slower without intervention.

2.9.3.4 Private Sector Disbenefits

As well as the benefits of the EP+ Plus option and Franchising Options, the disbenefits to the private sector due to the investment required for fleet and depot acquisition have been considered, where relevant. This is seen in those options where the private sector is fully or partially responsible for the acquisition of fleet and/or depots. These 'atypical' private costs are reflected with the benefits as they

represent a disbenefit to the private sector (whereas the economic costs concern public sector costs only).

Table 43: Private Sector Fleet Disbenefits

Difference between scenario and reference case disbenefits (£'000s, 2010 prices)	
EP+	Franchising Option B
-106,925	0

As the MCA would be responsible for acquiring the fleet and depots for Franchising Option B, there is no disbenefit to the private sector.

2.9.4 Level 2 Benefits

Level 2 benefits include wider economic impacts assuming on land use changes such as productivity benefits associated with static agglomeration and labour supply impacts. These benefits are typically presented in an adjusted BCR.

The following level 2 benefits have been assessed:

- Agglomeration benefits – productivity benefits resulting from increased agglomeration which enables markets to function more efficiently, for instance enabling businesses to access a wider catchment of suppliers, customers and a larger labour pool.
- Labour Supply Impacts – employment impacts resulting from increased labour supply as people decide to enter the labour market or work longer hours or access more productive jobs due to reduced costs or time in accessing employment.

These benefits have been assessed in accordance with TAG guidance using a bespoke spreadsheet-based wider economic impacts tool and have been calculated at a zonal level, using values for the DfT's wider data set by local authority. While TAG usually recommends doing the analysis at a local authority level, the guidance allows for flexibility and given the large size of local authorities, a zonal analysis is likely to be more accurate. This was done for employment data by disaggregating employment values from the DfT wider data set using MSOA level data taken from the Business Register and Employment Survey 2022 and reappportioning forecasted employment to the project zones.

2.9.5 Agglomeration Benefits

Productivity is affected by the density of economic activity. By improving connectivity between areas, production outputs, such as labour and capital, can be used more efficiently in an economy. Individuals and firms in an agglomeration economy derive productivity benefits from being able to traverse between zones more easily, which incentivises labour market interactions.

Implementing any intervention on the bus network can change the effective density, which measures the accessibility of a certain area to jobs in all the destination areas. This can be visualised by mapping the employment density of each MSOA, which can be seen in Figure 34. Based on the map, areas with relatively high demand for labour can be identified. Zones identified as employment centres are Sheffield urban, Barnsley urban, Rotherham urban, Doncaster urban, and some areas in East Midlands and Yorkshire and The Humber. As employment density varies between areas, improving accessibility benefits the economy as it enables firms to access a wider labour market to support their production.

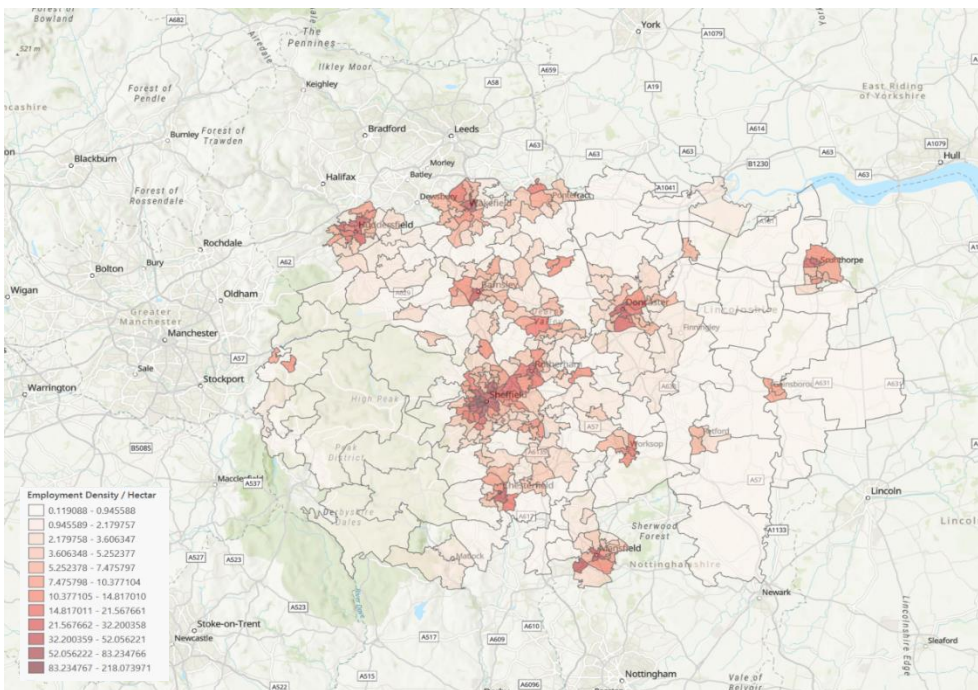


Figure 34 Map of Employment Density

Benefits of agglomeration can also be seen by analysing commuting patterns to Sheffield from its surrounding areas. As can be seen on Figure 35, the pattern shows a significant number of daily commuters travelling to Sheffield. Similarly, this shows the potential impact to the wider economy as it expands the geographical range of job opportunities, allowing workers to access more suitable jobs. For employers, this results in a more diverse or skilled labour pool.

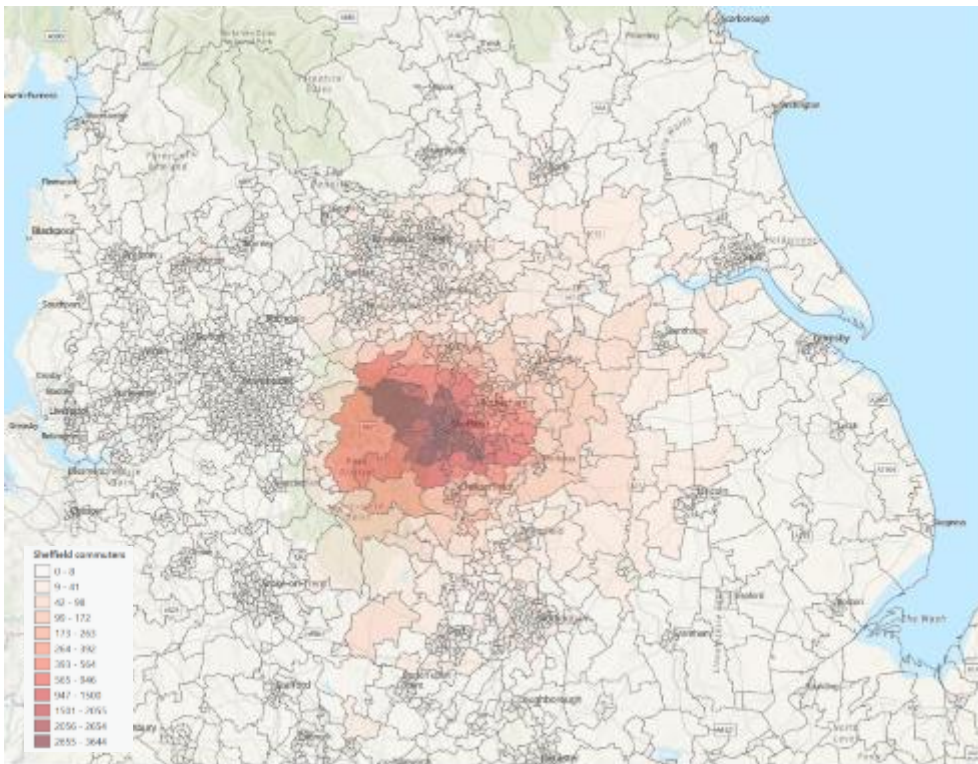


Figure 35 Map of Number of Commuters to Sheffield

In assessing agglomeration impacts, effective density was used to measure the impact of changes in generalised travel costs and employment location on the strength of an agglomeration. As the strength diminishes with distance, distance decay parameters were considered for each sector to be applied to average generalised cost.

2.9.6 Labour Supply Impacts

Increases in the supply of labour arise from individuals moving into the labour market from economic inactivity. This assumption is based on expected reduction in commuting costs that could be a barrier for people to work. In quantifying labour supply impacts, changes in GJT were used to estimate the total labour supply impact across areas where costs are expected to change because of the implementation of the scheme. The estimated change in labour supply was then valued in terms of GDP impacts, which was used to calculate the welfare associated with labour supply impacts.

Calculations on labour supply impact have indicated negative benefits as a result of the network changes. However, there is no economic rationale to suggest negative impacts on labour supply would occur. Despite seeing an improvement in generalised journey times for bus and an increase in bus demand due to network changes proposed, the weighted generalised costs increase for the EP Plus option and Franchising Option as the generalised cost for bus is much higher than for car, leading to negative impacts when compared to the Reference Case. Given there is no rationale for these benefits to be negative, they have been excluded from the adjusted BCR, and only the agglomeration benefit has been included in the adjusted BCR.

The results from the wider economic impacts analysis are presented in Table 44. Note that the results have been restricted to the functional MCA area, assumed to be the 10 zones (composed by 159 MSOAs) defined in Section 2.5: Barnsley urban, Barnsley rural, Doncaster urban, Doncaster rural, Rotherham urban, Rotherham rural, Sheffield urban, Sheffield rural, Yorkshire and East Midlands. Results have been modelled for year 2027 and projected over the appraisal period (30 years, until 2057), using a value of time growth factor, which is a standard growth factor set out in TAG for use in economic appraisals.

Table 44 Results of the Wider Economic Impacts Analysis

Wider Economic Impacts Benefit	£'000s (2010 Prices)	
	EP Plus option	Franchising Option B
Agglomeration Benefit	8,217	8,217

The results for the EP Plus option and Franchising Options, when compared to the Reference Case, show a positive benefit in terms of wider economic impacts. This is due to the expected ability to recover the network to the current service levels, when compared to the anticipated decline under the Reference Case. As the networks considered for the EP Plus option and Franchising Options are the same, the benefits are also the same.

The analysis presented here has been undertaken at a disaggregated model zone level for more granularity in the results as allowed by the TAG guidance (standard recommended level being the local authority level which would not highlight the full zonal impacts of EP Plus or Franchising).

2.9.6.1 Health Benefits

An increase in bus demand is likely to result in an increase in active travel as people switch from car to bus (estimated through the use of diversion factors). This is as a result of people tending to walk or cycle for longer to travel to a bus stop when compared to walking or cycling to their own car, with the integration of active travel including cycling networks becoming more prominent in recent years.

A proportionate approach to estimating these benefits has been identified to calculate these impacts based on the New Zealand Transport Agency (NZTA) appraisal guidance. The reason to deviate from TAG is that the TAG approach is tailored to new cycling or walking infrastructure and requires running the Active Mode Appraisal Tool (AMAT). The NZTA approach is more transparent and more appropriate in this case, as it is expected these benefits would be small at this stage. The health benefits have been included in the Adjusted BCR calculation (see Section 2.12).

The NZTA provides values for each additional walked or cycled kilometres and can be found in Table 45. A further advantage of this guidance is that it captures both physical and mental health benefits. These

values are converted into pounds and 2010 prices for the assessment with the resulting benefits outlined in Table 46.

Table 45 Value of Health Benefit of Active Travel

Benefit	Value of health benefits for new bus users (\$/km, 2021 prices and values)	Value of health benefits for new bus users (£/km, 2010 prices)
Pedestrian benefit	NZ\$9.9 per km walked	£4.1 per km walked
Cycling benefit	NZ\$4.9 per km cycled (normal bike)	£2.0 per km cycled

Table 46 Results of the Health Benefits Analysis

Health Benefits – Appraisal Period (£'000s, 2010 prices)	
EP Plus	Franchising Option B
2,871	3,533

The value of health benefit for the Franchising Options is approximately £3.5m across the appraisal period. This is around 23% higher than the value of health benefit for the EP Plus option as there are additional GJT benefits that can achieve under the Franchising Options relative to the EP Plus options due to the differences in the simplified ticketing benefits.

2.9.6.2 Value of Social Impact

The social value of bus travel refers to the principle that the provision of bus services enables certain trips that would otherwise not be made at all, thereby allowing people to undertake a wider range of activities that could not be accessed by another mode. This benefit is not additional and therefore has been presented separately and not included within the Adjusted BCR (presented in Section 2.12). Social value by customer type across the appraisal period is shown in Table 47.

Table 47 Results of the Social Impact Analysis

Customer Type	Social Value – Appraisal Period (£'000s, 2010 prices)	
	EP Plus	Franchising Option B
Fare Paying	1,617	2,023
Concessionary	437	437
Total	2,054	2,461

The social impact analysis shows that overall the social value benefit for the Franchising Option is greater than for the EP Plus option. This is due to the Franchising Option offering greater benefits due to simplified ticketing. Simplified ticketing benefits have only been applied to fare paying passengers, therefore there is no difference in concessionary fare social value benefits between the EP Plus option and Franchising Option. Overall, this will help to achieve the MCAs objective to drive improved responsiveness to societal needs through connectivity (as set out in the Strategic Case).

2.10 NON-MONETISED IMPACTS

In addition to the monetised impacts as described in previous sections, there are also non-monetised impacts from a Franchising Scheme as acknowledged in the Strategic Case. This includes the social and distributional impacts as the bus network better serves more deprived areas.

2.11 DISTRIBUTIONAL IMPACT ANALYSIS

2.11.1 Introduction

The Distributional Impact Analysis (DIA) assesses how the potential implementation of the Franchising Option will affect different social groups, in response to the MCAs objective on Social Responsiveness and Supporting the Most Vulnerable, as set out in the Strategic Case.

The typical approach to undertaking a DIA follows the DfT TAG Unit A4.2 Distributional Impact Appraisal sanctioned methodology. Stage 1 involves the screening of the scheme impacts against clear criteria which identifies whether the impacts are large enough to warrant further assessment of the distributional impacts. The impacts which meet this threshold are taken forward to Stage 2 and 3, the Assessment and Appraisal stages respectively.

Within the Stage 2 - Assessment step, relevant socio-economic data is collected and the impact upon local communities assessed generally using the most recently available Census data. For the final Stage 3 – Appraisal step, the aim is to understand the impact of each of these metrics on the appraisal process. The assessment is summarised within tables which articulate the impact on different community groups.

An initial screening process was undertaken to evaluate the various indicators of impacts and establish the proportionality of appraisal for each indicator. Consideration was given to whether the impacts of bus franchising on specific social groups (children, Black and Minority Ethnic communities, people without access to a car and people on low incomes) might be positive or negative. Consideration was then given to whether the identified impacts can be eliminated through redesign and amendment or whether they cannot be eliminated or are minor and dispersed in impact. Where impacts were identified as significant or concentrated, a full appraisal was undertaken.

Further high-level quantitative analysis was undertaken using existing Census data to consider how demographics play out across the MSOAs that make up the South Yorkshire region. This allows for insight into how the various assessed demographics are represented across the region and how the proposed changes will affect them on a geographic level.

The changes to the bus services as part of the EP Plus option and Franchising Options compared to the Reference Case includes the addition of the following daytime services, as shown in Figure 36:

- Sheffield 76a;
- Doncaster 86/86a;
- Rotherham 117;
- Doncaster 65;
- Sheffield/Rotherham X7;
- Sheffield 5;
- Sheffield M17;
- Sheffield 35a; and
- Doncaster 14.

It is noted that this is an indicative list of services that could be affected in the Reference Case, but they would be reintroduced as part of the EP Plus option or Franchising Option. To ensure consistency with the modelling undertaken to inform the Economic Case, these services also form part of the DIA analysis.

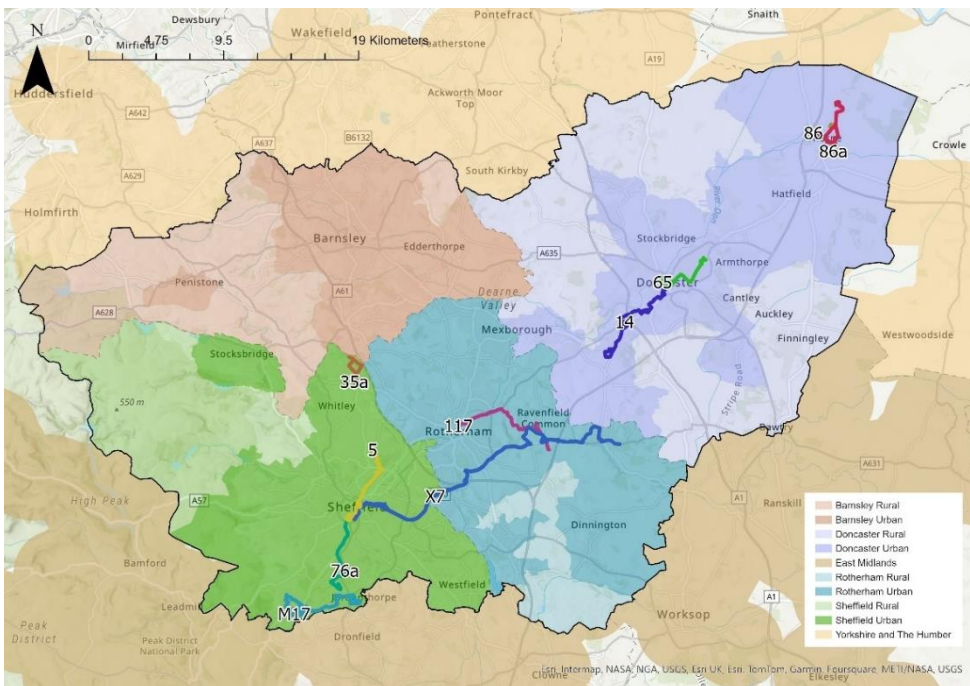


Figure 36 Additional bus services as part of the EP Plus and Franchising scenarios

Age

Access to public transport provides a range of benefits to older people. Given a DIA focuses on younger (>16 years) and older (65+) populations in the age category and the fact that non-statutory School Services are excluded from the analysis, the focus of this section will be on the impact of the intervention on older populations. As their mobility and transportation needs change, accessible and convenient public transport can aid with maintaining independence, connections to the wider community and access to essential services. The 2021 Census data shows that 18.6% (over 11 million) people in England and Wales were aged 65 and over. Figure 37 shows that most of the services introduced for the EP Plus option and Franchising Option are running within areas with populations older than the national average. The additional bus services, such as Sheffield M17, Rotherham 171, Doncaster 14 and 86 help connect areas with older populations to town centres. These services also operate between districts, providing a convenient, well connected transport network. Therefore, it is expected that the EP Plus option and Franchising Option would benefit the older population within South Yorkshire.

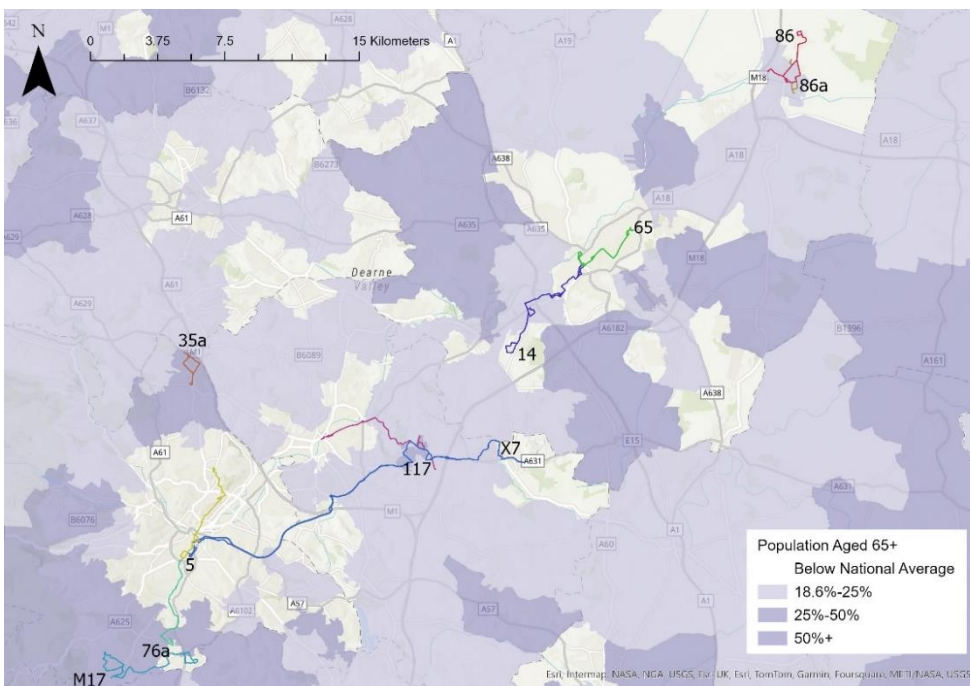


Figure 37 Bus routes and areas with higher percentage of population aged 65+ relative to national average (Census, 2021)

Low Income

Low-income households are more likely to rely on public transport as their primary means of accessing services. This reliance highlights the importance of being served by good quality public transport. The Indices of Deprivation is one of the official means of measuring deprivation through considering the following:

- Education
- Employment
- Health
- Housing

Figure 38 shows that the reintroduced bus services as part of the EP Plus option and Franchising Options such as 5, 14, 65, 117 and X7 would serve areas that are within the 10% most deprived areas in the UK.

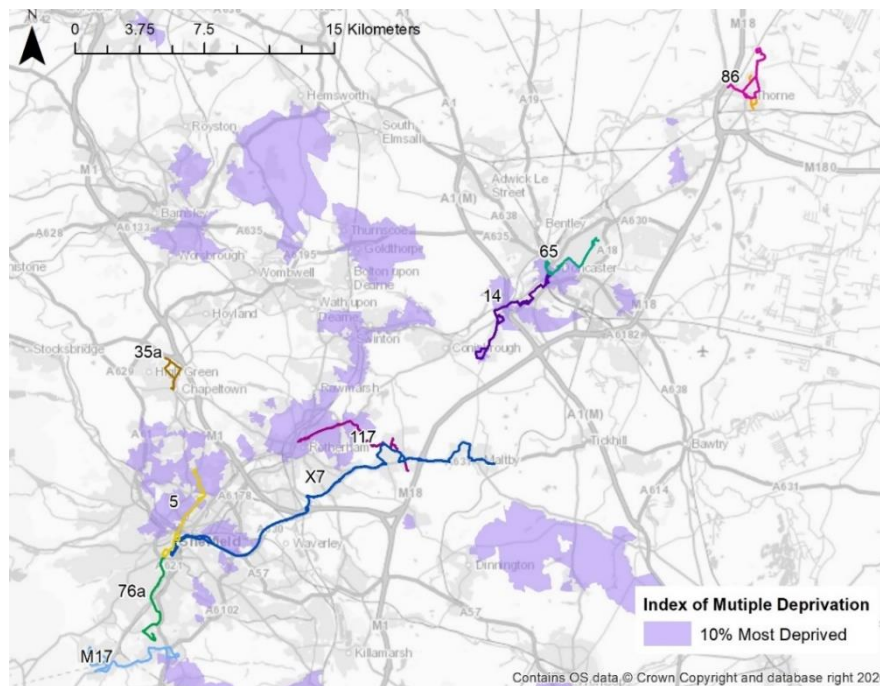


Figure 38 Bus routes and 10% most deprived areas according to index of multiple deprivation (English Indices of Deprivation, 2019)

Car ownership

As with low-income households, households without cars are significantly more reliant on public transport as their primary means of accessing jobs, education, recreation and other activities. Figure 39 shows that the majority of bus routes reintroduced for the EP Plus option and Franchising Options would serve areas that have a higher percentage of households without cars compared to the national average of 23.5%. Bus routes in Sheffield such as 5, 76a and X7 are serving areas with a high proportion of no-car households – in Central Sheffield, households without cars account for 63.6% of total households⁹⁰.

⁹⁰ Census 2021

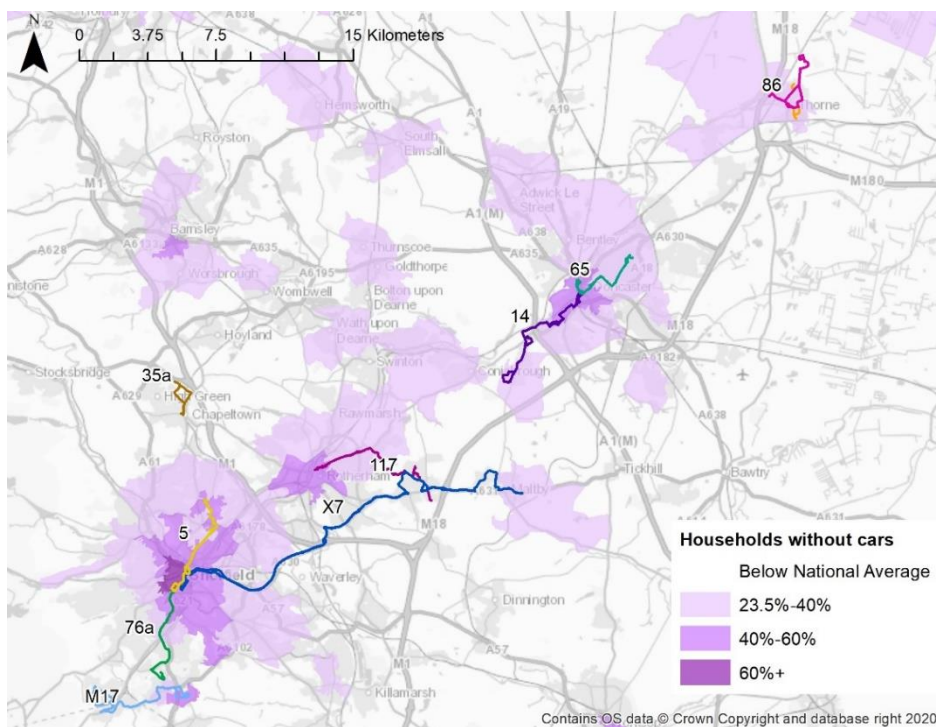


Figure 39: Bus routes and areas with higher percentage of households without cars compared to national average (Census, 2021)

Ethnic Minority

As established above, good quality public transport provides access to opportunities and can reduce transport inequities where communities have limited access to private cars and reduced opportunities within their own areas. As indicated by Figure 40, the urban areas of Sheffield, Rotherham and Doncaster have a higher ethnic minority percentage compared to the national average of 19%. In the northern part of Sheffield, ethnic minority percentages reach up to 69.7% and this area will be served by bus route 5. Cross boundary services between districts such as X7 are connecting areas with a higher proportion of ethnic minorities and therefore the services reintroduced as part of the EP Plus option and Franchising Options would provide a benefit for those ethnic minorities.

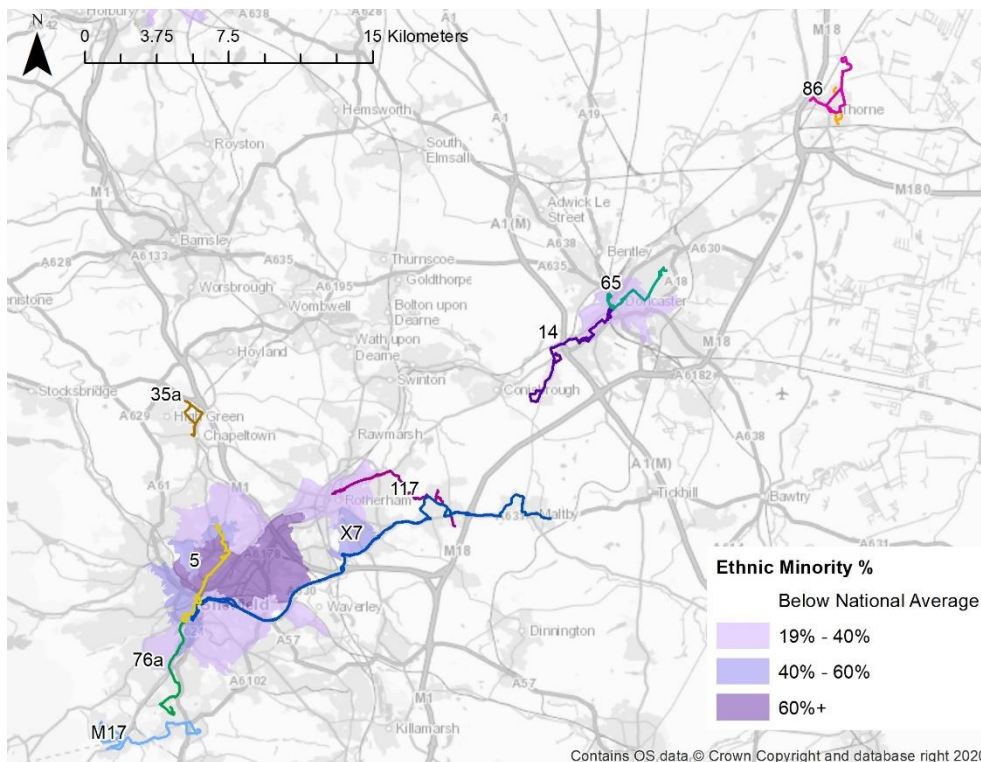


Figure 40: Bus Routes and areas with higher percentage of ethnic minorities compared to national average (Census 2021)

2.11.2 Distributional Impact Initial Screening

The assessment in Table 48 considers the distributional impacts of the Franchising Option B. The EP Plus option would result in similar impacts.

Table 48: Distributional Impact Assessment for the Franchising Scheme

Indicator	Qualitative Comments	Impact Category
User Benefits	The Franchising Scheme would have a positive impact on public transport users through the expected reduction in generalised journey time due to reintroduction of services compared to the Reference Case. Furthermore, the VfM assessment has indicated a positive benefit in user impacts.	Yes, positive
Noise	<p>The Franchising Scheme will not result in any change in alignment of transport corridor or any links with significant changes (>25% or <-20%) in vehicle flow, speed or %HDV content.</p> <p>The expected reduction in GJT may lead to a modal shift away from private car trips to bus. It is not anticipated that the reduction in cars will have a material impact on the noise levels at the roadside.</p> <p>However, under a Franchising Scheme, it is anticipated that there will be an ongoing fleet replacement towards zero emissions buses. This is likely to have a positive impact on noise.</p>	Yes, positive
Air Quality	The Franchising Scheme will not result in any change in alignment of transport corridor or any links with significant changes in vehicle flow, speed or %HDV content. As above, the reduction in generalised journey time will encourage a modal shift away from private car use to bus use, leading to a reduction in CO2. Additionally, under a Franchising Scheme, it is anticipated that there will be an ongoing fleet replacement towards zero emissions buses. This is likely to have a positive impact on local air quality.	Yes, positive
Accidents	The Franchising Scheme will not result in any change in alignment of transport corridor (or road layout) that may have positive or negative safety impacts, or any links with significant changes in vehicle flow, speed, %HGV content or any significant change (>10%) in the number of pedestrians, cyclists or motorcyclists using road network.	No Impact
Security	The Franchising Scheme will not result in any changes to public transport waiting facilities / interchange facilities; pedestrian access; the provision of lighting and visibility; landscaping; or formal/informal surveillance. Thus, it is expected to have no impact on security.	No impact
Severance	The Franchising Scheme includes the introduction of services which results in a reduction in generalised journey times for bus users. This is likely to reduce severance for users of the bus network. As the Franchising Scheme does not involve changes to physical infrastructure and is unlikely to result in changes in pedestrian movements it is not expected to contribute negatively towards severance. Thus, the overall impact is expected to be slight positive .	Yes, slight positive
Accessibility	The Franchising Scheme is expected to improve the simplicity of making multimodal public transport journeys through simplified ticketing and additional bus services on the network. This is likely to improve the accessibility of the bus services and also encourage use by different social groups who may find the complexity of the existing system as a barrier to travel. Thus, the Franchising Scheme scenario is expected to lead to a positive impact .	Yes, positive
Affordability	The implementation of the Franchising Scheme is expected to reduce the cost of travel (both perceived and actual) through the simplification of ticketing and bus network changes. This is likely to have a positive impact on affordability.	Yes, positive

The expected outcomes of the implementation of the Franchising Scheme are anticipated to have an overall positive impact on the different social groups considered within the Franchising Assessment. Across the various metrics, the impact ranges from positive to neutral/no impact.

The additional bus routes serve areas where the population is older, has lower car ownership, a higher proportion of ethnic minorities and areas that are within the UK's 10% most deprived. The EP Plus option and Franchising Option are expected to have an overall positive impact as a result of the proposed network changes.

2.12 VALUE FOR MONEY ASSESSMENT

There are different options to estimate the BCR, in terms of what is included in the benefits and costs categories. In accordance with economic case convention, the PVC for each option is defined as the total cost to the MCA budget. All other cost impacts (for example to private sector bus operators) are captured within the 'benefit' calculation. This is in line with the approach taken for the Greater Manchester GMCA Franchising Scheme Assessment.

For this Assessment, the Franchising Guidance places greater emphasis on the NPV than on the BCR. This is because the transfer of costs and revenues between the private and the public sector can make the BCR a less useful comparative metric of the economic performance of each of the Franchising Options (with private sector costs and revenues reported as part of the PVB and public sector costs and revenues on the PVC in the standard TAG definition of the BCR).

Table 49 sets out the results including the BCR for the EP Plus option and Franchising Option B while Table 50

Table 50 provides the Adjusted BCR which considered the Level 2 benefits, including the wider economic impacts.

Table 49 BCRs for the EP Plus and Franchising Options

Benefits	£'000s, 2010 prices	
	EP Plus Option	Franchising Option B
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
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

Table 50 Adjusted BCR

Benefits	£'000s, 2010 prices	
	EP Plus Option	Franchising Option B
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	£'000s, 2010 prices	
	EP Plus Option	Franchising Option B
Present Value of Wider Economic Impacts	8,217	8,217
Health Benefits	2,871	3,533
Adjusted PVB	191,631	219,491
PVC	102,019	97,367
Adjusted NPV	89,612	122,124
Adjusted BCR	1.88	2.25

The results show that, based on the current analysis and current network scenario, all options would achieve a positive NPV, with the Franchising Option having a higher NPV and BCR than the EP Plus option. The inclusion of the wider economic impacts as part of the adjusted values increases the NPV for the EP Plus option and Franchising Option, with the Franchising Option continuing to perform better than the EP Plus option.

2.13 SENSITIVITY TESTS

This section sets out a number of sensitivity tests which have been undertaken. These include:

- A 10% increase in revenue
- A 10% decrease in revenue
- Operating cost Downside 10%
- Operating cost Upside (10%)
- Inflation in line RPI +1%
- Inflation in line with CPI
- A 10% increase in demand
- A 10% decrease in demand

The outputs of the sensitivity tests are outlined in Table 51 to Table 56 (broken down by the revenue, cost and inflation sensitivity tests). All sensitivity testing has been undertaken for the same network as for the EP Plus option and Franchising Options. The results have been compared with the Franchising Option B outputs, as this is considered to be the preferred option. Unless stated above, all other assumptions are unchanged from the central case. The sensitivity test presented are consistent with those presented in the Financial Case, although the Financial Case does include additional sensitivity test that are not as relevant for the Economic Case.

Table 51: BCRs for Franchising Option B and Sensitivity Tests – Revenue

Benefits	£'000s, 2010 prices		
	Franchising Option B	Sensitivity: Revenue Increase (10%)	Sensitivity: Revenue Decrease (10%)
Time Savings - Network changes and reliability improvement	97,079	97,079	97,079
Congestion	2,074	2,074	2,074
Infrastructure	10	10	10
Accident	225	225	225
Local Air Quality	13	13	13
Noise	16	16	16
Greenhouse Gases	193	193	193
Indirect Taxation	-1,536	-1,536	-1,536
ZEB benefits	31,505	31,505	31,505
Profit Margin	78,162	78,162	78,162
Disbenefit – Private Sector	0	0	0
£'000s, 2010 prices			
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

Table 52: Adjusted BCR for Franchising Option B and Sensitivity Tests – Revenue

Benefits	£'000s, 2010 prices		
	Franchising Option B	Sensitivity: Revenue Increase (10%)	Sensitivity: Revenue Decrease (10%)
Time Savings - Network changes and reliability improvement	97,079	97,079	97,079
Congestion	2,074	2,074	2,074
Infrastructure	10	10	10
Accident	225	225	225
Local Air Quality	13	13	13
Noise	16	16	16
Greenhouse Gases	193	193	193
Indirect Taxation	-1,536	-1,536	-1,536
ZEB benefits	31,505	31,505	31,505
Profit Margin	78,162	78,162	78,162
Disbenefit – Private Sector	0	0	0
Present Value of Wider Economic Impacts	8,217	8,217	8,217
Health Benefits	3,533	3,533	3,533
£'000s, 2010 prices			
Adjusted PVB	219,491	219,491	219,491
PVC	97,367	24,579	170,154
Adjusted NPV	122,124	194,912	49,337
Adjusted BCR	2.25	8.93	1.29

In the sensitivity test where the revenue increases by 10%, the PVC decreases resulting in an increased NPV and BCR relative to the core assessment. The scheme would achieve very high VfM. In the sensitivity where the revenue decreases by 10%, the reverse occurs and the scheme would achieve low VfM. Considering the wider economic benefits (in Table 52), the conclusions would not change.

Table 53: BCRs for Franchising Option B and Sensitivity scenarios – Cost

Benefits	£'000s, 2010 prices		
	Franchising Option B	Sensitivity: Operating Cost Downside (10%)	Sensitivity: Operating Cost Upside (10%)
Time Savings - Network changes and reliability improvement	97,079	97,079	97,079
Congestion	2,074	2,074	2,074
Infrastructure	10	10	10
Accident	225	225	225
Local Air Quality	13	13	13
Noise	16	16	16
Greenhouse Gases	193	193	193
Indirect Taxation	-1,536	-1,536	-1,536
ZEB benefits	31,505	31,505	31,505
Profit Margin	78,162	80,684	75,639
Disbenefit – Private Sector	0	0	0
£'000s, 2010 prices			
Present Value of Benefits (PVB)	207,741	210,263	205,218
Present Value of Costs (PVC)	97,367	200,930	-14,200
Net Present Value (NPV)	110,374	9,333	219,418
BCR	2.13	1.05	-14.45

Table 54: Adjusted BCR for Franchising Option B and Sensitivity Tests – Cost

Benefits	£'000s, 2010 prices		
	Franchising Option B	Sensitivity: Operating Cost Downside (10%)	Sensitivity: Operating Cost Upside (10%)
Time Savings - Network changes and reliability improvement	97,079	97,079	97,079
Congestion	2,074	2,074	2,074
Infrastructure	10	10	10
Accident	225	225	225
Local Air Quality	13	13	13
Noise	16	16	16
Greenhouse Gases	193	193	193
Indirect Taxation	-1,536	-1,536	-1,536
ZEB benefits	31,505	31,505	31,505
Profit Margin	78,162	80,684	75,639
Disbenefit – Private Sector	0	0	0
Present Value of Wider Economic Impacts	8,217	8,217	8,217
Health Benefits	3,533	3,533	3,533
£'000s, 2010 prices			
Adjusted PVB	219,491	222,013	216,969
PVC	97,367	200,930	-14,200
Adjusted NPV	122,124	21,084	231,169
Adjusted BCR	2.25	1.10	-15.28

In the operating cost downside sensitivity test, the annual surplus/deficit is lower by 10% compared to the core assessment which results in a higher PVC and a lower BCR relative to the core assessment. The scheme would achieve low VfM. For the operating cost upside sensitivity test, the reverse occurs, leading to a negative PVC (meaning the annual surplus/deficit would be better than the Reference Case),

an increased NPV and a financially positive BCR relative to the core assessment. The scheme would achieve a very high VfM. Considering the wider economic benefits (Table 54) the conclusions would not change.

Table 55: BCRs for Franchising Option B and Sensitivity scenarios – Inflation

Benefits	£'000s, 2010 prices		
	Franchising Option B	Sensitivity: RPI +1%	Sensitivity: CPI
Time Savings - Network changes and reliability improvement	97,079	97,079	97,079
Congestion	2,074	2,074	2,074
Infrastructure	10	10	10
Accident	225	225	225
Local Air Quality	13	13	13
Noise	16	16	16
Greenhouse Gases	193	193	193
Indirect Taxation	-1,536	-1,536	-1,536
ZEB benefits	31,505	31,505	31,505
Profit Margin	78,162	89,972	66,261
Disbenefit – Private Sector	0	0	0
£'000s, 2010 prices			
Present Value of Benefits (PVB)	207,741	219,551	195,840
Present Value of Costs (PVC)	97,367	160,337	29,628
Net Present Value (NPV)	110,374	59,174	166,212
BCR	2.13	1.37	6.61

Table 56: Adjusted BCR for Franchising Option B and Sensitivity Tests – Inflation

Benefits	£'000s, 2010 prices		
	Franchising Option B	Sensitivity: RPI +1%	Sensitivity: CPI
Time Savings - Network changes and reliability improvement	97,079	97,079	97,079
Congestion	2,074	2,074	2,074
Infrastructure	10	10	10
Accident	225	225	225
Local Air Quality	13	13	13
Noise	16	16	16
Greenhouse Gases	193	193	193
Indirect Taxation	-1,536	-1,536	-1,536
ZEB benefits	31,505	31,505	31,505
Profit Margin	78,162	89,972	66,261
Disbenefit – Private Sector	0	0	0
Present Value of Wider Economic Impacts	8,217	8,217	8,217
Health Benefits	3,533	3,533	3,533
£'000s, 2010 prices			
Adjusted PVB	219,491	231,301	207,590
PVC	97,367	160,377	29,628
Adjusted NPV	122,124	70,925	177,962
Adjusted BCR	2.25	1.44	7.01

In the RPI+1% sensitivity, the increase in RPI is applied to fare-paying ticket revenue and capital expenditure. This leads to an increase in profit margin and an overall decrease in total surplus/deficit resulting in a higher PVC. There is a decrease in NPV and decrease in BCR compared to the core assessment. The scheme would achieve low VfM. Considering the wider economic benefits (Table 56) the conclusions would not change.

In the CPI sensitivity, there is a decrease in fare-paying ticket revenue and capital expenditure resulting in a decrease in profit margin and a lower PVC. The resultant BCR increases due to the larger impact of CPI on the PVC. The scheme would achieve a high VfM. Considering the wider economic benefits (Table 56) the conclusions would not change.

Noting the inherent uncertainty with demand data, a sensitivity has also been included to assess the effect of a change in demand to the analysis. This sensitivity test also assumes a 10% increase or decrease in fare-paying revenue. There is a change to the PVB based on demand changes, though it does not have a significant impact on the overall BCR of the Franchising Option.

Table 57: BCR for Franchising Option B and Sensitivity Tests – Demand

Benefits	£'000s, 2010 prices		
	Franchising Option B	Sensitivity: Demand Increase (10%)	Sensitivity: Demand Decrease (10%)
Time Savings - Network changes and reliability improvement	97,079	106,787	87,371
Congestion	2,074	2,281	1,866
Infrastructure	10	11	9
Accident	225	248	203
Local Air Quality	13	14	12
Noise	16	18	15
Greenhouse Gases	193	212	173
Indirect Taxation	-1,536	-1,689	-1,382
ZEB benefits	31,505	31,505	31,505
Profit Margin	78,162	78,162	78,162
Disbenefit – Private Sector	0	0	0
	£'000s, 2010 prices		
Present Value of Benefits (PVB)	207,741	217,548	197,933
Present Value of Costs (PVC)	97,367	24,579	170,154
Net Present Value (NPV)	110,374	192,969	27,779
BCR	2.13	8.85	1.16

2.14 ECONOMIC CASE RISKS

Table 58 sets out the Economic risks associated with the different options, as identified in the course of the development of this Assessment.

Table 58: Economic Case Risks

Name	Description	Relevant to option			Mitigation	Commentary on residual risk
		EP	EP Plus option	Franchising Option B		
Patronage reduction	If patronage reduces at a faster rate than current DfT forecasts, the level of revenue achieved by the MCA/operators would reduce.	X	X	X	Additional policy measures and investment (e.g. bus priority measures) should be considered to boost patronage and revenue.	Residual risk remains but with management of measures and investment on an ongoing basis
Patronage reduction	If patronage reduces at a faster rate than current DfT forecasts, the level of operator revenue would reduce, or the network would contract.	X	X		Continue to work towards service enhancements and growing patronage through the EP Board.	Residual risk remains and changes to patronage levels and the impacts of this should be managed on an ongoing basis.
Slower ZEB roll-out	The roll-out of ZEBs is slower than expected, resulting in the ZEB benefits not being realised and providing some reputational risk for the MCA.		X	X	Continue to engage with the market on ZEB rollout and seek opportunities for funding for ZEBs (e.g. through the ZEBRA programme).	Residual risk remains but this should reduce over time as the market moves towards full ZEB provision.
Increase in operating costs	Operating costs (e.g. salaries) increase resulting in a less profitable network, which may result in network contraction (under an EP or EP Plus model).	X	X	X	Ensure all operating costs are monitored and efficiencies identified. Ensure salaries remain competitive to avoid staffing issues or significant increases in outgoings in any one year.	Residual risk remains but market conditions to be continually monitored for potential volatility
Pandemic	A new pandemic or event similar to Covid-19 arrives which all but removes bus demand and has a slow recovery, impacting revenue	X	X	X	Maintain reserves and ensure contingency planning in place to allow for slower recovery of revenue	Residual risk remains as likelihood and duration of such events cannot be predicted
Benefits not realised	Benefits are not realised due to patronage not being realised and/or level of investment (e.g. in ZEBs) not materialising	X	X	X	Maintain a benefits realisation plan and monitor this as part of the service contracts or via EP Board	Residual risk remains but ongoing monitoring as this will be linked to the conditions of the market and as the risk falls on public sector even under the EP and EP Plus options.

2.15 CONCLUSION

The results show that, based on the current analysis and current network scenario, both options would achieve a positive NPV, with Franchising Option B having a higher NPV than the EP Plus option and would deliver VfM. The inclusion of the wider economic impacts as part of the adjusted values increases

the NPV for the EP Plus option and Franchising Option, with the Franchising Option continuing to perform better than EP Plus.

The advantages of implementing a Franchising Scheme are primarily through the greater control the MCA would achieve over the operation of the bus network including network planning, ticketing and fare initiatives as well as the programme for increasing the proportion of ZEBs operating on the network. Therefore, the outcomes expected with a Franchising Scheme are therefore likely to be more deliverable than compared to the current EP, or an EP Plus option where agreement with the incumbent operators is required, and the Economic Case supports this conclusion.

3.0 Commercial Case

3.1 SUMMARY

One of the requirements of the Franchising Guidance is consideration of the extent to which an authority is likely to be able to secure that local services are operated under local service contracts⁹¹.

In order to support this consideration, this Commercial Case considers the nature of the present market for bus service providers in South Yorkshire; develops to a greater degree of maturity the commercial model of the four options that are described in the Strategic Case of this Assessment; considers how the options could be procured competitively; and considers the commercial risks that the MCA may face in respect of the options discussed. The Case sets out the MCA's intended lotting strategy, and the order in which tranches of contracts are intended to be let. The Case discusses the advantages and disadvantages of different commercial models to inform the overall options assessment process on a preferred option.

The Case concludes that:

- The options under which Operators are required to provide depots in respect of the franchised services that they operate (Franchising Options A and C) introduce very high barriers to entry for operators that do not already possess appropriate depots. These barriers to entry are such that it appears that these Options would not be capable of supporting robust competition for franchising contracts. These Options therefore appear commercially unviable.
- The options under which depots are provided by the MCA (Franchising Options B and D) appear commercially viable routes to secure the provision of services under local services contracts. Both of these options, however, present potentially significant challenges for the MCA in respect of its acquisition of the depots necessary to deliver the options. Should commercial negotiation to purchase the depots in question be unsuccessful, it may ultimately be necessary for the MCA either to seek to subject the depots to compulsory purchase orders, or for the MCA to construct new depots for use in a Franchising Scheme.
- All Franchising Options are commercially complex, and will require appropriate resourcing and programme management, as described in the Management Case of this Assessment.
- While EP Plus is, as an option, commercially deliverable, it is not possible to be certain at this stage that the assumptions made regarding the outcomes deliverable through EP Plus are accurate or achievable. This is because achieving outcomes is contingent upon the MCA and operators reaching agreement on various interventions, which is a significant risk.
- The preferred Franchising Option is Franchising Option B, in that it reduces barriers to entry by providing fleet (in addition to depots), generating more competition for franchise contracts, and better meets MCA's other objectives as set-out in the Strategic Case.

3.2 INTRODUCTION

This is the Commercial Case of the SYMCA Bus Franchising Assessment, which is being made in accordance with section 123b of the Transport Act 2000. It is the third of the five cases that form the Assessment, and should be considered in conjunction with the other four cases: Strategic, Economic, Financial and Management.

The purpose of a Commercial Case is to set out the commercial proposition for the franchising and partnership options. It has been prepared with reference to HM Treasury's Green Book and the Better Business Case guidance⁹². It has also been prepared with reference to the Franchising Guidance, which sets out specific requirements for the Commercial Case of a franchising assessment.

⁹¹ Bus Services Act 2017 Franchising Scheme Guidance, page 17

⁹² Both The Green Book and Better Business Cases Guidance available at:

<https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government/the-green-book-2020>

3.3 WORK CONDUCTED TO DEVELOP THE COMMERCIAL CASE

The following work has been undertaken to develop this Commercial Case:

- discussions with MCA staff and advisors have been undertaken through the development of this Commercial Case and the wider assessment
- some of the current and potential bus market participants have been interviewed on a structured basis;
- data provided by existing bus market participants as part of this assessment has been analysed
- desktop research has been undertaken, including through review of previous bus franchising assessments that have been undertaken by other authorities⁹³
- legal advice has been sought as appropriate.

3.4 STRUCTURE OF THE COMMERCIAL CASE

The Commercial Case is structured as follows:

- Following this introduction, section 3.5 considers the current market for delivery of bus services in South Yorkshire, including its structure and present participants
- Section 3.6 summarises the options for reform of the delivery of bus services that have been brought forward from previous cases of this Assessment
- Sections 3.7 to 3.9 develop these commercial models further, including through consideration of the approach to cost and revenue risk transfer and performance incentivisation
- Section 3.10 considers the Asset Strategy with particular regard to fleet and depots
- Section 3.11 considers the approach to packaging and lotting for Franchising Options
- Section 3.12 considers contract duration and end-of-contract arrangements for Franchising Options, including arrangements to deal with potential early termination
- Section 3.13 provides a summary of the commercial structure of the different options under consideration
- Section 3.14 outlines the Procurement Strategy in respect of each model considered in section 3.7
- Section 3.15 considers the use of service permits to facilitate transition to a franchised network
- Section 3.16 analyses the robustness of the competition likely to be generated by different options, including through assessing their respective attractiveness to SMOs
- Section 3.17 considers the commercial capabilities that will be required by the MCA to deliver the models considered, which are discussed further in the Management Case of this Assessment.
- Section 3.18 considers the various commercial risks that the MCA may face in respect of the options discussed, and identifies approach to their mitigation
- Section 3.19 concludes the Commercial Case by summarising its findings.

3.5 OVERVIEW OF CURRENT COMMERCIAL ARRANGEMENTS AND ASSETS IN THE SOUTH YORKSHIRE BUS MARKET

3.5.1.1 Present approach to delivery of bus services in South Yorkshire

This section provides an overview of the present commercial arrangements for the bus market in South Yorkshire.

⁹³ Assessments reviewed include those of Transport for Greater Manchester, the West Yorkshire Combined Authority and the Liverpool City Region

Commercial approach

Since the Transport Act 1985, bus services in South Yorkshire have been deregulated. This means that responsibilities for the vehicles, routes, service frequencies and fares rests with private sector bus operators. Any entity that holds a Public Service Vehicle (PSV) operator licence or a community bus permit is able to design and register a local bus route in the region, which must then be run as specified in the registration.

Responsibility for on-street bus infrastructure such as bus stops and signage sits with the MCA, which delivers its maintenance and renewal responsibilities through a third-party contractor.

South Yorkshire Operator Market

The commercial bus services in South Yorkshire are currently operated by 23 different bus operators, of which the three largest operators are First South Yorkshire, Stagecoach Yorkshire, and TM Travel, which between them operate over 90% of the annual bus mileage across the region (as shown in Table 59) and provide 98% of passenger journeys.

Table 59: major operators' mileage in South Yorkshire in 2022-23

Operator	Percentage of annual bus mileage
First South Yorkshire	43.38%
Stagecoach Yorkshire	39.71%
TM Travel	7.07%
Total	90.17%

Tendered services

Bus services that are not commercially viable and that would therefore not be operated by private sector bus operators acting commercially can be designated by the MCA as 'socially necessary'. Such services are typically those that serve rural or suburban areas or that operate during evening and weekends. These non-commercial, socially necessary services are delivered by bus operators acting under contract with the MCA — they are known as 'tendered services'. In August 2023, there were approximately 300 tendered service contracts in South Yorkshire, of which around 80 were for dedicated school services. The commercial approach to these contracts varies across the portfolio of contracts; typical characteristics are that:

- these contracts are extensions to core commercial day-time services — for example, to allow early-morning or late-evening services on an existing commercial route to operate;
- school services are typically let on a 'minimum cost' basis — meaning that revenue risk sits with the MCA — while most general network services are let on a 'minimum subsidy' basis, meaning that operators assume the revenue risk;
- contracts are let for single routes;
- a limited degree of flexibility with regard to timetable is offered to operators, to allow them to take advantage of any operational efficiencies that may be possible;
- minimum standards for service quality are set; and
- contract lengths range in duration from 1 year to 5 years.

The National Bus Strategy

In March 2021, the government published 'Bus Back Better'⁹⁴, the National Bus Strategy. The Strategy required all Local Transport Authorities (LTAs) outside London to develop Bus Service Improvement Plans (BSIPs). It required that BSIPs should:

- be developed by LTAs in collaboration with local bus operators, community transport bodies and local businesses, services and people;
- cover the LTA's full area, all local bus services within it, and the differing needs of any parts of that area (e.g. urban and rural elements);
- focus on delivering the bus network that LTAs (in consultation with operators) want to see, including how to address the under provision and overprovision of bus services and buses integrating with other modes; and
- set out how they will achieve the objectives in the strategy, including growing bus use, and include a detailed plan for delivery.

The South Yorkshire BSIP and Enhanced Partnership Plan

Following the publication of the National Bus Strategy, the initial version of the South Yorkshire BSIP was agreed by the MCA in October 2021 and was used to develop an Enhanced Partnership Plan, which was published in April 2022 and built on existing voluntary bus partnerships in South Yorkshire. The model means that some operational decisions are taken in consultation between operators, local authorities, the MCA and, where appropriate, the public.

The Enhanced Partnership is supported by governance arrangements that include wider passenger representation and a commitment to hold all parties to account for delivery.

A full account of the Enhanced Partnership currently in place is set out in the Strategic Case of this Assessment.

3.5.1.2 Depots

With one exception, the depots used by commercial operators to provide bus services in South Yorkshire are owned and operated by the commercial operators.

The exception is Doncaster depot, which is owned by the MCA and is leased to First South Yorkshire for a term to and including 23 June 2028 for use as a bus depot and ancillary uses, excluding security of tenure. The lease includes an option for the MCA to determine the lease if the operator ceases to use the premises as a bus depot.

The depots' names, their associated operators and their estimated vehicle capacity are shown in Table 60. Some depots provide services in areas outside the South Yorkshire region.

Table 60: bus depots in the South Yorkshire region

Depot name	Associated operators	Estimated vehicle capacity
Baslow	Hulleys	5
Carlton	Globe Travel	13
Doncaster*	First South Yorkshire	78
Ecclesfield*		50, of which:
	Stagecoach Sheffield	17
	Stagecoach Yorkshire	33
Gainsborough	Stagecoach East Midlands	5
Halfway*	TM Travel	26
Hemsworth	Watersons Coaches	3
Holbrook*		44, of which:
	Stagecoach Sheffield	29
	Stagecoach Yorkshire	15

⁹⁴ <https://www.gov.uk/government/publications/bus-back-better>

Honley		25, of which:
	South Pennine	5
	Stagecoach East Midlands	20
Mansfield	Stagecoach East Midlands	2
Olive Grove*	First South Yorkshire	163
Parkgate	Cawthornes	3
Rawmarsh*	Stagecoach Yorkshire	43
Scunthorpe	Hornsby's	2
Selby	Arriva Yorkshire	4
Stonegravels	Stagecoach Chesterfield	28
Thorne	Goodfellows Travel	1
Upperthorpe	Sheffield Community Transport	2
Wakefield Road*	Stagecoach Yorkshire	54
Worksop	Stagecoach East Midlands	20

A survey, including an assessment of the market value and alternative uses, of seven key strategic depots has been conducted. The depots in question are identified by an asterisk in Table 60.

A mapping exercise of bus depots operated by existing market participants has also been conducted. Its results are shown in Figure 41. The locations of seventeen depots are identified; their operators and estimated capacities can be interpreted by reference to the key.

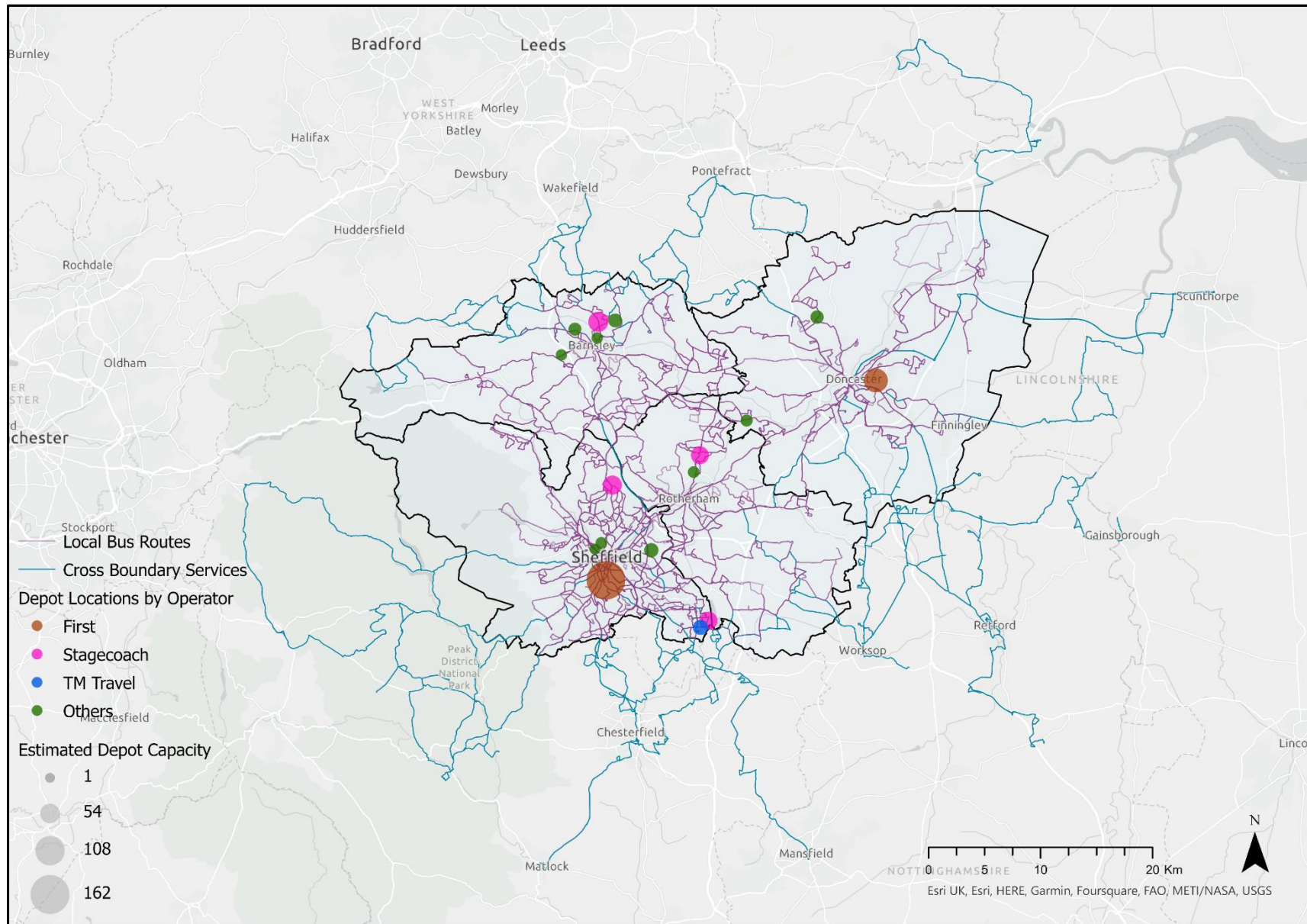


Figure 41: locations of existing bus depots in the South Yorkshire region

3.5.1.3 Intelligent Transport Systems

Intelligent Transport Systems (ITS) comprise on-bus hardware and supporting back-office systems that collect, transmit, receive, and process various forms of data whilst the vehicle is in operations. This supports efficient operation of the service, collection of revenue and customer travel pattern data and the provision of real-time journey information to customers.

Different elements of ITS systems include:

- Electronic Ticket Machines (ETM): enable the driver to issue tickets, validate smart products, and collect revenue.
- Automatic Vehicle Location (AVL): transmits vehicle location in real time using GPS.
- Real-Time Passenger Information (RTPI): provides passengers with live status updates for their journey, which can be provided both on-board the vehicle (via audio and visual announcements) and on a range of web-based platforms.
- Driver communications: provides communication between drivers and the control centre.
- CCTV: provides interior and exterior video footage.
- Passenger Wi-Fi: supplies data to customers, either free or for a charge
- Driving standards monitoring (telematics): provides eco-drive and engine emissions reporting.

Table 61 describes current arrangements for each aspect of ITS. Different operators are understood to use different forms of each type of equipment.

Table 61: present approach to ITS

ITS equipment type	Current approach
ETM	Provided by commercial operators
AVL	Provided by commercial operators
RTPI	Provided by commercial operators
Driver communications	Provided by commercial operators
CCTV	Provided by commercial operators
Passenger Wi-Fi	Where available, provided by commercial operators
Driving standards monitoring	Provided by commercial operators

3.5.1.4 Fares and ticketing

Due to there being multiple bus operators who exist within the South Yorkshire region, there are several ticket types which can be purchased for different services:

- Single fares: tickets for a single or return journey;
- Single operator tickets: tickets that allow passengers to travel only on one bus operator's services for a specified period of time; and
- Multi-operator tickets: tickets that allow passengers to travel on several bus operators' services for a specified period. These tickets are facilitated by TravelMaster, the operator-managed, multi-operator and multi-modal ticketing scheme in place in South Yorkshire

Ticket pricing is within the remit of bus operators within the region.

3.6 MODELS FOR REFORM BROUGHT FORWARD FROM PREVIOUS CASES

The Strategic Case of this Assessment introduces five options for reform of the bus model in South Yorkshire, in addition to a do-nothing option. These options are set out in the Strategic Case, and are reproduced as Table 62 below, for ease of reference.

Table 62: options for reform brought forward from the Strategic Case

	EP (Reference Case or Do-Nothing option)	Enhanced Partnership Plus (EP Plus)	Franchising Option A	Franchising Option B	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
Revenue Risk	Operators	Operators	MCA	MCA	MCA	MCA

Table 62 shows that of the five options identified in the Strategic Case, the Reference Case comprises an Enhanced Partnership, which would be a continuation of the present regulatory model for the South Yorkshire bus system. The remaining options comprise four Franchising Options and an EP Plus option, which resembles the EP structurally but envisages a greater degree of collaboration between operators and the MCA than under the EP. The difference between the four Franchising Options relates to the ownership of the depots and fleets, which are the principal strategic assets required to deliver bus services in the region.

Other elements are common between options, including:

- Geography: all options relate to the geographical area of South Yorkshire, including the four local authority areas of Barnsley, Doncaster, Rotherham and Sheffield;
- It is assumed that the franchising scheme in Franchising Options A to D would be made across the entire geography simultaneously (the scheme will not be made in sub-areas); and
- Service levels: EP Plus and all Franchising Options are assumed to be required to deliver the same service levels.

Sections 3.6.1.1 to 3.6.1.7 provide an overview of the Strategic Case's discussion of each of these options. The options are then developed further in section 3.7.

3.6.1.1 The Reference Case: Enhanced Partnership (EP)

An EP is in place between the MCA and operators running Local Qualifying Bus Services (the 'operators'). This existing regulatory model forms the Do Minimum Scenario for the Assessment.

Under this model, the operators own and manage their own depots and fleet, with the exception of Doncaster depot, which is owned by the MCA and leased to the operator. The operator procures and maintains the fleet and the MCA can influence the composition through schemes such as the DfT's ZEBRA funding route. The MCA could also mandate cleaner bus fleets through low emission zones, although this may result in operators withdrawing services given that such investment may not be commercially viable in the current South Yorkshire operating environment. However, large-scale transition to zero emission buses would be delivered at the operators' discretion.

The MCA does not have strategic control of the network and therefore lacks the flexibility to make changes beyond tendered services. The operators specify the network design based on their commercial strategies and operate services to the performance standards specified by the MCA. The MCA has the powers to monitor and enforce the performance standards on each route, but cannot legally sanction the operator as this lies with the Traffic Commissioner ('the regulator').

The MCA identifies where there are needs of the community that are not being met by the commercial services, and where possible, tenders services to the Operators to fill this gap. This can include working with employers to ensure that bus services are provided to key employment sites and travel destinations. The MCA also works with the operators to identify where improvements to the network are needed, such as pinch points to improve bus journey time, and work with local authorities to make these improvements. It also has a key role in managing cross-boundary matters across different districts.

Through the EP, a single brand for the region has been agreed. Currently, operators have their own information systems and set their own fare structures and prices for single-operator tickets. TravelMaster (an independent company owned by the region's transport operators) sets fare structures and prices for multi-operator tickets across South Yorkshire and the MCA develops concessionary fare structures for designated demographics. The existence of multi-operator products alongside similar single-operator products presents challenges for public understanding of different ticket types and thus the ease-of-use of the bus system.

The roles and responsibilities in the Enhanced Partnership scheme are summarised in Table 86 on page 193.

3.6.1.2 Enhanced Partnership Plus (EP Plus)

An EP Plus option builds on the existing EP with additional investment and around network, fares and ticketing, fleet, and branding. It envisages a greater degree of collaboration between operators and the MCA than under the EP.

The EP Plus option includes a larger network than the EP due to an increase in investment in tendered services. Unlike the EP, there is a requirement for continued ongoing investment under EP Plus to ensure there is no further shrinkage of the network.

A faster rollout of ZEBs compared to the EP option is assumed, which is comparable to Franchising Options. A unified ticketing service could be provided with additional compensation provided to operators for loss of their own ticketing revenue. The full cost of rebranding existing vehicles would be funded by the MCA with the cost of branding of renewals to be covered by operators.

Under this EP Plus option operators would own and manage their own depots and fleet, as under the EP option. As in the EP model, the MCA could influence the composition of fleet through schemes such as the DfT's ZEBRA funding route and the introduction of low emission zones.

The MCA could influence the network design through the tendered services under the EP Plus option; however, this would still be predominantly operator led and any network changes would require buy in from operators. It has been assumed in this Assessment that the MCA and operators under EP Plus would deliver the same network as under a Franchising Scheme.

3.6.1.3 Overview of Franchising Options

Under all four Franchising Options, the MCA will have strategic control of the overarching network, and will therefore be able to design and specify the network, routes and service provision. The MCA will more easily be able to specify, monitor and enforce performance standards on each route, and can (subject to the requisite funding being available) set consistent fare structures and prices across South Yorkshire. It would also own and operate overarching ITS infrastructure and specify requirements for Operators to integrate and ensure interoperability. Fleet and, in options where the MCA owns them, depots would be operated and maintained to the MCA's standards.

Under each of these options, it is considered that there would be two phases in implementation:

- **Initial phase, integral to establishing a Franchising Scheme** – design and implement one of the Franchising Options; rationalise and optimise the network based on the existing fleet. This phase is within the scope of this Assessment.
- **Potential future phase** – long-term enhancement of the network. This is outside of the scope of this Assessment.

These phases are summarised in Table 63 below.

Table 63: Initial and Future phase activities

Initial phase activities	Potential future phase Activities
Full network control to be obtained as part of a phased transition. Routes will be lotted and let gradually as part of an iterative process (see section 3.11).	New routes and restructuring of existing routes

Initial phase activities	Potential future phase Activities
Network and service rationalisation focused on removing duplication and driving efficiencies.	Major service enhancements
Acquisition / use of existing depots	Depot location optimisation (existing and new locations)
Acquisition / use of existing fleet with assumption in relation to % of older vehicles discarded and % of older vehicles in use (part of current plans with existing infrastructure in place)	Significant fleet enhancement (considering Zero Emission Bus targets)
No change to ITS	Potential for major ITS enhancement and systems integration
Simplification of the existing fare and ticketing structure	Major fare change potential with significant financial implications
Single branding of the regional bus service	

As set out in the Strategic Case, the basis of the assessment in this Commercial Case is on the initial phase of implementation only. Network enhancements in the subsequent phase would, in due course, be subject to separate decision-making processes such as via a business case development.

The commercial approach necessary for the successful delivery of this option is developed in subsequent sections of this Commercial Case.

3.6.1.4 Overview of Franchising Option A

Under Franchising Option A, franchising is implemented with the MCA gaining control of the full network and service design, but Operators would continue to retain ownership of their depots and fleet. New operators would need to provide their own depot facilities and fleet.

The only depot directly owned by the MCA will be in Doncaster, as this is already owned by the MCA (and currently under lease to First South Yorkshire Limited until 2028). Operator-owned depots would remain as they are today and may be leased to other operators.

The MCA would work with the Operators to consider enhancements to the depots and fleets, such as transition to zero emission technologies. The Operators would then be responsible for financing, procuring and delivering these enhancements.

As the MCA would not own the fleet they may have a more limited influence over its composition, but they could still set standards.

The commercial approach necessary for the successful delivery of this option is developed in subsequent sections of this Commercial Case.

3.6.1.5 Overview of Franchising Option B

Under Franchising Option B, franchising is implemented with the MCA gaining control of full network and service design. Depots and fleet would be acquired by the MCA and be made available to operators via lease.

The MCA would be responsible for financing, procuring and delivering enhancements to the depots and fleet, with the Operators providing advice based on their operational experience.

The commercial approach necessary for the successful delivery of this option is developed in subsequent sections of this Commercial Case.

3.6.1.6 Overview of Franchising Option C

Under Franchising Option C, franchising is implemented with the MCA gaining control of full network and service design, but Operators would continue to retain ownership of their depots. New operators would need to provide their own depot facilities. The fleet would be acquired by the MCA and be made available to Operators via lease.

The MCA will not acquire any depots as part of the mobilisation process. The only depot directly owned by the MCA will be in Doncaster, as this is already owned by the MCA. Operator owned depots would remain as they are today and may be leased to other operators.

The MCA would be responsible for financing, procuring and delivering enhancements to the fleet, but would need to work with the Operators to consider enhancements to the depots. Where necessary, depot enhancements would be contractualised for Operators to deliver.

The commercial approach necessary for the successful delivery of this option is developed in subsequent sections of this Commercial Case.

3.6.1.7 Overview of Franchising Option D

Under Franchising Option D, franchising is implemented with the MCA gaining control of full network and service design, but Operators would continue to retain ownership of their fleet. Depots would be acquired and be made available to operators via lease.

As the MCA would not own the fleet they may have a more limited influence over its composition, but they could still set standards.

The MCA would be responsible for financing, procuring and delivering enhancements to the depots, but would need to work with the Operators to consider enhancements to the fleet.

The commercial approach necessary for the successful delivery of this option is developed in subsequent sections of this Commercial Case.

3.7 COMMERCIAL APPROACH TO EP PLUS

There is no significant commercial difference between the Reference Case (under which an Enhanced Partnership is in place) and EP Plus options that are under consideration in this Assessment. This is because the difference between those two options lies in the extent to which it is assumed to be possible to reach agreement through the Enhanced Partnership between the MCA and bus operators. The commercial model for reaching those agreements remains the same across both options: in summary, changes are delivered by negotiating agreements between the MCA and operators.

While therefore (as described in the Strategic Case and paragraph 3.6.1.2 above) more outcomes are assumed under the EP Plus option compared to the Reference Case, there can be no certainty that such outcomes can actually be delivered under EP Plus: they can only be achieved if the requisite number of operators agree. This represents a substantial weakness in the EP Plus option as it provides no certainty for the MCA.

Table 64 sets out, from a commercial perspective, the strengths and weaknesses of the EP Plus option have been identified.

Table 64: commercial strengths and weaknesses of EP Plus

Strengths	Weaknesses
<ul style="list-style-type: none"> • Potential strengthening of mutual understanding and collaboration between operators and the MCA • Operators remain directly exposed to revenue risk and are likely to seek to profit-maximise. Some behaviours that this exposure may incentivise may be consistent with MCA objectives. • Greater budgetary certainty for the MCA as it has no direct exposure to revenue risk (although the assumption that there will be no shrinkage of the network under EP Plus implicitly also assumes that the MCA will step in to subsidise any routes that would otherwise be withdrawn on a commercial basis). • Requires less transition cost than Franchising 	<ul style="list-style-type: none"> • Delivery of changes is not within the sole control of the MCA, and so delivery of the outcomes assumed in this Assessment for the EP Plus option are uncertain. • Negotiation with operators, even where successful, may be time and resource intensive. • Profit-maximising behaviour by operators who hold cost and revenue risk is unlikely always to be consistent with delivery of MCA objectives. • It may be challenging for the MCA in practice to secure financial contributions towards EP Plus outcomes from operators. • EP Plus may entrench incumbent operators' competitive advantages, limiting the scope to use competition to reduce costs and deliver objectives of the MCA in a value-for-money way.

3.8 DEVELOPMENT OF COMMERCIAL FRANCHISE MODELS FOR BUS OPERATIONS

This section develops the Franchising Options described in section 3.6 into more detailed commercial models, to a level of maturity appropriate for the Outline Business Case stage in a typical business case process.

Given that there are many similarities between Franchising Options A, B, C and D, the section is structured thematically, so that each commercial 'theme' or 'issue' is considered sequentially with the approach to each 'theme' under each option is described following the discussion of the theme.

A summary table is provided at section 3.13 which allows readers to consider options holistically rather than 'theme-by-theme'.

3.8.1.1 Analysis of the strategic control of the bus network and consequences for commercial relationships

One of the principal differences between the Reference Case and EP Plus on one hand, and Franchising Options on the other, rests in the respective role of the MCA and bus operators in relation to the strategic control of the bus network in South Yorkshire. 'Strategic control' of the bus network, in this context, can be characterised as the power to make decisions regarding the 'customer offer' to passengers in the region. Three principal activities can be analysed to identify where strategic control of a bus network lies:

- Network planning — decisions regarding service specifications;
- Branding and customer experience — decisions regarding the customer-facing elements of the bus offer; and
- Fares — decisions regarding the types and prices of tickets available for purchase.

Under the Reference Case and EP Plus, both Strategic and Operational control of the bus network in South Yorkshire sits with commercial bus operators: commercial operators hold the strategic control to determine the customer offer, and then make the operational decisions needed to deliver that offer. Through the Enhanced Partnership (which under the EP Plus option is assumed to be substantially strengthened), the MCA holds a degree of influence over strategic decisions by, for example, tendering for services that would be unprofitable on a commercial basis. These powers, however, are relatively weak under both the Reference Case and EP Plus as they rely on achieving agreement between operators and the MCA. They cannot therefore be considered to transfer strategic control of the network to the MCA.

Under the Franchising Options, this arrangement is different. Strategic control would be held by the franchising authority, the MCA, while operational control would remain with bus operators. This change has the following consequences:

- the MCA becomes responsible for taking strategic decisions concerning the bus network which previously have been the domain of bus operators;
- Bus operators in the region are no longer required to take strategic decisions regarding the network in the region; and
- the MCA must make commercial decisions to deliver bus services in line with its strategic decisions.

These shifts in responsibilities are important in determining the appropriate commercial approach to take for the options under consideration, as discussed in the following sections. An overview of the capacity and capability implications of these possible shifts in responsibilities is set out at section 3.16 and analysed further in the Management Case of this Assessment.

3.8.1.2 Overview of financial risk allocation

There are two categories of financial risk that are principally relevant in considering the commercial structure of franchised bus operations. They are:

- **Cost risk**

This relates to variations in the cost of providing specified bus services: if the cost of delivering a service is higher than anticipated, who pays?

- **Farebox revenue risk**

This relates to variation in the revenue received from the operation of services against forecast levels: if fewer tickets are sold than expected, who loses out?

To design a robust commercial approach for each option, it is necessary to identify which entity under each option for reform takes the principal role in assuming cost and revenue risk. This requires consideration of:

- the principal drivers of cost and farebox revenue;
- the extent to which each entity is able to control those drivers; and
- the incentives on each entity of holding different types of risk.

Sections 3.8.1.3 and 3.8.1.4 discuss Cost and Revenue risk respectively.

3.8.1.3 Cost risk

Cost risk in franchise operations

In a franchised bus operation, cost risk could in principle rest with either the franchising authority, franchised bus operators, or be divided between these two parties.

- In a scenario under which cost risk rests with the franchising authority, the costs incurred by franchised bus operators in delivering bus services would be reimbursed in full by the authority. This kind of model has precedent in, for example, the National Rail Contracts used by the Department for Transport on Great Britain's railway network since the onset of the Covid-19 pandemic.
- Conversely, in a scenario in which cost risk sits with franchised bus operators, a fixed payment would be made by the authority to the operator to run the service. The level of this payment would be determined through competitive procurement.
- In a 'mixed' scenario, where cost risk is shared between the franchising authority and the franchised bus operators, some pre-determined elements of the operator's cost base would be reimbursed by the authority on the basis of actual costs incurred, while the remaining elements of the cost base would be covered by a fixed regular payment. This 'mixed' scenario is sometimes referred to as 'flexible franchising' by operators in the UK.

The table below analyses the principal elements of bus operators' cost base in delivering franchised bus services following a successful procurement.

Table 65: analysis of control of cost drivers in a franchised bus service following procurement

Principal elements of operators' cost base	Principal cost drivers	Bus operator		Franchising authority	
		Ability to control cost drivers	Incentives from holding cost risk	Ability to control cost drivers	Incentives from holding cost risk
Number and quality of vehicles required	Franchise specification	<ul style="list-style-type: none"> Some scope to seek efficiencies in vehicle rostering Some scope to minimise vehicle maintenance time 	<ul style="list-style-type: none"> Minimise number of vehicles required to deliver the specified service Improve the efficiency of maintenance activities 	<ul style="list-style-type: none"> No significant control of cost drivers during contract period 	<ul style="list-style-type: none"> Not applicable as there is no significant control of the cost drivers during contract period
Vehicle maintenance	Age of vehicles and Legal and contractual requirements Vehicle mileage Patronage Efficiency and effectiveness of maintenance regime Driver behaviour	<ul style="list-style-type: none"> Scope to determine age of fleet in use (if use of an MCA-owned fleet is not mandated by the franchise agreement) Some scope to seek efficiencies in maintenance regime Some scope to train drivers in efficient driving approaches 	<ul style="list-style-type: none"> Use as new a fleet as possible Improve the efficiency of maintenance activities Train drivers to drive efficiently 	<ul style="list-style-type: none"> No significant control of cost drivers during contract period 	<ul style="list-style-type: none"> No significant incentives identified
Depot provision and maintenance	Number of vehicles requirement Maintenance requirements Size and location of depots	<ul style="list-style-type: none"> Some scope to adjust depot strategy (i.e. which depots serve different routes; approach to maintenance and storage of fleet) during contract period 	<ul style="list-style-type: none"> Increase efficiency of depot strategy in-life 	<ul style="list-style-type: none"> No significant control of cost drivers during contract period 	<ul style="list-style-type: none"> No significant incentives identified
Fuel / Energy	Price inflation Vehicle mileage	<ul style="list-style-type: none"> Some ability to hedge fuel prices No ability to control inflation 	<ul style="list-style-type: none"> No significant incentives identified 	<ul style="list-style-type: none"> No significant control of cost drivers during contract period 	<ul style="list-style-type: none"> No significant incentives identified
Wages	Number of staff required Wage inflation Average salaries Terms and conditions Relationships between operators and relevant trade unions	<ul style="list-style-type: none"> Some scope to seek efficiencies in staff requirements Scope to control salary increases Scope to determine terms and conditions 	<ul style="list-style-type: none"> Minimise staff required to deliver specified services Increase salaries to extent required to retain necessary staff 	<ul style="list-style-type: none"> No significant control of cost drivers during contract period 	<ul style="list-style-type: none"> No significant incentives identified

Principal elements of operators' cost base	Principal cost drivers	Bus operator		Franchising authority	
		Ability to control cost drivers	Incentives from holding cost risk	Ability to control cost drivers	Incentives from holding cost risk
		of new employment <ul style="list-style-type: none"> Some scope to renegotiate existing terms and conditions No ability to control inflation 	<ul style="list-style-type: none"> Seek to minimise new and existing costs of employment 		

Key		
Very limited control	Some control	Significant control

The analysis in Table 65 shows that there are no areas of the cost base over which the franchising authority typically holds greater control in-life than bus operators, while the bus operators hold many of the levers required to manage the costs. This indicates that bus operators are the parties best-placed to hold cost risk in a franchised network.

In order to test this potential approach further, an assessment of the commercial advantages and disadvantages of allocating cost risk to the two entities was made and discussed with MCA representatives. The assessment is set out in Table 66 below.

Table 66: advantages and disadvantages of different possible allocations of cost risk

	Cost risk sits with operators	Cost risk sits with the MCA
Pros	<p>Incentivises cost efficiencies in operations and asset management as effectively the operator 'keeps' any costs saved.</p> <p>Greater budgetary certainty for the MCA than if cost risk sits with the MCA</p>	<p>Lower financial robustness required of operators - widens market and may encourage SMOs.</p> <p>Lower profit margins for operators, as the risk that they face is substantially reduced.</p> <p>Operators less incentivised to compromise quality than if cost risk sits with operators</p>
Cons	<p>Degree of cost uncertainty for operators (though not unprecedented as it bears some similarities to the de-regulated market)</p> <p>Operators may be more greatly incentivised to compromise quality to save money, particularly where effects will be beyond the contract duration.</p> <p>Depending on contractual structures, potential lack of immediate upside for the MCA in event of cost efficiencies above those anticipated at bid.</p>	<p>Very strong contractual and commercial management approach required, with commensurate levels of resource likely to be required</p> <p>Greater budgetary uncertainty for the MCA.</p> <p>No innate incentive for operators to find and deliver cost efficiencies — operational performance likely to be prioritised.</p>

Current and potential bus operators in the South Yorkshire area were asked about their approach to cost risk in market engagement conducted for the development of this franchising assessment. Operators were generally comfortable with the concept of retaining cost risk, subject to agreeable inflation mechanisms being in place.

On the basis of the principle that it is typically most efficient to allocate risk to the party best able to manage it; of the pros and cons identified in Table 66; and of feedback from operator market engagement, it is concluded that **a model whereby cost risk rests with franchised bus operators is likely to be the most efficient commercial approach to cost risk.** This model has precedent in the TfL and TfGM approach to bus franchising.

Table 65 shows that there are, however, some areas of the cost base relating to inflation where neither the bus operator nor the franchising authority holds significant control. Market testing conducted as part of the development of this Commercial Case indicates that if commercial operators are asked to assume risks over which they have no control, operators are likely to use conservative assumptions as to the

likelihood of these risks materialising; and may seek higher margins as reward for assuming these risks. The advantages and disadvantages of seeking to transfer these 'uncontrollable' risks to bus operators are summarised in Table 67.

Table 67: advantages and disadvantages of seeking to transfer 'uncontrollable' risks to bidders

Advantages	Disadvantages
<ul style="list-style-type: none"> • Greater certainty over future costs for the MCA, allowing more accurate forecasting and greater confidence in assessments of future affordability. • Avoids significant financial risks for the MCA. 	<ul style="list-style-type: none"> • Likely to represent poor value for money for the MCA as bidders are likely to price these risks conservatively. • May require greater capital guarantees from bidders, potentially reducing the market for services and/or excluding SMOs from competitions.

There are a number of ways in which the MCA could offer inflation protection to operators, ranging from very specific targeted protection to more holistic. These approaches include:

- linking a certain proportion of the franchise payment to a specific inflation index. For example, it could be assumed that a certain proportion of the franchise is made in respect of fuel costs, and that proportion of the franchise payment could be contractually indexed to a fuel inflation index. This approach could be attractive in that it retains the incentive on the operator to buy fuel at the best possible price, and to reduce fuel consumption through measures such as driving training. A similar approach could be taken to wage costs, which could be indexed to a specific wage index such as Average Weekly Earnings (AWE);
- mechanisms could be designed to offer protection only in the event of excessive inflation. For example, operators could be required by the contractual structure to manage cost inflation of up to a certain level, but further funds provided by the authority if a pre-determined inflation metric exceeds a certain level;
- more broadly, the entire franchise payment could be contractually linked to an inflation index — for example, the contractualised sum could be up-rated by CPI every year; and
- the greatest degree of protection for operators could be offered by the MCA assuming all risk in relation to particular elements of the cost base. For example, the MCA could assume all risk in relation to fuel prices, and reimburse operators for their actual costs incurred throughout the contract. However, such an approach may not incentivise operators to use fuel efficiently and as such appropriate audit and assurance mechanisms may need to be introduced.

In designing each contract over the course of the transition to a franchise structure it will be important for the MCA to consider the specific circumstances in respect of each contract and make a contract-by-contract assessment as to the extent to which the MCA should seek to transfer these 'uncontrollable' risks to bidders.

Cost risk in an Enhanced Partnership

The Enhanced Partnership structure does not support the allocation of cost risk to any party other than bus operators.

Summary of approach to cost risk in options for reform

	Reference Case (EP)	EP Plus	Franchising Option A	Franchising Option B	Franchising Option C	Franchising Option D
Cost risk	Can only sit with bus operators	Can only sit with bus operators	Sits with bus operators Exceptions for inflation and in relation to specific volatile elements of the cost base to be considered by the MCA at the point of contract design.			

3.8.1.4 Farebox Revenue risk

As with cost risk, in a franchised bus operation, farebox revenue risk could in principle rest with either the franchising authority, franchised bus operators, or be divided between these two parties.

- In a scenario under which revenue risk rests with the franchising authority, farebox revenue collected by bus operators or other ticket retailers would be transferred in full to the authority. Similar arrangements could, in principle, be made for other sources of revenue such as on-board and bus-side advertising revenue. This model has precedent, for example, in TfL's bus franchising model where TfL sets fares and receives revenue collected by operators.
- Conversely, in a scenario in which revenue risk sits with franchised bus operators, farebox revenue would be kept by (or transferred to) bus operators. A mechanism to ensure that each operator receives an appropriate share of revenue would need to be created so that the operator is appropriately incentivised to support growing and capturing revenue. This model has precedent in the present commercial arrangements for bus services in South Yorkshire and elsewhere across the country.
- In a 'mixed' scenario, where revenue risk is shared between the franchising authority and the franchised bus operators, a pre-determined share of farebox revenue (for example, a specified percentage) would be received by bus operators, with the balance being transferred to the franchising authority. No precedents for this approach in bus services have been identified.

Typically, total farebox revenue received is a function of passenger demand (in other words, how many people travel) and the price of fares (how much they pay). On this basis, a similar analysis to that conducted for cost risk is provided below in Table 68 below. The table analyses the principal drivers of revenue from franchised bus services following a successful procurement.

Table 68: analysis of control of revenue drivers in a franchised bus service following procurement

Principal components of revenue	Principal revenue drivers	Bus operator		Franchising authority	
		Ability to control revenue drivers	Incentives from holding revenue risk	Ability to control revenue drivers	Incentives from holding revenue risk
Macro-economic trends	Employment levels Car ownership Prevalence of remote working Prevalence of internet shopping Cost of living	<ul style="list-style-type: none"> • No ability to control these drivers 	<ul style="list-style-type: none"> • Not applicable 	<ul style="list-style-type: none"> • No ability to control these drivers 	<ul style="list-style-type: none"> • Not applicable
Network design and service patterns	Areas served Bus frequencies	<ul style="list-style-type: none"> • No ability to control these drivers as they are specified by the authority 	<ul style="list-style-type: none"> • Not applicable 	<ul style="list-style-type: none"> • Some ability to change network design and service patterns in-life, subject to flexibilities within the franchise agreement. Some ability to integrate bus services with other modes, which could support patronage growth. 	<ul style="list-style-type: none"> • Optimise the network in a way that is consistent with delivering the authority's socio-economic objectives (such as providing universal access)
Fare prices	Decisions by fare-setters	<ul style="list-style-type: none"> • No ability to control fares 	<ul style="list-style-type: none"> • Not applicable 	<ul style="list-style-type: none"> • Total control of fare prices 	<ul style="list-style-type: none"> • Optimise revenue performance in a way that is consistent with delivering the authority's socio-economic objectives (such as

Principal components of revenue	Principal revenue drivers	Bus operator		Franchising authority	
		Ability to control revenue drivers	Incentives from holding revenue risk	Ability to control revenue drivers	Incentives from holding revenue risk
					concessionary travel)
Punctuality and journey times	Timetable compliance Route priority measures Infrastructure Management of route disruption	<ul style="list-style-type: none"> Very significant control of compliance with specified timetable 	<ul style="list-style-type: none"> Deliver full compliance with published timetable 	<ul style="list-style-type: none"> In some cases, significant control of infrastructure Subject to contractual structure, some ability to control compliance with specified timetable 	<ul style="list-style-type: none"> Ensure that any performance regime in place with operators relating to punctuality is effectively managed Optimise infrastructure to support punctuality and swift journey times
Customer experience	On-board environment	<ul style="list-style-type: none"> No ability to change contractual specification Control of compliance of on-board environment with contractual requirements 	<ul style="list-style-type: none"> Deliver a clean and attractive on-board environment for passengers 	<ul style="list-style-type: none"> Limited ability to change contractual specification in-life. Subject to contractual structure, some ability to control this driver in-life 	<ul style="list-style-type: none"> Ensure that any performance regime in place with operators relating to the customer experience is effectively managed
Marketing	Effectiveness of marketing activities Brand recognition Quality of marketing materials	<ul style="list-style-type: none"> Some ability to undertake marketing may be permissible, depending on the terms of the contract 	<ul style="list-style-type: none"> Cost-effectively promote the use of bus services by investing in advertising with a return on investment >1 	<ul style="list-style-type: none"> Complete control of marketing and branding 	<ul style="list-style-type: none"> Cost-effectively promote the use of bus services by investing in advertising with a return on investment >1
Ticketing structure	Simplicity of ticketing structures Ease of purchase Perceived value for money of ticketing structures	<ul style="list-style-type: none"> Depends on the degree to which ticketing autonomy is transferred to the operator by the franchising contract If ticketing autonomy rests with the MCA, there is likely to be very limited control for operators 	<ul style="list-style-type: none"> Not applicable 	<ul style="list-style-type: none"> Depends on the degree to which ticketing autonomy is transferred to the operator by the franchising contract If ticketing autonomy rests with the MCA, there is likely to be complete control of ticketing structures 	<ul style="list-style-type: none"> Develop ticketing structures that support new customer adoption alongside delivery of socio-economic objectives

KeyTable 68

Very limited control	Some control	Significant control
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The analysis in Table 68 shows that the only component that the franchising authority does not hold some control over are macro-economic trends; the bus operator does not hold any ability to control this component either. All other elements can be controlled at least to some extent by the franchising authority, while some elements (specifically, fare prices and the ticketing structure) are out of the control of bus operators. This indicates that the franchising authority is the party best-placed to hold revenue risk in a franchised arrangement.

In order to test this potential approach further, an assessment of the commercial advantages and disadvantages of allocating cost risk to the two entities was made and discussed with MCA representatives. The assessment is set out in Table 69 below.

Table 69: advantages and disadvantages of different possible allocations of revenue risk

	Revenue risk sits with operators	Revenue risk sits with the MCA
Pros	<p>Incentivises operators to seek revenue growth, including through innovation and marketing</p> <p>Greater budgetary certainty for the MCA</p>	<p>Focuses operator on contractual incentives — potentially punctuality, reliability, cleanliness, etc — rather than revenue maximisation from passengers</p> <p>Aligns risk with revenue 'levers' (e.g. pricing)</p> <p>Less risky proposition for operators, making it more accessible for SMOs and new operators who have no experience of the South Yorkshire bus market, leading to a more equitable competition</p> <p>Easier to negotiate change in life as operators will not need to be compensated for changes to anticipated revenue as a result of contract variations</p> <p>Upside risk would rest with the MCA, meaning that any growth could be reinvested into the network to help reverse decline</p>
Cons	<p>Fare revenue is uncertain for operators, making the operators' businesses inherently riskier. There may be insufficient market appetite to deliver the approach.</p> <p>Operators would need to be sufficiently financially robust to manage over-forecasting — limiting the market</p> <p>Lack of upside for the MCA from above-forecast growth</p> <p>Operators likely to seek control of revenue 'levers' — e.g. pricing, network/timetable planning. In-life change becomes hard</p> <p>Revenue maximisation may be at odds with SYMCA objectives e.g. around supporting the vulnerable</p>	<p>The MCA must manage volatile farebox revenues. If revenue received is not what was forecast, additional funding will be needed to meet contractual obligations with operators. If funding is not available, the MCA may be at risk of default on contractualised payments.</p> <p>Requirement for high quality contract management/compliance measures.</p> <p>Internal audit, cash flow and budget planning capacity within the MCA would need to be strengthened.</p>

Current and potential bus operators in the South Yorkshire area were asked about their approach to revenue risk in market engagement conducted for the development of this franchising assessment. Operators felt that the MCA should retain revenue risk as revenues would be influenced by MCA's route and fare strategy. Furthermore, there is uncertainty about future demand and travel behaviours. If operators were required to retain revenue risk, it was highlighted that this would offer an advantage to incumbent operators due to their greater understanding of the local market.

On the basis of the generally-accepted commercial principle that it is typically most efficient to allocate risk to the party best able to manage it; of the pros and cons identified in Table 69; and of market engagement, it is concluded that **a model whereby revenue risk rests with the franchising authority, the MCA, is likely to be the most efficient commercial approach to revenue risk.**

Revenue risk in an Enhanced Partnership

The Enhanced Partnership structure does not support the direct allocation of revenue risk to any party other than bus operators. The MCA is, however, indirectly exposed to this risk through the EP, as a decline

in passenger revenue in South Yorkshire can lead to the withdrawal of services by commercial Operators, which — where those services are socially necessary — the MCA may then choose to continue to support in a reactive manner, through its tendered services regime. The degree to which the public sector and the MCA in particular have a “de facto obligation” to provide services has been highlighted by the arrangements needed to deal with the collapse in ridership due to the COVID-19 pandemic.

3.8.1.5 Summary of approach to revenue risk in options for reform

The conclusions of the above discussion are summarised in Table 70.

Table 70: summary of approach to revenue risk in options for reform

	Enhanced Partnership	EP Plus	Franchising Option A	Franchising Option B	Franchising Option C	Franchising Option D
Revenue risk	Can only sit with bus operators	Can only sit with bus operators	The MCA			

3.9 FRANCHISE PAYMENTS IN A FRANCHISED BUS OPERATION

Table 68 of this Commercial Case notes that in a franchised bus service, bus operators hold several of the ‘levers’ required to drive revenue. These levers include:

- effective delivery of the specified timetable (including delivery of punctuality and bus frequency contractual requirements); and
- effective delivery of the specified on-board environment (including cleanliness, comfort, passenger information and passenger facilities).

Given, however, the MCA’s assumption that revenue risk will rest with the franchising authority rather than bus operators, there is no innate incentive for operators to behave in a way consistent with driving revenue. Further, it is arguable that in the absence of an effective contract performance regime, the predominant incentive on an operator is to seek to minimise its costs; indeed there is little or no innate incentive beyond reputational risk for an operator to do anything more than is required not to lose its contract — which may include a strategic choice to fail to deliver contractual requirements, if the operator considers that any such failure to deliver will reduce its costs and will not result in its loss of the overall contract. Such an approach is unlikely to ensure effective delivery of the benefits of a franchised bus network.

A contractual performance regime that is linked to drivers of revenue is therefore likely to be necessary for the MCA under any franchise option, for the MCA to ensure effective delivery of its franchised services and secure the benefits anticipated from its franchise contracts.

Under an Enhanced Partnership, operators are exposed to revenue risk and do not receive franchise payments from a franchising authority. A payment regime of this nature is therefore not relevant to this option.

3.9.1.1 Structure of a Performance Regime

A performance regime would ensure that some or all of the franchise payment made by the MCA to a franchised bus operator is contingent upon the quality of the operator’s performance. This approach seeks to align the incentives acting on the bus operator with those elements of performance that are sought by the franchising authority.

The way in which the quality of an operator’s performance will be assessed, and the mechanism by which that assessment will affect the franchise payment, would typically be defined for potential operators at the point of bidding. This reduces the level of uncertainty that operators face and provides an opportunity for them to consider their probable returns, and the potential consequences of improved performance, at the point of bid.

The assessment of an operator’s performance can be undertaken in various qualitative and quantitative ways. Quantitative metrics are typically preferable as they can generally be developed into Key

Performance Indicators (KPIs) in more simple and transparent ways than qualitative metrics can be. Examples of quantitative metrics that it may be possible to develop into Key Performance Indicators (KPIs) in a performance regime include:

- proportion of scheduled miles that are run;
- punctuality of services;
- revenue generated;
- effectiveness of operator's revenue protection;
- proportion of vehicles that meet specified requirements;
- cleanliness; and
- results of customer surveys.

The data required to establish these kinds of KPIs could be generated through ITS systems or through measures such as mystery shopping surveys.

A calibration mechanism in the early stages of the franchise contract may be necessary to reduce the risk to operators in bidding. This mechanism would enable operators to establish a 'baseline' level of performance, with rewards or penalties applied later in the contract in respect of performance against this baseline level.

It may also be possible to link the performance regime to contract extension, whereby an operator's franchise contract is guaranteed to be extended if they meet or exceed specified performance targets. This approach would incentivise operators to improve their performance and maintain a high level of service quality.

To ensure reliable and auditable data streams to justify performance payments, it would be important to define the data collection and reporting requirements in the franchise contract. This would include the types of data to be collected, the frequency of data collection, the format of data reporting, and the process for verifying the accuracy of the data. Additionally, it may be necessary for the MCA to establish a performance audit mechanism to ensure that the data reported by operators is accurate and consistent. Desktop research has been conducted to assess the performance regimes used by other contracting authorities in respect of transport contracts, the results of which are set out in Table 71.

Table 71: performance regimes in other public transport contracts

Authority and contract	Summary of approach performance regime
Transport for Greater Manchester, bus franchising contracts	<p>TfGM's bus franchising assessment⁹⁵ indicates that in steady state, an operational performance regime is expected to comprise three key components: lost mileage, punctuality and excess waiting time. Automatic Vehicle Location data will be used to underpin operational performance.</p> <p>TfGM's assessment states that in the future it would consider enhancing the performance regime, and states that it may introduce additional metrics relating to first and last bus delivery, and connections/interchanges.</p> <p>TfGM's assessment also states that it will introduce a separate service quality regime, considering driver behaviour and driving style; customer complaint levels; and availability of equipment. This will be assessed through engine management information, management information, and mystery shopper surveys.</p>
Department for Transport, National Rail Contracts	<p>DfT uses qualitative and quantitative approaches to assessing rail operators' performance in its National Rail Contracts⁹⁶.</p> <p>Quantitative data, where available, is used to calculate the percentage of a performance-based fee that is awarded.</p>

⁹⁵ <https://greatermanchester-ca.gov.uk/media/2394/07-commercial-case-market-engagement-supporting-paper-web.pdf>

⁹⁶ <https://www.gov.uk/guidance/public-register-of-rail-passenger-contracts>

	Where quantitative data is not available, a qualitative assessment is made of operators' performance on the basis of evidence supplied by the operator and a pre-defined 'scorecard' that specifies the behaviours that are expected at different performance levels.
Transport for London, bus franchising contracts	<p>TfL's Quality Incentive Contracts⁹⁷, which are used for bus franchises, include two incentive provisions:</p> <ul style="list-style-type: none"> Reliability Performance Payments, which compare an operator's annual reliability performance on each route against the contracted Minimum Performance Standard. Contract Extensions — under the terms of the contract an Operator is entitled to an automatic two-year extension of the contract if it meets or exceeds the reliability "Extension Threshold" criteria set in the tender documentation for that route. This reliability threshold is slightly higher but related to the reliability Minimum Performance Standards.

3.9.1.2 Value of fees affected by a performance regime

In designing a performance regime for a bus franchise, it will be necessary to determine the level of fees that are linked to the results of a performance regime. The level of fees affected by a performance regime should arguably:

- effectively incentivise the operator;
- support the development of a competitive market for bus operations (operators will consider the likely structure and results of a performance regime when considering whether to bid);
- be financially sustainable for bus operators; and
- represent value for money for the franchising authority.

Making this determination will require the franchising authority to balance a range of considerations, including those shown in Table 72 below.

Table 72: factors that may affect the determination of the optimal level of operator fees linked to a performance regime

Factor	Commentary
Effective incentivisation	To incentivise an operator to perform the potential financial reward from effective performance must be sufficiently attractive that it focuses management attention on delivery.
Predictability of reward	If operators are unable to assess with confidence at the point of bid (i) their likely initial financial reward and (ii) the scope to improve this reward, then operators are likely to bid conservatively and assume minimal levels of reward. This may increase overall costs to the MCA.
Financial sustainability for operators	Exposing operators to significant levels of performance-related fee may mean that in periods of poor performance the fee is no longer sufficient to cover the costs of operators' businesses, potentially leading to insolvency.
Overcompensation	The regime should under no circumstances allow excessive returns to operators that would represent poor value for money for the MCA.
Strategic market building	If operators consider that they cannot be certain of a reasonable level of reliable return, then they may be unwilling to invest in the area and/or bid for contracts.

Any performance regime, and the level of fees related to any such performance regime, would both need to be calibrated carefully by the MCA in the development of each franchise contract, reflecting the idiosyncrasies of each contract and the MCA's understanding of current market conditions.

3.9.1.3 In-contract change

It is likely to be desirable for bus franchise contracts to include change provisions that allow the MCA to amend the service that the operator must deliver during the life of its contract — for example, by increasing or reducing service frequency on specific routes — with commensurate changes to the level of franchise payments. This flexibility would support the MCA to respond to changes in demand, revenue, or external financial circumstances by (for example) reducing services if demand and revenue is below the level forecast during procurement. However, this flexibility is likely to come at a cost to the MCA through higher franchise payments, as it introduces a degree of uncertainty for bus operators as any amendments to the

⁹⁷ <https://content.tfl.gov.uk/uploads/forms/lbsl-tendering-and-contracting.pdf>

service required may result in changes to operators' cost assumptions that underpin the original franchise contract. It will, therefore, be important during procurement for the MCA to discuss with potential operators the effect that different levels of flexibility that could be specified in the contract might have on the prices offered at procurement, and to decide how to balance the competing priorities of price and flexibility with regard to each contract. It will also be important that the MCA has a sufficiently granular understanding of the cost base so that any contract change can be effectively agreed.

3.10 ASSET STRATEGY

As set out in section 3.6, four separate franchising options — Franchising Options A, B, C and D — are under consideration in this Commercial Case. They are differentiated by their approaches to the assets required to provide franchised bus services:

- Franchising Options A and C are options under which the depots required to run bus services are provided by bus operators (as opposed to the MCA), as part of their bids;
- Franchising Options A and D are options under which the fleets of vehicles required to run bus services are provided by bus operators (as opposed to the MCA), as part of their bids.

The implications of these differences are explored in sections 3.10.1.1 (depots) and 3.10.1.4 (fleet). The commercial implications for the MCA of providing some or all of these assets itself (as is assumed in Franchising Options B, C and D) is discussed in sections 3.10.1.3 and 3.10.1.6.

3.10.1.1 Depots

Overview of asset class

Appropriate depots are fundamental to the efficient delivery of any bus operation. They typically provide functions including:

- vehicle storage;
- engineering facilities;
- fuelling facilities (and/or, if electric vehicles are in use, charging facilities);
- facilities necessary to prepare a bus for service — for example, cleaning;
- staff accommodation (such as break rooms, training areas and toilets) and parking; and
- office accommodation, often used for operational and administrative work.

Depots do not typically⁹⁸ directly affect the customer experience, although a failure to ensure that vehicles and staff are effectively delivered into service in a punctual and reliable way (which may be the result of a suboptimal depot strategy) can indirectly affect customers; and a sub-optimal cleaning regime can negatively affect the on-board customer experience.

Depots can vary significantly in size, with major depots typically spanning a significant geographical footprint. This means that the land on which they stand can hold considerable value, particularly in metropolitan areas where land values are higher. This means that it is not certain that it would be possible for the MCA to acquire existing depots from their current owners, should it wish to do so, as existing owners may wish to explore alternative uses for the site in the event that they are no longer required as depots. The geographical location of depots in relation to the routes that they serve is important to the levels of efficiency that can be delivered, as empty buses regularly need to be moved between the depot and the routes that they serve (so-called 'dead running').

Dead running typically increases costs to operators compared to scenarios where it is not required, as it drives increased fuel costs, increased maintenance requirements on buses, and increased staff time requirements.

⁹⁸ Collection of lost-and-found items has an impact on a small proportion of customers who lose items on buses.

Dead running also increases the vulnerability of operated services to disruption given the increased potential for traffic disruption that each vehicle will experience during its positioning for the start of services. It is therefore not generally economically or operationally efficient for bus routes to be operated out of bus depots that are significantly geographically removed from the routes themselves, although to some extent economies of scale generated through larger depots may balance this consideration.

Infrastructure requirements for zero-emission vehicles

Depots are typically equipped to refuel buses with diesel, and few depots are currently equipped with the charging or hydrogen infrastructure necessary be able to refuel zero-emission buses. Upgrading depots to install such infrastructure can carry significant costs (although in some instances it is possible for operators to secure public subsidy for these upgrades, such as through the Department for Transport's Zero Emission Bus Regional Areas (ZEBRA) scheme⁹⁹).

3.10.1.2 *Operators' provision of depots*

Operators' commercial approach to a requirement for provision of depots

There are several ways in which bus operators bidding for a franchise contract in the South Yorkshire region may seek to acquire a depot, where this is required by the franchise competition. It is unlikely that the MCA would seek to include many specifications with regard to depots in designing a franchise competition; it is likely to be preferable to allow operators to select the most appropriate depoting strategy for delivery of their planned operations in line with the franchise requirements, as this allows operators to innovate to seek operational efficiencies and to manage their operations in the way they consider most effective.

- The operator may decide to **own** the necessary depot if it wins the franchise competition. In this case:
 - Operators may already own a depot in the relevant area. This is likely to represent a significant competitive advantage, particularly if there are few other existing depots in the area.
 - Operators may seek to purchase an existing depot in the relevant area from another bus operator.
 - As there is no certainty for an operator during a bidding process that they will win the competition, during the bidding stage an operator may seek to secure an option to purchase a depot from an existing owner, rather than completing a purchase. This option would then be called in the event that the operator were successful in the franchise competition. If the operator were not successful in the franchise competition the option would be unlikely to be called.

It is considered unlikely that an incumbent operator would agree this kind of option at a value-for-money price with a competitor, as it would bring no advantage to the incumbent to do so.
 - Operators may seek to purchase land to build a new depot in the area.
 - Again, as there is no certainty for an operator during a bidding process that they will win the competition, it is possible that during the bidding stage an operator would seek to secure an option to purchase the necessary land. This option would then be called in the event that the operator were successful in the franchise competition. If the operator were not successful in the franchise competition the option would be unlikely to be called. It may also be necessary for an operator to secure outline or full planning consents for the creation of a new depot, and it is likely that the MCA would wish to seek assurances during the tender evaluation stage that the proposed approach would be deliverable.

⁹⁹ <https://www.gov.uk/government/publications/apply-for-zero-emission-bus-funding>

- Give the complexities in the building of a new depot, the mobilisation period between the award of the contract and a new depot being ready for service in such a scenario is likely to be substantial. It will depend on factors such as the nature of the land purchased; planning consents; remediation requirements; the infrastructure requirements. As a minimum, for the purposes of this Assessment a period of at least two calendar years is assumed to be required for an operator to be able to build a new depot following the winning of a franchise competition, and the necessary period may in some circumstances be significantly longer than this.
- Alternatively, the operator may seek to **lease** a depot in the event that it wins the franchise competition. In this case, it is likely that operators would seek to secure an option to lease a depot (or space in a depot) that is consistent with their requirements at the point of bid, which would then be called in the event that the bid is successful. In many cases it is likely that some works to the depot would be necessary in order to accommodate a new operator.

Many of these approaches have various dependencies as shown in Table 73.

Table 73: dependencies relating to operators' options in provision of a depot

Option		Operator's external dependencies
Ownership	Operator already owns depot	<ul style="list-style-type: none"> • None identified.
	Purchase existing depot	<ul style="list-style-type: none"> • Willing seller required — existing owners may not be willing sellers if they consider that their ownership of a particular depot gives them a competitive advantage, or if they consider that the depot could be put to a more profitable alternative use.
	Purchase land to build a new depot	<ul style="list-style-type: none"> • It is necessary to identify and procure appropriate land to build the requisite depot. • Land remediation may be required before construction can begin. • It is necessary to secure planning and other necessary consents in order to build a new depot. • New entrants to the market are unlikely to spend this speculative cost during the bidding phase.
Lease	Lease an existing depot	<ul style="list-style-type: none"> • A willing landlord is required — existing owners may not be willing to lease their depot to competitors if they consider that their ownership of a particular depot gives them a competitive advantage, or if they consider that the depot could be put to more profitable alternative use.

Effect of a requirement for operators to provide depots on value for money

Requiring operators to provide depots may have the following impacts relating to value-for-money:

- Many of the constraints in Table 73 are out of the immediate direct control of potential bidders, which may mean that, in a competition, potential bidders are unable to be confident in their future ability to provide the depot facilities necessary to operate franchised services. In this event it appears likely that bidders will be reluctant to bid, or — if they do bid — will seek a significant premium to recognise the uncertainties they are facing in respect of depots. In such eventualities, it may be challenging for the MCA to secure value for money from a franchise agreement, as there may be a lack of competitive tension between bidders resulting in operator profit margins that are higher than they may be under competitive tension.
- In the event that bidders are able to secure depots as part of their bid, it is likely that there will be costs to operators associated with this provision of depots. These costs are likely to comprise initial capital investment (in approaches where a new depot has to be bought or built), or an undertaking to make future lease payments which are likely to be recorded in operators' accounts in a similar way to

initial capital investment¹⁰⁰. These higher capital requirements imply higher costs of capital for the operator, and, resultantly, a potentially higher profit margin as a percentage of cost.

It is unlikely that it would be prudent for the MCA to offer a residual value mechanism (RVM) on a depot provided by an operator. This is because it is unlikely to be possible to specify precisely at the point of bid the nature of the depot that the successful operator is to provide; in offering an RVM, the MCA would therefore be undertaking to purchase an unknown asset at a price which it is not in a position to determine (as the price will depend on the nature of the depot acquired by the operator).

Sharing of depots

Conceptually, two or more operators might choose to share a depot where the depot is bigger than either of their separate needs. This could generate operational efficiencies if maintenance or other staff are shared between operators. However, there are only limited circumstances in which such an arrangement might be deliverable: one operator is likely to need to already be in possession of the depot in question, and be willing to sub-let space to a second operator on the condition that the second operator is successful in winning a competition.

Market engagement has indicated that depot sharing would be tolerable for most operators, so long as risks relating to the interface between the two parties are carefully managed: for example, remedy arrangements would need to be clear if one operator’s bus blocked another from exiting the depot at the necessary time.

Feedback from market engagement relating to depot provision

The approach to depots has been discussed with current and potential market participants as part of market engagement in developing this Assessment. The findings are summarised below.

Potential market participants who do not currently operate in the South Yorkshire region typically stated that:

- they have a strong preference for depots to be provided by the MCA as:
 - this removes a barrier to entry; and
 - this reduces the capital intensity of franchise contracts.
- provision of depot by operator would require a longer mobilisation period than if it were provided by the franchising authority;
- operators are happy to operate and maintain depots for the duration of their contracts; and
- depot sharing between operators is not ideal given the interface risks it introduces, but could work with strong contracts in place.

Market participants that do currently operate in the South Yorkshire region stated that they would have no in-principle objection to using depots provided by the MCA but queried whether this was an optimal approach.

Analysis of different approaches

Table 74 summarises out the advantages and disadvantages of different approaches to depot provision.

Table 74: advantages and disadvantages of different approaches to depot provision

	The MCA provides depots (Franchising Options A and C)	Operator provides depots (EP, and Franchising Options B and D)
Advantages to the MCA	<ul style="list-style-type: none"> Reduces barriers to entry for operators, potentially increasing competitive tension and supporting SMOs in the market 	<ul style="list-style-type: none"> No initial capital investment required by the MCA No requirement from the MCA to provide resource to manage ownership of depots

¹⁰⁰ Under IFRS 16 a lessee of a leased asset is required to recognise in its accounts a right-of-use asset representing its right to use the underlying leased asset, and a lease liability representing its obligation to make lease payments in respect of that asset.

	The MCA provides depots (Franchising Options A and C)	Operator provides depots (EP, and Franchising Options B and D)
	<ul style="list-style-type: none"> • This increased competition may result in lower prices for the MCA, which may deliver better value-for-money • Likely lower cost of capital for the public sector may reduce overall costs of depots • Facilitates a more efficient process of transfer from incumbent operator to new operator at the expiry of a franchise contract, or in the event of operator default where a new provider needs to step-in to run services 	
Disadvantages to the MCA	<ul style="list-style-type: none"> • Initial capital investment required to acquire depots. If acquired through debt this would affect the MCA's debt ceiling, and would incur significant capital financing costs to revenue resource (assuming such debt were available). • Ongoing delivery of ownership role likely to require ongoing MCA resource, including in the future through managing transitions between franchisees. • Potential for financial pressures to arise in respect of depot condition, dilapidations etc if ownership role not effectively discharged by transferring risks to Operators. 	<ul style="list-style-type: none"> • Operators without existing depots in the region may be reluctant to bid, resulting in lower or possibly no competitive tension in franchise competition • Capital-heavy projects (such as franchise contracts that require the acquisition of a depot) are likely to result in higher margin requirements for operators, which in the absence of competitive tension may increase the costs to the MCA • The MCA holds no long-term control over strategic assets necessary to deliver bus operations, potentially introducing challenges around contract continuity at expiry (or default)

On the basis of the analysis set out in this Assessment, it is not considered that Franchising Options under which depots are required to be provided by the Operator are capable of supporting robust competition for franchising contracts let by the MCA, and as such are not commercially viable.

3.10.1.3 Provision of depots by the MCA

This section considers the MCA's commercial approach in respect of options where depots are provided by the MCA — Franchising Options B and D.

Procurement of depots

There are two approaches to the initial procurement of depots by the MCA, should Franchising Option B or Franchising Option D be pursued:

- the depots that are currently owned by incumbent commercial bus operators in South Yorkshire could be purchased (or leased) from those current owners by the MCA. This could be done through:
 - commercial negotiation for sale, where an agreed sale price and terms can be reached between the incumbent operator and the MCA;
 - compulsory purchase of the depots. the MCA has the power to compulsorily purchase 'any land required for the purposes of their business'¹⁰¹;
 - commercial negotiation for a long lease, where agreed rent and terms could be reached between the incumbent operator and the MCA.

¹⁰¹ In accordance with Article 4 of The South Yorkshire Passenger Transport Executive (Transfer of Functions) Order 2023, all functions, property, rights and liabilities of the Executive have been transferred to the MCA. The Transport Act 1968 section 10 (3) (as amended by LTA 2008 and other SIs) states that: *If the Authority for an integrated transport area, a combined authority area or a passenger transport area so request in writing, the Minister may authorise the Executive for that area to purchase compulsorily any land which the Executive or any wholly-owned subsidiary of theirs require for the purposes of their business, and the Acquisition of Land Act 1981 shall apply to the compulsory purchase.*

- alternatively, new depots could be constructed by the MCA. This approach would entail a suite of significant land identification, purchase and depot construction projects.

For the purposes of this Assessment, it is assumed that the depots that are currently owned by incumbent commercial bus operators in South Yorkshire are to be purchased from those current owners by the MCA at market prices. Under Franchising Options B and D, it is likely that a dedicated project team would be required to lead work for the MCA on the purchase of the depots.

[Terms of lease to operators](#)

Depots could be leased to operators on either commercial rates, under which a commercial rent would be charged to the tenant, or a peppercorn rent, under which minimal rent would be charged. It is likely that a peppercorn rent would be preferable, as this would reduce circular financial flows and reduce operators' overall cost base and capital requirements.

[Management of ownership role by the MCA](#)

As responsibility for the maintenance of the depots would be transferred to the tenant, it is assumed that the role of depot ownership could be assumed by the MCA with two additional FTE staff to manage the leasing arrangements and discharge the landlord's responsibilities.

[3.10.1.4 Fleet](#)

[Overview of asset class](#)

The fleet of vehicles used to deliver a bus operation are fundamental both to the service's efficient delivery, and to the customer experience it provides. Distinctions between different possible vehicles that could be used in delivery of a bus service can be made in the following ways:

- Size and capacity — e.g. midi, single or double-decker; the number of seated and standing passengers; provision for wheelchairs or pushchairs;
- Fuel type — e.g. diesel or electric;
- Engineering standards;
- Environmental standards — e.g. fuel consumption; greenhouse gas emissions;
- Accessibility — ease of use for people who use wheelchairs and people of reduced mobility;
- Model and manufacturer;
- Age;
- Interior specifications and condition — e.g. upholstery, on-board temperature control, Wi-Fi, interior lighting, passenger appliance charging infrastructure (e.g. USB charging); odour; and
- Livery — the external appearance and branding of vehicles.

Different fleets may be used for different routes, either because of differing requirements (for example in relation to vehicle capacity) or as a function of the vehicles that are available at a given time.

[Approach to MCA fleet specification in franchise contracts](#)

The choice of fleet for use on a franchised bus service is of particular relevance to the operator and to the franchising authority, for the reasons shown in Table 75. Analysis is provided in the table on the necessity of the franchising authority maintaining control over each factor.

Table 75: relevance of elements of fleet to different entities

Factor choice vehicle	in of	Entities for which factor relevant	Commentary on relevance	Commentary on necessity for franchising authority to have control over this factor
Vehicle size and capacity	Franchising authority	Contributing factor to capacity on a route		It is important for a franchising authority to be able to determine capacity on a route, including capacity for wheelchairs and for people of reduced mobility, to ensure that the intended service can be provided.
	Operator	May affect procurement and maintenance costs		In practice it is likely that the authority will wish to specify the board vehicle type as either single deck (with a specified length) or double deck.
Fuel type	Franchising authority	May affect cost of franchise payments as a result of fuel price fluctuations if operator is not exposed to cost risk in relation to fuel prices		If a franchising authority is exposed to cost risk in relation to fuel prices, it is likely that the authority will wish to influence the choice of fuel used by a franchisee; or will wish to adapt its commercial structure in light of the proposed fuel.
	Operator	May affect operator's cost base as a result of fuel price fluctuations if operator is exposed to this risk May affect depot capacity and engineering support		If the franchising authority is providing depots and associated fuelling or charging infrastructure and this represents a particular constraint on the depot, it may be necessary for the authority to specify fuel types.
Engineering standards	Franchising authority	May affect customer perception of brand.		It is important for a franchising authority to be able to incentivise effective, reliable delivery of the scheduled bus service.
	Operator	Likely to affect results of an operational performance regime		Assuming however that a robust performance regime is in place it is not, however, necessary for an authority to specify the engineering standards that an operator requires to meet these standards as the operator will be incentivised to deliver through the performance regime and through national DVSA standards.
Environmental standards	Franchising authority	Relevant to delivery of wider environmental commitments		It is important that a franchising authority is able to ensure compliance with the environmental standards required by its policies or by regulation.
Accessibility	Franchising authority	Relevant for the effective delivery of socio-economic objectives		It is important that a franchising authority is able to ensure compliance with the accessibility standards required by its policies or by regulation.
Model and/or Manufacturer	Operator	May affect requirements for training team, spares and supply chain.		It is not typically important for a franchising authority to specify the manufacturer or model of vehicles used on services. On occasion a franchising authority may wish to do so, for example to ensure fleet homogeneity and interoperability. This may be of particular relevance if network change is planned in the course of the franchise agreement.
Age	Franchising authority	May affect brand perception, which affects revenue		While it is important that a franchising authority is able to control factors such as reliability, environmental standards, interior specification and condition, it is not typically necessary for the authority to specify vehicle age unless a brand-new fleet is explicitly sought.
	Operator	May drive reliability, environmental standards, interior specification and condition and similar factors		However, in some circumstances an authority may wish to specify (for example) that new vehicles be used on a particular route or routes in order to highlight the attractiveness of the service to customers.
Interior specifications and condition	Franchising authority	This factor determines on-board passenger comfort which is highly significant factor in the customer experience		It is important that a franchising authority is able to ensure delivery of minimum standards of passenger comfort.
Livery	Franchising authority	This factor affects the overall public and passenger		

Factor choice vehicle	in of	Entities which factor relevant for this is	Commentary on relevance	Commentary on necessity for franchising authority to have control over this factor
			perception of the franchised network, which can drive demand and revenue	It is important that a franchising authority is able to ensure compliance of franchised bus services with its brand and livery standards.
		Operator	This factor may affect assets such as staff uniforms or ancillary equipment.	

On the basis of the analysis in Table 75, above, and on the basis of the commercial principle that where a factor does not need to be specified by a procuring authority it should not be, so as to maximise the scope for operator flexibility and innovation, and hence competitive tension, it is assumed in this Assessment that for Franchising Options A and D (under which franchised bus operators provide the requisite fleets for the services that they operate) the franchising authority, the MCA, specifies through the franchise competition, for each route, as a minimum:

- maximum vehicle age;
- vehicle capacity;
- vehicle environmental standards;
- accessibility standards;
- interior specifications and condition; and
- livery.

It is assumed that bidders' proposed fleets would, in Franchising Options A and D, be:

- assessed as part of bid evaluation during the franchise competition; and
- monitored in-life through the franchise agreement's performance regime.

The approach set out above assumes that an effective performance regime can be introduced into franchise agreements, which will act to incentivise operators with regard to issues such as punctuality and service reliability. If such a performance regime cannot be introduced effectively, it may be appropriate for the MCA directly to specify easily-assessed factors such as vehicle age, which may to some extent be able to act as a proxy for service reliability.

In practice, it would be appropriate for this proposed approach to fleet specification to be subject to ongoing 'lessons learnt' by procurement teams as sequential franchising competitions take place, and it should therefore be considered to be an initial assumption.

3.10.1.5 *Operators' provision of fleet*

Operators' commercial approach to a requirement for provision of fleet

There are several ways in which bus operators bidding for a franchise contract in the South Yorkshire region may seek to provide a fleet, were this required by the franchise competition:

- Operators may already own or lease vehicles not currently used elsewhere that could be deployed in the region, if they are consistent with requirements of the franchise competition (although it is unusual for operators to hold significant numbers of spare vehicles unless they have recently lost a franchise in another area);
- Operators may seek to purchase the existing fleet that operates the routes in the lot in question, if it is (or could be made) consistent with requirements of the franchise competition;
- Operators may seek to purchase another second-hand fleet from elsewhere in the UK that is (or could be made) consistent with requirements of the franchise competition; and
- Operators may seek to purchase a new fleet from elsewhere that is consistent with requirements of the franchise competition.

Under each of these four approaches, the operator may decide to either purchase or lease the fleet.

Feedback from market engagement relating to fleet provision

The approach to fleet has been discussed with current and potential market participants as part of market engagement in developing this Assessment. The findings are summarised below.

Potential market participants typically stated that:

- there is a preference for fleet to be provided by the MCA, because this:
 - removes a barrier to entry (although this barrier to entry is lower than that relating to depots); and
 - reduces the capital intensity of projects.

However, this preference was significantly less pronounced than the preference stated with regard to depots.

- a residual value mechanism is important for reducing the risk of stranded assets at the end of the franchise term or in the event of operator default;
- there is a preference for the MCA's vehicle specification to allow transfer of vehicles between contracts;
- there is currently a low number of used buses in the market; and
- the lead time to provide new buses is around 9 to 12 months.

Market participants that currently operate in the South Yorkshire region typically stated that they would be content to lease vehicles from the MCA if that were the preferred approach.

Analysis of different approaches

Table 76 sets out the advantages and disadvantages of different approaches to fleet provision.

Table 76: advantages and disadvantages of different approaches to fleet provision

	MCA provides fleet	Operator provides fleet
Advantages	<ul style="list-style-type: none"> • Fleet would not represent a barrier to entry for new entrants or SMOs • Cost of capital likely to be lower for the MCA compared to operator • Capital-light projects are likely to result in lower margin requirements for operators, driving down the price • Full control over this asset class, supporting continuity of service at the transition between Operators. • Subject to compliance with subsidy control principles, the MCA could use grant funding to procure the fleet which could improve the affordability challenge 	<ul style="list-style-type: none"> • No capital investment required by the MCA • Fleet provision is not seen as an insurmountable barrier to entry for most operators, so this is not expected to significantly reduce the attractiveness of contracts for new entrants or SMOs who would have to enhance their fleet to meet the minimum standards • Control over asset standards / specification can be enforced through franchise agreement
Disadvantages	<ul style="list-style-type: none"> • Capital investment required by the MCA • Ongoing responsibility for delivery of ownership of fleet by the MCA likely to consume some resource on ongoing basis 	<ul style="list-style-type: none"> • Capital-heavy projects are likely to result in higher margin requirements for operators, increasing the price of contracts for the MCA • Cost of capital likely to be higher for operator compared to the MCA • Makes ongoing provision to successor Operator more complex following contract expiry

Franchising Options B and C entail the fleet of vehicles used by franchised bus operators to deliver franchised bus services being provided to those operators by the MCA. This section considers the commercial implications of such an approach.

Procurement of initial fleet

No legal routes have been identified that would allow the MCA to forcibly acquire the current fleets of vehicles used to operate bus services in South Yorkshire if their owners were not willing sellers.

Three potential routes for the acquisition of an initial fleet of vehicles by the MCA have been identified:

- **Purchase of existing vehicles used to deliver bus services in South Yorkshire**

If the owners of buses used by existing commercial operators in South Yorkshire were willing sellers, then the MCA could negotiate a sale of some or all of those vehicles. Some of the vehicles currently used in the region are dated and do not meet the most stringent environmental standards. If this approach is taken, therefore, a decision would be required as to the characteristics that would be required of any purchased vehicles. For example, a decision may be taken not to purchase any vehicles that are older than 12 years, or do not meet Euro VI standards.

In order to ensure that the full requisite fleet of vehicles is secured, additional second-hand or new vehicles would need to be leased or purchased to replace any existing vehicles not bought.

- **Purchase of alternative second-hand or new vehicles**

If the owners of buses used by existing commercial operators in South Yorkshire were not willing to sell their fleets to the MCA, or some of the vehicles in those fleets did not meet the MCA's requirements, then alternative second-hand or new vehicles could be purchased.

Market engagement conducted in the development of this Assessment indicates that there is currently relatively weak supply of second-hand buses in the UK. If large numbers of vehicles need to be purchased, it appears likely therefore on this basis that new vehicles may be the only deliverable option.

- **Lease of new or used vehicles**

Rather than purchasing new vehicles outright, the MCA could lease vehicles, and then sublease those vehicles to franchised operators. This approach could support creation of a market for bus leasing in the area and could support continuity of service at the point of transition between Operators.

All three of these approaches appear conceptually viable (although the weak supply of second-hand vehicles may in practice inhibit the ability of the MCA to deliver an option that relies on second-hand vehicles), and a decision as to which to pursue could be commenced following a decision to proceed with a franchising option that required the MCA to own vehicles. For the purposes of this Assessment, it is assumed that:

- Following the initial making of a franchise scheme, commercial services run through the service permit regime (discussed in section 3.15.1.5) will not be subject to any new standards — the existing fleet will continue to operate.
- Franchising in South Yorkshire will, by policy choice, require the use of vehicles that meet the following standards from day 1:
 - Euro VI or better environmental standard;
 - Not older than 12 years.

(The roll-out of vehicles that meet these standards across the MCA region will therefore depend on the competition schedule.)

- In addition, in respect of Zero-Emission vehicles, the following assumptions have been made:
 - Between 2027-28 to 2034-35: 30% of all vehicles requiring renewals will be upgraded to ZEBs
 - From 2035-36: 100% of vehicles requiring renewals will be upgraded to ZEBs.

Delivery of fleet ownership role

In options where the MCA provides fleets of vehicles to franchised operators, 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;
- Vehicle procurement, including both initial procurement and an ongoing renewal programme;
- Monitoring of compliance with vehicle maintenance standards;
- Pricing and management of leases to franchisees;
- Ongoing relationship management with lessees;
- Fleet condition monitoring;
- Sale of redundant vehicles;
- Management of transfer between franchisees at the end of franchise agreements; and
- Financial management and forecasting.

Two options have been identified regarding the way in which the MCA could deliver the ownership roles enumerated above:

- the MCA could own the fleet directly, and an internal team within the MCA could be established to deliver those roles; and
- a separate legal entity ('SYMCABusCo') could be established under sole legal ownership of the MCA as a special purpose vehicle (SPV), to own the vehicles and deliver associated responsibilities.

Under both approaches, some or all of the responsibilities could be contracted out to third parties.

Table 77 analyses the potential advantages and disadvantages of these two possible ownership models.

Table 77: potential advantages and disadvantages of different fleet ownership structures for the MCA

	Internal team	SYMCABusCo (SPV)
Potential advantages	<ul style="list-style-type: none">• Simpler approach with less governance and legal restructuring required• Ability to leverage existing internal resources and expertise	<ul style="list-style-type: none">• Clear remit and management focus on delivery of ownership role effectively• Clear financial and accounting separation between bus fleet and wider MCA finances, including through the ring-fencing of financial risk• Potential ability to make the ownership role self-funding by including admin costs in lease charges to operators
Potential disadvantages	<ul style="list-style-type: none">• Potential lack of management or team focus if the internal team also has responsibilities for regulatory oversight or other functions	<ul style="list-style-type: none">• Fleet remains on MCA balance sheet• Requires resources and time to establish the SPV• Requires ongoing governance and oversight of the SPV• Potential for administrative inefficiencies on an ongoing basis• May require additional coordination between the SPV and the MCA for regulatory oversight or other functions

Detailed consideration as to whether to establish an SPV or to deliver fleet ownership roles through an internal team could be commenced following a decision to proceed with a franchising option that required the MCA to own vehicles. For the purposes of this Assessment, on the basis of the advantages and disadvantages set out in Table 77, it is assumed that the role is delivered through an internal team and no SPV is established.

Terms of lease to operators

In Franchising Options B and C, fleet owned by the MCA is leased to franchised bus operators. The nature of these leases would need to be developed following a decision to pursue one of these two Franchising Options. A principal consideration in developing these lease terms is a decision regarding whether a commercial rate should be charged by the MCA to the operators for the vehicles, or whether the vehicles should be leased at a peppercorn rate (effectively free of charge) to franchised operators.

Potential advantages and disadvantages of the two approaches are set out in Table 78.

Table 78: advantages and disadvantages of different approaches to the lease of vehicles by the MCA to operators

	Commercial rate	Peppercorn
Potential advantages	<ul style="list-style-type: none"> • Incentivises operators during the contract term to reduce the number of vehicles they require to deliver franchised services, for example through operational and engineering efficiencies • Means that franchise payments more accurately reflect the cost of running services • May allow a SYMCABusCo (if such a structure is used) to become self-funding 	<ul style="list-style-type: none"> • Reduces franchise payments required by operators • Reduces operators' working capital requirements • Eliminates arguably unnecessary circular funding flows • Reduces operator cost base, which may reduce profit sought. • Unlikely to raise issues under the UK's Subsidy Control Regime.
Potential disadvantages	<ul style="list-style-type: none"> • Increases franchise payments required by operators • May increase operators' working capital requirements • Creates circular flows of funding that arguably deliver relatively low benefits • Operators may seek to secure a profit margin on the cost of fleet lease. 	<ul style="list-style-type: none"> • Makes it more challenging to identify true costs of franchise services to the MCA • Fails to incentivise operators to return superfluous vehicles to the owner if they are identified during the contract, potentially increasing overall number of vehicles required

For the purposes of this Assessment, it is assumed on the basis of the advantages and disadvantages set out in Table 78 that a peppercorn lease is granted from the MCA to franchised bus operators in respect of the leased fleets in Franchising Options B and C.

Potential need for physical storage of fleet under Franchising Option C

With regard to Franchising Option C, in which the MCA provides a fleet and operators provide depot facilities, consideration would need to be given to the precise timing of the delivery of new fleet, as it may be challenging for the MCA to store new vehicles that are delivered in advance of the first franchise tranche being awarded and mobilised (and the necessary depots therefore being available). It may be possible to manage this scenario by leasing new fleet to incumbent operators in advance of the mobilisation of franchising contracts. If this is not possible, and in the absence of suitable depots being available to receive delivery of new vehicles, non-negligible costs may be incurred in storing, maintaining and protecting (from vandalism or the environment) those vehicles.

3.10.1.7 Zero-emission buses

The fleets of vehicles that currently operate bus services in South Yorkshire are predominantly diesel-fuelled, although 23 electric single-deck buses are being introduced for the 221 and 22x routes which are run from the Rawmarsh depot in Rotherham, and a further 4 electric single-deck buses are being introduced for the city centre shuttle bus service in Sheffield¹⁰².

¹⁰² SYMCA Full Business Case: Zero Emission Bus Regional Areas (ZEBRA) (<https://southyorkshire-ca.gov.uk/getmedia/4340a3fb-ef6a-479b-a7a1-5f59cb2755ca/ZEBRA-SYMCA-with-appendicies.pdf>)

The MCA has an ambition for a fully zero-emission bus fleet by 2035¹⁰³. The mechanisms available to the MCA to deliver this ambition vary in line with the different options under consideration in this Assessment, as set out in Table 79.

Table 79: mechanisms available to the MCA to deliver a zero-emission fleet by 2035, by option

Option	Mechanism available to the MCA to realise the ambition of a zero-emission fleet by 2035
1 Enhanced Partnership	<p>The MCA has no mechanism to compel commercial operators to adopt zero-emission fleets by 2035.</p> <p>The MCA may be able to negotiate with operators on a commercial basis to adopt zero-emission vehicles by 2035, as has been the case with the 221 and 22x routes described above.</p>
2 Franchising Option A (depots and vehicles owned by operators)	<p>Under this option, the MCA would have the power to specify zero-emission buses as a term of its franchise contracts. Bidders would consequently be obliged to provide compliant fleet in their proposals, and would need to make the necessary modifications to depot and distribution network infrastructure to accommodate the charging and maintenance of the vehicles. Bidders' prices would be likely to increase commensurately with the additional costs and risks that they perceive they would incur in delivering these measures.</p>
3 Franchising Option B (depots and vehicles owned by the MCA)	<p>Under this option, the MCA would be able to procure a fleet of zero-emission buses before the 2035 deadline and provide them to operators for franchised bus services.</p> <p>The MCA would, under this option, be responsible for making the necessary modifications to its depot and distribution network infrastructure to accommodate the charging and maintenance of its vehicles.</p>
4 Franchising Option C (depots owned by operators, vehicles owned by the MCA)	<p>Under this option, the MCA would be able to procure a fleet of zero-emission buses before the 2035 deadline and provide them to operators for franchised bus services.</p> <p>Operators, as owners of the depots, would be responsible for making the necessary modifications to its depot and distribution network infrastructure to accommodate the charging and maintenance of its vehicles.</p> <p>If the likelihood of the introduction of a fleet of zero-emission buses is made clear to bidders at procurement, then it is likely that bidders' prices would increase commensurately with the additional costs and risks that they perceive they would incur in delivering the necessary infrastructure modifications.</p> <p>It is likely that there would be complex commercial negotiations required to deliver zero-emission buses in-contract under this option, as it is unlikely that operators would accept commercial terms that could require them to be compelled to upgrade depot infrastructure during contract terms.</p>
5 Franchising Option D (depots owned by the MCA, vehicles owned by operators)	<p>Under this option, the MCA would have the power to specify zero-emission buses as a term of its franchise contracts. Bidders would consequently be obliged to provide compliant fleet in their proposals.</p> <p>The MCA, as owner of the depots, would be responsible for delivery of necessary infrastructure upgrades to support a zero-emission fleet.</p>

For the purposes of this Assessment, it is assumed that from 2035, buses that are:

- delivered through newly-let franchising contracts; and/or
- delivered as part of the renewal of existing fleet

will be zero-emission. This is consistent with statements by major UK bus operators that their bus fleets will be zero-emission by 2035¹⁰⁴. In order to support the ambition of a zero-emission fleet, the MCA assumes that between 2027-28 and 2034-35, 30% of all vehicles requiring renewals will be upgraded to zero-emission buses.

3.10.1.8 ITS

¹⁰³ SYMCA Full Business Case: Zero Emission Bus Regional Areas (ZEBRA)

¹⁰⁴ See for example statements by Stagecoach (<https://www.stagecoachbus.com/promos-and-offers/national/sustainability>) and First Group (<https://www.firstgroupplc.com/news-and-media/latest-news/2021/15-04-21a.aspx>)

As ITS equipment is typically physically integrated with the bus fleet and maintained alongside it, it is assumed that the franchise approach to ITS will follow the approach to fleet in each option. In other words, in Franchising Options A and D, in which operators own the fleet it is assumed that they will also provide and own the requisite ITS; and in Franchising Options B and C in which the MCA owns the fleet, it is assumed that the ITS is provided to the operators, already integrated with the fleet.

3.11 LOTTING STRATEGY

3.11.1.1 Introduction

In the context of a bus franchise, 'lotting' refers to how the bus network is divided into separate packages, each of which can be tendered in separate competitions. Decisions relating to lotting are material in the delivery of several of the MCA's objectives for reform of the bus network, including affordability, value for money, increasing the presence of operators in the bus network (including SMOs), and ensuring deliverability of the Franchising Scheme and each individual contract.

Lots are typically defined in terms of bus routes: it is unlikely to be credible to split one bus route into multiple lots, given the typical need to ensure a well-spaced service which relies on a single point of operational control for a route¹⁰⁵. Conceptually, therefore, a minimum lot size would comprise a single bus route; a theoretical maximum lot size could encompass all bus routes in the South Yorkshire area in a single contract — although neither of these approaches is in practice likely to represent an effective commercial strategy, for reasons discussed below.

The factors in Table 80 have been identified as being relevant to the determination of an appropriate lotting strategy.

Table 80: factors relevant to the determination of a lotting strategy for franchising options

Factor	Commentary
1 Efficiency and economies of scale	Effective lotting can drive reductions in costs by supporting efficiencies and allowing operators to benefit from economies of scale. For example, it is likely to be more efficient to run a single depot for several bus routes than to run many smaller depots that do not reach the critical mass necessary to achieve economies of scale.
2 Competitive market for bus services	Effective lotting may stimulate competitive procurements, with a greater number of bidders for lots and facilitate greater SMO involvement. This is likely to drive lower costs and a greater degree of innovation in the delivery of services.
3 Affordability	Improved competition through effective lotting may, at the margins, reduce costs to the MCA associated with the delivery of franchise payments (although this is unlikely to make a material difference to overall affordability of the scheme for the MCA). However, multiple lots may also drive costs up as a result of one-off costs associated with procurement, and with on-going additional costs relating to the management of multiple contracts for bus operations.
4 Risk of operator failure	Effective lotting may reduce the risks to the MCA relating to the failure of an operator, by seeking to ensure that no single contract is 'too big to fail'.
5 SMO participation	Effective lotting may support the MCA's objective to diversify the market for bus operators by providing lots that are particularly attractive to SMOs in the region.
6 Transition to franchised network	Effective lotting will be essential to support a transition from today's commercial bus network to a future fully-franchised bus network, as described in section 3.15.
7 MCA capacity and capability	An approach with multiple lots is likely to require a greater level of resourcing from the MCA, both in relation to the multiple procurements required and to the concurrent management of multiple contracts required in life.
8 Ability to test alternative approaches	Lotting may allow the MCA to experiment with different approaches to a number of elements of bus franchising. This may include, for example, on the MCA side, different approaches to procurement, contract management or performance incentivisation. It may also allow the MCA to observe the relative performance of bus operators taking a variety of different approaches in their delivery of bus services, to learn lessons as to what works effectively, which may be deployed by the MCA in future procurements.

A successful lotting strategy will need to effectively balance considerations relating to the eight factors identified in Table 80.

¹⁰⁵ Even in London where separately-named bus routes are run on similar routes during the day and overnight (e.g. the '35' route and its night-time parallel the 'N35'), Transport for London documents indicate that the two routes are typically let in a single tranche to a single operator. (Source: <https://tfl.gov.uk/forms/13923.aspx>, retrieved 24 July 2023)

3.11.1.2 Overview of conceptual approaches to lotting

Three conceptual approaches to grouping bus routes together into lots have been identified and analysed to explore the relative advantages and disadvantages of each. They are not mutually exclusive. They are shown in Table 81, below.

Table 81: conceptual approaches to lotting

Approach	Geographical	Route-based	Depot-led
Description	Dividing lots on the basis of geographical areas (e.g. districts of Sheffield, Barnsley, Doncaster and Rotherham and their associated services)	Tendering for each route, or a cluster of routes.	Dividing lots based on existing depots and their associated services. "One large franchise per strategic depot".
Advantages	<ul style="list-style-type: none"> Greater integration of bus service within area which could make it easier to coordinate Greater economies of scale across broader area – may be appropriate if depots and service market aligns with districts Potential for greater consistency in service quality in area 	<ul style="list-style-type: none"> Greater competition can be facilitated as tenders can be adapted to route idiosyncrasies (e.g. high demand services) Potentially easy to manage and monitor performance – greater transparency More flexibility to change structure if routes evolve Easier to facilitate SMO participation 	<ul style="list-style-type: none"> Greater coherence with existing network – good for transition to Franchising Easier to sub-divide lots Optimal if depots are well-located and capacity is well-utilised Optimal if depots are purchased by the MCA from existing private operators
Disadvantages	<ul style="list-style-type: none"> Potentially less competitive if areas are large Potentially more inflexible May require multiple depots to be transferred to an operator Challenging for SMOs to enter the market May be difficult to sub-divide services if they are many cross-district services 	<ul style="list-style-type: none"> Potential for fragmentation – inconsistent service across areas May be more complex to coordinate network overall. 	<ul style="list-style-type: none"> May limit potential for network changes Potentially more inflexible as driven by location of assets May not be efficient if existing depot locations are not optimal

3.11.1.3 Feedback from market engagement relating to lotting

In market engagement, external Operators that do not currently operate in South Yorkshire expressed a preference for area or geographical-based lotting, which they believed should be led by depot location, e.g. one depot per package.

This view was shared by Operators that currently operate in the South Yorkshire market.

3.11.1.4 Approach to Cross-boundary services

Some bus routes that operate in the South Yorkshire region also cross into other neighbouring regions. It is therefore necessary to determine whether or not those routes will be subject to a potential MCA franchising scheme, or are assumed to operate through the service permit regime that is described further in section 3.15.1.2.

For the purposes of this Assessment, an initial assumption is taken that bus routes that:

- are funded by a neighbouring authority, or

- are, by mileage, mostly outside the South Yorkshire region

will not be franchised and will instead be subject to the MCA's service permit regime in respect of mileage operated within the South Yorkshire region. Other services that operate across South Yorkshire's boundaries are assumed to be franchised. If a franchising scheme is pursued, the MCA will enter into further dialogue with neighbouring authorities to reach agreement as to the services that will be subject to franchising.

3.11.1.5 Assumed approach to lotting

On the basis of the analysis set out in Table 81, the results of market engagement summarised in section 3.11.1.3, and following discussions with MCA staff and advisors to support development of this Assessment, an assumed approach to lotting of a franchise scheme has been developed that combines the 'depot-led' and 'geographical' approaches identified in Table 81. This assumed approach may be reviewed during the design phase when further work on a procurement strategy is conducted (as further discussed in section 3.14) following a decision to make a Franchising Scheme.

The assumed approach uses the concepts illustrated in Figure 42 and explained further below.

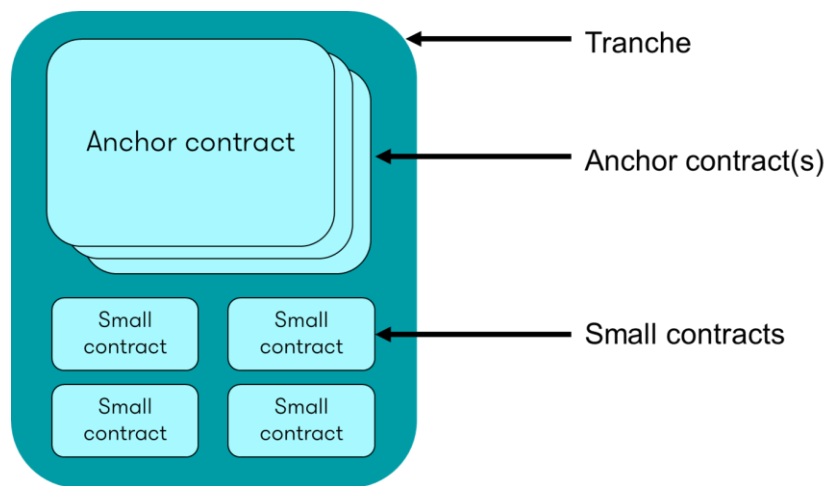


Figure 42: concepts used in the assumed approach to lotting

In Figure 42,

- a tranche refers to multiple contracts let simultaneously or in close succession. One tranche of contracts would be let at a time, and there would be multiple tranches across the MCA region. Within each tranche there would be 'anchor' contracts and between zero and five small contracts — the number of these small contracts would be limited to avoid excessive management attention being diverted from the anchor contracts.
- The 'anchor' contracts are the major contracts in each tranche with a high peak vehicle requirement (PVR). There may be more than one anchor contract per tranche.
 - In Franchising Options B and D, the depots required for the anchor contracts would be provided to the successful operator by the MCA.
- 'Small' contracts would have PVRs of up to 40, although most will be significantly smaller. They are relatively simple contracts compared to the 'anchor' contracts. Given the relatively small scale of these contracts, the depots would not be provided to the successful operators by the MCA under any of the options.

It is assumed that three tranches would be let, each one of which would have as its anchor contracts that are currently operated from two or three of the seven strategic depots identified in section 3.5.1.2 of this Commercial Case.

The 'small' contracts in each tranche would comprise services that are run from geographically proximate depots to the strategic depots for each tranche.

Table 82 below sets out the tranches that have been assumed for the purposes of this Assessment.

Table 82: assumed tranches

Tranche number	Anchor contracts <i>Services currently stabled at:</i>	Indicative PVR
1	Ledger Way (Doncaster) Olive Grove (Sheffield)	375 - 425
2	Barnsley Rawmarsh (Rotherham)	150 - 200
3	Holbrook (Sheffield) Ecclesfield (Sheffield) Halfway (Sheffield)	150 - 225

Table 82 shows that the assumed tranches range in scale from a PVR of 150 - 200 to 375 - 425.

In order to let each tranche, the MCA will need to design, procure and mobilise it. Table 83 sets out indicative activities that are envisaged in each of these three phases.

Table 83: stages in delivery of each tranche

Stage	Indicative activities include
Tranche design and preparation	<ul style="list-style-type: none"> • Design scope of each contract • Design each contract specification • Model and analyse financial implications • Manage initial governance • Tailor template contract(s)
Procurement	<ul style="list-style-type: none"> • Initial market engagement • Prequalification • Take procurement through relevant stages — ITT/ITN • Manage clarification questions • Bid compliance checks • Cost and quality evaluation • Seek governance approval for contract • Award contract(s) • Feedback to unsuccessful bidders
Mobilisation	<ul style="list-style-type: none"> • Work with successful bidders to mobilise services

3.11.1.6 Sequencing of tranches

If a decision to make a Franchising Scheme is made, the MCA will need to determine in what order to let tranches. Factors affecting this decision are likely to include:

- the nature of the bus network in the geographical region relevant to each tranche;
- affordability and financial analysis;
- availability and cost of depots (where relevant);
- analysis of the impact of different approaches on the commercial market, as discussed in section 3.15; and

- the MCA's capability and capacity.

In order to develop assumptions for this Assessment, several different orderings were considered. The options considered including prioritising depots on the basis of ease of acquisition; and by highest or lowest profitability of associated routes. The MCA's working assumption is that the ordering of the tranches will be that shown in the list below.

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

3.12 CONTRACT DURATION AND END-OF-CONTRACT ARRANGEMENTS

This section considers the duration of franchise contracts that would be let by the MCA under a Franchising Option, and considers contractual terms relating to the end of contracts. Contracts may end either on the expiry of their term, or early in the event of operator default or insolvency.

3.12.1.1 Factors relevant to contract duration

A number of factors have been identified as being relevant to decisions relating to the duration of franchising contracts that will be let in franchising options. These factors are summarised in Table 84.

Table 84: factors relevant to consideration of contract duration in franchise options

Factor	Commentary
1 MCA capacity	It is important to ensure that workload remains within the capacity constraints of the MCA.
2 Operator risk	Longer contract terms carry greater levels of uncertainty than shorter contract terms. Operators are therefore likely to perceive greater cost risk in longer contract terms, and may increase their prices and/or margin accordingly.
3 MCA risk	Longer contract terms carry greater levels of uncertainty than shorter contract terms. Transferring cost risk away from the MCA for longer contract terms may therefore be of greater value to the MCA than for shorter periods.
4 Legal constraints	The maximum length for a bus services contract is 10 years (as per Article 4(3) of Regulation (EC) No 1370/2007 as transposed into UK law).
5 Operator capital requirements	Longer contract durations are likely to be more appropriate for contracts that require greater levels of capital investment by operators as operators will typically (and in the absence of a residual value mechanism) seek to recover capital invested over the contract term.
6 Residual value mechanism	An effective Residual Value Mechanism (as discussed in 3.12.1.5 below) may counterbalance factor 5 above, by guaranteeing a certain level of capital will be returned to the operator at the contract end.
7 MCA intentions with regard to network change	While in-contract network change is likely to be possible to some extent as discussed in section 3.8.1.3, significant network redesign is likely to be more easily effected with new franchise agreements.
8 Cost of procurement	Procurement of franchise agreements carries costs for both the MCA and potential operators in submitting bids. Unnecessarily frequent competitions are therefore likely to be poor value for money.
9 Time to implement and enjoy the benefits of operational change	Operational change, which may be required to deliver envisaged franchise efficiencies, may take many months or potentially years to embed effectively. A franchise contract should therefore be of sufficient duration to allow a good and efficient operator to deliver any envisaged operational change, and then adequate time to enjoy the efficiency or operational benefits that such change delivers.

3.12.1.2 Feedback from market engagement relating to contract duration

Market engagement with bus operators conducted during the development of this Franchise Scheme Assessment suggested that, with regard to contract length:

- External Operators and Operators who already operate in South Yorkshire were generally in agreement that a contract needed to be over 5 years to enable the operator to cover mobilisation costs, with several suggesting a '5 + 2' year contract (5 years initial term with a possible extension of 2 years dependent on performance). Some external operators highlighted that a 7-year contract would align with an expected battery life for electric vehicles.

- External operators suggested that contract length would need to be longer where capital investment is required, unless a residual value mechanism was in place to mitigate this residual value risk.
- Operators were generally in agreement that a contract length over 10 years, even if it were permissible under the regulations, would not be attractive due to the risk of significant technology / price changes in this period. However, this risk could partly be mitigated through cost rebasing mechanisms.

3.12.1.3 *Analysis of implications of contract duration for different Franchising Options*

The four Franchising Options have been analysed in light of the factors identified in Table 84 and the market engagement described above. The following observations have been drawn:

- Franchising Option A, under which franchised operators provide both depots and vehicles, would require very significant capital investment by the operators to deliver those assets. They are likely also to require two years to mobilise following contract award, as discussed in section 3.10.1.2. It appears likely that under this option long contract durations of seven to ten years would therefore be appropriate.
- Franchising Option B, under which the MCA provides both depots and vehicles, requires significantly less capital investment by operators. A relatively short core term of around five years may therefore be appropriate. As discussed in section 3.9.1.1, it may be appropriate to offer a performance-based extension to the contract, which can be assumed to be two years. This would mean that the total franchise term available to operators would be seven years.
- Franchising Option C, under which the MCA provides vehicles and operators provide depot facilities for those vehicles, would require significant capital investment by the operators to deliver those depots. They are likely also to require two years to mobilise following contract award, as discussed in section 3.10.1.2. It appears likely that under this option long contract durations of seven to ten years would therefore be appropriate.
- Franchising Option D, under which the MCA provides depots and operators provide vehicles, requires significantly less capital investment by operators as they do not have to provide depot facilities and (with an effective residual value mechanism) are likely to face minimal risk with regard to stranded assets at the end of the contract. A relatively short core term of around five years, as for Franchising Option B, may therefore be appropriate. As discussed in section 3.9.1.1, it may be appropriate to offer a performance-based extension to the contract, which can be assumed to be two years. This would mean that the total franchise term available to operators would be seven years.

3.12.1.4 *Contract duration: conclusions*

On the basis of the discussion in this section 3.12, and of discussions held during the development of this Assessment with MCA representatives and advisors, conclusions were reached regarding assumed contract duration which are summarised in Table 85.

Table 85: assumed contract lengths for each option

	Enhanced Partnership	EP Plus	Franchising Option A	Franchising Option B	Franchising Option C	Franchising Option D
Assumed contract length	Not applicable	Not applicable	Ten years No extension	Five-year core term 2-year possible extension on the basis of either strong performance or MCA discretion	Ten years No extension	Five-year core term 2-year possible extension on the basis of either strong performance or MCA discretion

3.12.1.5 *Transfer of assets and Residual value mechanisms*

One of the key risks for franchised bus operators at the end of a contract is the potential for stranded assets. Stranded assets are assets that cannot be transferred to another contract or operator, and are therefore left unused or disposed of at the end of the contract term. This can be a significant risk for operators, particularly if they are required by contract terms to invest in expensive assets such as bus fleets or, theoretically, depots. Operators' perceived risk of stranded assets can also increase prices offered by operators or disincentivise them to bid for contracts, as they may seek to recover the capital costs of these over the course of the contract period offered, which may be significantly shorter than the asset's expected life.

Residual value mechanisms (RVMs) can address this risk for operators, thus increasing the attractiveness of the contract for potential bidders. An RVM would typically be included in a franchise agreement, and is designed to provide certainty to franchised bus operators that they will receive a certain level of return on specific investments at the end of the contract term. This mechanism is designed to incentivise operators to invest in assets and maintain them over the duration of the contract (and, further, to bid for contracts that require them to invest in assets), by giving them confidence that they will be able to recoup some of their investment at the end of the term. This can ultimately benefit the franchising authority and passengers, by encouraging greater investment in assets and maintaining a competitive market for bus services.

RVMs can take different forms, but typically involve a calculation of the value of the asset at the end of the contract term, which is then paid to the operator. The mechanism can be designed to take into account factors such as the age of the asset, its condition, and the market value for similar assets.

While RVMs can therefore to some degree overcome the challenges for MCA of options that require operators to invest in assets, it has been noted that:

- potential bidders for franchised bus contracts may be wary of an RVM if the details of the specific mechanism are untested and/or unclear, as they may be unsure of the level of return they will receive at the end of the contract term or lack confidence that it will work as designed. This can result in higher prices being offered by operators despite the existence of an RVM, as they seek to mitigate their risk and ensure a return on their investment. To address this issue, it would be important, were the MCA to choose to use an RVM, to design a mechanism that is clear and transparent, and with engagement with potential bidders during the design process. This may help to build confidence among potential bidders.
- while RVMs for fleet are relatively common across the transport sector, no precedent has been identified during work on this Assessment of an RVM being offered to bidders on an asset that is not clearly specified. This is potentially at odds with the approach envisaged in Options A and C (and discussed in section 3.10.1.2) whereby operators are able to select their own depot facilities for delivery of franchised services. This is because it would expose the MCA through procurement to a future liability in respect of a depot that may, for example, prove to be operationally suboptimal or inconsistent with the MCA's future ambitions for network redesign.

For this latter reason, it is unclear that an RVM can overcome the challenges associated with a requirement for operators to provide their own depot facilities.

3.12.1.6 *Transfer of staff between operators*

The Secretary of State's guidance in respect of the Bus Services Act 2017 recognises that where franchising is introduced, there may be a need for staff to transfer to new operators who have won local service contracts to provide franchised bus services. In recognition of the fact that it is not entirely clear whether the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) would apply to the franchising scenario, particularly when franchising is first introduced, the Bus Services Act makes specific provision for TUPE to apply to these situations. This is intended to 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.

Regulations that have been made to support the Bus Services Act set out further detail regarding the processes to be followed when applying TUPE¹⁰⁶.

The guidance requires that:

- The franchising authority should in the first instance look to reach agreement with the existing local operators who are affected by franchising, and local employee representatives about the criteria to be applied when determining which staff are 'principally connected' with the affected local services and therefore in scope for TUPE and potential transfer to a new operator. This determination of whether employment is 'principally connected' could be made on the basis of the amount of time an employee spends working on services that will be affected by franchising, or on whether the staff member forms part of a particular group of employees that work on certain services. At the start of the process towards reaching any agreement, Regulations require the franchising authority to publish a notice setting out:
 - the criteria by which they propose to determine whether a member of staff is 'principally connected' with the provision of particular services and should therefore transfer under TUPE;
 - the consultation process and agreement sought;
 - the time period over which the consultation process will take place; and
 - what constitutes agreement between the parties.
- The franchising authority must then consult with the relevant local employers and employee representatives, with the aim of reaching agreement and publishing a final notice setting out the agreed criteria by which to determine whether staff members are in scope for TUPE and should transfer. The authority should engage with affected local operators and employee representatives as early as possible in the process and ensure that sufficient time is given to the consultation, bearing in mind the complexity of the proposed franchising scheme and potential for staff to be transferred.
- The Regulations provide that where there is no agreement, the determination as to whether employees are principally connected is to be based on whether such employees spend at least half their working time assigned to affected services. However, the guidance states that this provision should only be used if the authority is content that agreement cannot be reached between the three parties.
- Once the authority, operators and employee representatives are in agreement about the staff who should transfer, a process should be undertaken to determine where they should transfer to i.e. which employees should transfer to each individual local service contract. The Regulations require authorities to consult affected operators and employee representatives about the proposed 'allocation arrangements' – the plan which sets out which employees should transfer to which local service contract.

In the event that the MCA pursues one of the Franchising Options A to D, the processes and steps required by guidance and legislation including those described above will be followed.

3.12.1.7 Pensions

All affected employees who transfer as a result of TUPE when franchising is introduced must, under the Regulations, be provided with access to a 'broadly comparable' pension scheme. The Regulations set out the requirement placed on the new employer of transferred employees to obtain a pension statement.

A Fellow of the Institute and Faculty of Actuaries must certify that the new employer's pension scheme offers the transferred employees, rights to the same or broadly comparable pension benefits as they had with the former employer.

¹⁰⁶ The Franchising Schemes and Enhanced Partnership Schemes (Application of TUPE) (England) Regulations 2017

It is the responsibility of the franchising authority to ensure contracts are made on the basis that bidders commit to providing broadly comparable pension schemes. The MCA will therefore require incoming Operators through its franchise agreement employment and pension protection for employees of former Operators who choose to transfer to incoming Operators. This means that current bus operator employees who transfer will, as a minimum, retain their current employment rights, including their existing pension rights.

The MCA requested information from incumbent Operators in respect of their pension schemes during the development of this Assessment. Only one response was received from a major operator, which stated that its main Pension Scheme is an own-Trust arrangement. The operator also noted that:

A number of employees employed in the provision of local services in the area are active contributors to the Greater Manchester Pension Fund (GMPF), a Local Government Pension Scheme (LGPS). With effect from 1 April 2023, the employer contribution rate to this Scheme on behalf of these employees will be 52.2% of Pensionable Salary. This contribution rate is determined triennially by the scheme's actuary, and is expected to increase over time as the population ages.

In the event that the MCA pursues one of the Franchising Options A to D, the MCA will have the right to request more detailed information in respect of the employment and pension rights of potential transferring employees, including from those Operators that provided a nil return in respect of the information request made during the development of this Assessment. The processes and steps required by guidance and legislation including those described above will be followed.

3.12.1.8 *Early termination of franchise agreements*

As described in section 3.8.1.3 of this Commercial Case, the Franchising Options developed in this Commercial Case envisage that cost risk will be transferred by franchise agreements to bus operators. Bus operators are therefore assumed to seek to price their bids for bus services contracts to reflect the volatility in costs that they anticipate that they will face, while also both generating a sufficient profit margin and putting forward to the MCA a competitive price offer.

It is possible that bus operators will, in bidding, underestimate the costs that occur in-life or (where a performance regime that drives fee levels is in use) the franchise payments that they will receive from the MCA. Where this is the case for extended periods and/or across multiple franchises, or where the operator is facing financial pressures from other sources, it is possible that operators will face insolvency as the contractualised franchise payments made by the MCA will be insufficient to cover the costs of operating the contractualised bus services.

In the event that an operator becomes insolvent, it may therefore be unable to continue to deliver its franchised bus services. This would mean that in order to ensure the continuation of bus services for the residents of South Yorkshire, the MCA would need to take commercial steps to replace the insolvent operator.

It is also possible that a franchised bus operator defaults on a contract by consistently failing to provide the services that have been contracted — for example, by failing to meet service KPIs — and as a result is terminated. In such circumstances, it is likely that similar steps to those necessary in the event of operator insolvency would be required.

In order to avoid and mitigate these risks, the MCA could:

- seek capital guarantees or bonds in relation to each franchised operator, that could fund the continuation of services (or the reletting of the relevant franchise) in the event of operator insolvency;
- monitor operators' financial position on an ongoing basis as a condition of a franchise agreement, so that early warning of possible future default can be given;

- include provision in franchise agreements for operators who are facing insolvency or default to renegotiate franchise terms;
- include provision in franchise agreements to allow the MCA to require franchised operators to take on small numbers of additional routes, in the event of other operators' insolvency or default;
- include in franchise agreements a mechanism to transfer assets (where possible) and staff from an insolvent or defaulted operator to a new operator to enable continuity of services;
- develop an internal strategy for the management of operator insolvency or default, in advance of need.

3.13 SUMMARY OF DEVELOPMENT OF OPTIONS INTO COMMERCIAL MODELS

Table 86 summarises the commercial approach for each of the options under consideration that has been developed in the preceding sections.

Table 86: summary of commercial characteristics of options for reform

	Reference Case (EP)	EP Plus	Franchising Options			
			Franchising Option A	Franchising Option B	Franchising Option C	Franchising Option D
Cost risk	Can only sit with bus operators	Can only sit with bus operators	Transferred to bus operators Exceptions (e.g. for inflation) to be considered by the MCA at the point of contract design.			
Revenue risk	Can only sit with bus operators	Can only sit with bus operators	The MCA. Depending on design of the performance regime, operator may be incentivised to drive and capture revenue.			
Fares and ticketing	Operator, with multi-operator ticketing provided through TravelMaster	Unified ticketing. Operators would be compensated for loss of revenue associated with their own ticketing products.	The MCA Any tickets sold by bus operators or other third parties would be sold on behalf of the MCA			
Revenue protection	Operator	Operator	Operators provide 'first line of defence' through franchise agreement. MCA to oversee, monitor and assure operators' revenue protection activities			
Bus and depot staff employment	Operator	Operator	Operator			
Network design	Operator, in discussion with the MCA through Enhanced Partnership	Operator, in discussion with the MCA through Enhanced Partnership. It is assumed that there is no network shrinkage compared to April 2023.	MCA, drawing on local operator knowledge Efficient network design potential may be undermined if depots are not provided by the MCA			
Service specification and timetabling	Operator in discussion with members of Enhanced Partnership	Operator in discussion with members of Enhanced Partnership	The MCA Potential for minor adjustments to be made through negotiation as part of procurement process			
Performance monitoring and enforcement	Operator and the MCA	Operator and the MCA	The MCA Operators are responsible for delivery against contractually-mandated standards and are responsible for provision of performance data to the MCA			

	Reference Case (EP)	EP Plus	Franchising Options			
			Franchising Option A	Franchising Option B	Franchising Option C	Franchising Option D
Marketing and branding	Operator, with scope for potential future integrated branding agreed	Buses fully rebranded. The MCA pays full costs for branding existing vehicles. Operators fund the branding of new fleet as part of their renewals programme.	The MCA to design and own brand Operators to deliver brand standards such as livery and interior specification There may be scope for low-level operator branding on franchised buses			
Customer service	Operator, with the MCA contact centre	Operator, with the MCA contact centre	The MCA Potential for second-tier elements (e.g. lost property) to be provided by operators as specified in franchise agreements.			
Depot operation and maintenance	Operator					
Depot renewal and enhancement	Operator, with scope for the MCA to contribute to retrofitting	Operator, with scope for the MCA to contribute to retrofitting	Operator, with scope for the MCA to contribute to retrofitting	the MCA, in coordination with operator(s)	Operator, with scope for the MCA to contribute to retrofitting	the MCA, in coordination with operator(s)
Fleet operations and maintenance	Operator					
Fleet renewal	Operator, with scope for the MCA to contribute funding in respect of desirable specification	Renewal and upgrade of fleet assumed. Portion of fleet costs covered by the MCA and rest operators (e.g. 50%-50%)	Operator, with scope for the MCA to contribute funding in respect of desirable specification	The MCA, in coordination with operator(s)	The MCA, in coordination with operator(s)	Operator, with scope for the MCA to contribute funding in respect of desirable specification
ITS	Operator, with scope for the MCA to contribute funding in respect of desirable specification	Operator, with scope for the MCA to contribute funding in respect of desirable specification	Operator, with scope for the MCA to contribute funding in respect of desirable specification	The MCA, in coordination with operator(s)	The MCA, in coordination with operator(s)	Operator, with scope for the MCA to contribute funding in respect of desirable specification
Contract length	Not applicable	Not applicable	Ten years	Five-year core term 2-year possible extension on the basis of either strong performance or MCA discretion	Ten years	Five-year core term 2-year possible extension on the basis of either strong performance or MCA discretion
Margin	10% of costs	10% of costs	Dependent on commercial performance and competition at procurement. For modelling, a margin of 11.5% of costs	Dependent on commercial performance and competition at procurement. For modelling, a margin of 7.5% of costs has been assumed.	Dependent on commercial performance and competition at procurement. For modelling, a margin of 11.5% of costs has been assumed.	Dependent on commercial performance and competition at procurement. For modelling, a margin of 8.5% of costs has been assumed.

	Reference Case (EP)	EP Plus	Franchising Options			
			Franchising Option A	Franchising Option B	Franchising Option C	Franchising Option D
			has been assumed ¹⁰⁷ .			

3.14 PROCUREMENT AND CONTRACT MANAGEMENT STRATEGY FOR BUS SERVICES

3.14.1.1 Introduction

Much of the discussion in the preceding sections of this Commercial Case relates to the scope and commercial terms of the franchising contracts envisaged under Franchising Options A to D. Successful delivery of any of these options in a cost-efficient manner will require an effective procurement strategy that allows the MCA to generate strong competition for its franchising contracts; to use appropriate commercial rigour to identify the most economically advantageous bid taking into account appropriate relevant factors; and to award them in a legally compliant way that is robust to challenge.

In the event that a decision to deliver one of Franchising Options A to D is made, a procurement strategy for the preferred Franchising Option will need to be developed and approved by decision-makers. This section analyses the principal factors that will need to be considered in development of this strategy, in support of this document's assessment of the overall deliverability of the options.

3.14.1.2 Relevant Procurement legislation

At the time of the preparation of this Assessment, the legal framework for public procurement is expected shortly to change. From 2016, the relevant legislation for the procurement of transport services has been the Utilities Contract Regulations 2016¹⁰⁸ (UCR). This legislation implements EU directives on public procurement in the UK, and is described in further detail below.

In October 2023, The Procurement Act 2023 received Royal Assent and became law. The government has stated that the Act will reform the UK's public procurement regime, making it quicker, simpler, more transparent and better able to meet the UK's needs while remaining compliant with our international obligations¹⁰⁹. At the time of preparation of this Assessment, while the Act has become law, the new regime that it introduces has not become live. Among the effects of this Act is the replacement of the UCRs with a new procurement regime, also described in further detail below.

3.14.1.3 Utilities Contracts Regulations 2016 (UCR 2016)

The existing legislation, the Utilities Contract Regulations (UCR) 2016, regulate the award of most contracts for works, services or supplies by public authorities and private sector bodies which have been granted exclusive rights by public authorities and which undertake certain activities associated with regulated transport services, as well as other utilities.

The UCR permit seven different procurement procedures: open; restricted; competitive dialogue; competitive with negotiation; negotiated without prior publication; innovative partnership; and design contents. Of these, innovative partnerships and design contents are not relevant for a non-innovative procurement such as a bus services contract, and the negotiated without prior publication procedure is only available in narrow circumstances, such as where normal procurement timescales cannot be complied with due to extreme urgency. These narrow circumstances do not apply to the MCA's bus Franchising Options. The remaining four possible procedures are:

- **Open procedure**

This is a single stage process without a separate selection stage where the contracting authority invites all interested bidders to submit tenders for the contract that are evaluated, and the contract is

¹⁰⁷ See supporting paper, *Operator Profit Margin*

¹⁰⁸ <https://www.legislation.gov.uk/uksi/2016/274/contents/made>

¹⁰⁹ <https://www.gov.uk/government/publications/the-procurement-bill-summary-guide-to-the-provisions/the-procurement-bill-a-summary-guide-to-the-provisions>

awarded without negotiation. It is designed for simple procurements. This open procedure is currently used within South Yorkshire for the procurement of existing tendered general bus and school bus services.

- **Restricted procedure**

This is a two-stage process where any bidder may request to participate in the procurement, but only shortlisted bidders invited by the contracting authority following a selection stage may submit tenders for the contract which are evaluated. The contract is awarded without negotiation.

- **Competitive dialogue procedure**

Under this process, after a selection stage, the contracting authority invites all shortlisted bidders to take part in a dialogue process with the aim of identifying the solution best suited to meet the contracting authority's needs. Bidders may be further shortlisted at various points following evaluation of tenders.

When the dialogue process is complete, final tenders are invited from those bidders remaining in the process. Negotiation is permitted with the successful bidder in order to confirm and finalise its tender; provided this does not distort competition or cause discrimination and provided its tender is not materially modified.

This process can be of particular value where the specification is primarily output (i.e. outcome) based, as opposed to input based. It generally takes longer than both the negotiated procedure and restricted procedure.

- **Competitive procedure with negotiation (also known as Negotiated Procedure)**

Under this process, after a selection stage, shortlisted bidders are invited to submit initial tenders and to take part in a negotiation process to improve their tenders. As with competitive dialogue, suppliers may be further shortlisted following evaluation of initial and subsequent tenders. The possibility of negotiations after final tenders have been submitted is not expressly provided for.

If the UCR remains in place at the point at which the first franchise competition is let, it is the MCA's intention to utilise the restricted procedure, as this allows the MCA to pre-qualify bidders as discussed in section 3.14.1.8 below.

3.14.1.4 The Procurement Act 2023

As described above, the Procurement Act 2023, which will reform the existing procurement rules described above and replace the UCR, has received Royal Assent but has not yet taken force. The Act introduces a new procurement procedure known as the 'Competitive Flexible Procedure'¹¹⁰, which the government has stated will 'give commercial teams maximum flexibility to design a procurement process that meets their needs and the needs of the market'¹¹¹.

The government has stated that the new regime will go live in February 2025¹¹².

On the basis of the anticipated delivery schedule for Franchising Options A to D described in the Management Case of this Assessment, which envisages the first bus franchise contract being awarded in 2026, it is likely therefore that procurement for bus franchise contracts would be conducted under new rules.

3.14.1.5 Principles of a Procurement Strategy

Several principles have been identified that are likely to be conducive to a successful suite of procurements. These are detailed below.

¹¹⁰ <https://www.gov.uk/government/publications/the-procurement-bill-summary-guide-to-the-provisions/the-procurement-bill-a-summary-guide-to-the-provisions#undertaking-a-procurement>

¹¹¹ <https://www.gov.uk/government/consultations/green-paper-transforming-public-procurement>

¹¹² <https://questions-statements.parliament.uk/written-statements/detail/2024-09-12/hcws90>

3.14.1.6 *Desirability of varying the procurement approach in light of scale of different franchise contracts*

As discussed in section 3.11, it is assumed that the franchise contracts let by the MCA under any of Franchising Options A to D will vary significantly with regard to scale:

- Some contracts (in particular, the ‘anchor’ contracts in each tranche) are likely to represent very significant financial and operational undertakings for both the MCA and the successful bidders. They may have Peak Vehicle Requirements (PVRs) of 200 or more vehicles and (under some options) include provision of a depot to the operator by the MCA. Given the scale of the operations that are being tendered, bidding requirements are likely to be relatively complex and may require substantial investment in bidding by potential operators.
- Other contracts are likely to be smaller and significantly less complex, with low PVRs and with no depot provided by the MCA.

These latter smaller contracts are likely to be of particular interest to SMOs, who may in many instances lack experience, capacity or capability with regard to bidding in complex procurements, and, further, may be unable to meet various requirements that it would be appropriate to seek from an operator of larger contracts.

As a core objective for the MCA is for the delivery model to increase the presence of operators in the bus network¹¹³, it would be appropriate to ensure that the requirements facing bidders for franchise contracts are commensurate with the likely capacity and capability of the sort of bidders that the authority is seeking. This is likely to mean that it is appropriate, for example, to run a different form of procurement for small contracts than larger contracts — this is discussed further in the relevant section below. This approach can be applied across the principles discussed below, as described in each section.

3.14.1.7 *Design of template contracts*

It is likely to be beneficial to the MCA to create template contracts for franchised bus services. As indicated above, it may be appropriate to create two such templates: one for large ‘anchor’ contracts, and one for smaller contracts. Each template would be tailored as appropriate by the MCA’s procurement team before each procurement for a specific franchise contract commenced.

Some of the elements of a ‘large’ contract that might be consistent, and thus not typically require tailoring, may include:

- Overarching contractual structure
- Basic contractual terms and operator duties
- Branding
- Fee structure
- Nature of performance regime
- Financial and reporting requirements
- Contractual remedies
- Liabilities
- Approach to variation and changes
- Force majeure
- General contract end arrangements
- Definitions
- Insurances

¹¹³ See the Strategic Case of this Assessment for further discussion of this objective

- Guarantees
- Requirements for collateral warranties
- Some elements of the performance regime
- Termination provisions (including early termination)

Some of the elements of a contract that might be tailored for each contract include:

- Route and service details
- Specific customer facilities
- Cost to quality ratio for evaluation (discussed below)
- Elements of the performance regime
- Vehicle specification or lease arrangements (where applicable)
- Depot lease arrangements (where applicable)
- Specific contract end arrangements
- Geo-specific contractual requirements
- Residual Value Mechanisms

The benefits of using a template-based approach include:

- **Consistency** — establishing a robust template (or templates) before the first franchise competition would mean that there would be extensive commonality between bus service contracts let by the MCA, which would be likely to simplify contract management and cross-region contract amendments
- **Cost efficiency** — it would not be cost efficient to draft each franchise contract from scratch. While an ‘evolutionary’ approach could be taken, under which the drafting of each successive contract would start from the draft reached under previous agreements, a template approach is likely to provide a clearer and more transparent approach that allows a clear understanding of where changes have been introduced
- **Speed** — tailoring a template contract is likely to be faster than creating a new contract from scratch
- **Bidder familiarity** — bidders are likely to be more comfortable bidding against a familiar contract, which may improve ease of bidding and improve prices offered

It is assumed in the Management Case of this Assessment that work to develop template contracts would be conducted in the initial preparatory year following a Mayoral decision to make a franchising scheme.

3.14.1.8 Qualification system

A qualification system allows a procuring authority to pre-register potential suppliers who meet certain criteria — for example, relating to financial standing or operational experience — for specific services such as bus service contracts. Registered suppliers form a pool from which the authority may draw those who are invited to be invited to bid or negotiate for contracts.

Under the anticipated new Procurement Act described above, qualification systems appear unlikely to be available. A new concept, termed a ‘Utilities Dynamic Market’, may offer the same or similar benefits, but is presently subject to consultation by the UK government, meaning that this is uncertain.

It is likely that establishing a qualification (or equivalent) system will be appropriate for the MCA franchise procurements. Under this approach, bidders would only be required to complete the qualification process once to secure qualification to all competitions for a specified number of years, rather than pre-qualify for each competition. The qualification process could be run at any time, to ensure that ‘latecomer’ potential bidders are not excluded from future competitions. This approach benefits bidders (as there is no need to repeatedly pre-qualify for competitions, reducing the cost of participating in each competition) and the authority (as there is no need for repeated evaluation of bidders by the MCA, also reducing the cost of

each procurement). Bidders may be required when making a bid to declare any material changes to their circumstances that have occurred since they went through the qualification process.

If neighbouring authorities in the region also choose to pursue bus franchising schemes, it may be possible to establish a common qualification system between several authorities, which would further reduce costs both to bidders and to the procuring authorities. This proposition has, however, not been discussed with any neighbouring authorities as part of this Assessment.

It may be appropriate to establish different 'lots' within a qualification system, allowing SMOs to qualify for small service contract competitions by meeting lesser requirements than those required for bidders for large contracts.

3.14.1.9 Pre-procurement market engagement

It is likely to be beneficial to the MCA to engage with the market for franchise contracts (on a fair and equitable basis) on an ongoing basis following the making of a franchise scheme, with a particular focus on market engagement before each contract procurement begins. Doing so will:

- allow bidders to prepare to bid effectively, for example by allocating sufficient time and resource, by providing transparency with regard to the pipeline of future competitions
- allow the MCA to test proposed contractual scope and requirements with the market, to identify areas that may drive excess cost or prove challenging for bidders to deliver
- allow the MCA to test the proposed approach to contract evaluation with the market
- allow bidders additional time to consider possible approaches to contractual requirements
- allow the MCA to learn lessons from bidders' experiences of past competitions for other authorities.

3.14.1.10 Design of procedure

As described in section 3.14.1.2 the nature of the legislative framework that will be in place for the procurement of franchise contracts, if a franchising scheme is made, is not yet clear. It appears, however, likely that there will be a choice as to the design of the procurement procedure that will be used.

As further described above, it appears likely that different approaches to procurement would be appropriate for different size contracts. For example, a procurement strategy may determine that:

- for large 'anchor' contracts, it is appropriate to design a procedure that includes the ability for the MCA to negotiate with prospective operators during the procurement. This may give the MCA a greater degree of control over the procurement and allow the MCA to benefit from cost efficiencies arising from any opportunities identified by the bidders
- for smaller contracts, it may be appropriate not to require negotiation and instead provide a clear specification against which bidders can tender.

Design of evaluation approach

In designing a competition, existing legislation requires that authorities must comply with general principles of equal treatment of market participants, transparency, non-discrimination, relevance and proportionality. While, as discussed above, it is likely that this legislation will have been superseded by the point of franchise contract procurement, it is likely that many of these general principles will remain desirable qualities of a procurement.

There are various approaches that can be taken to selection of a preferred tender. Procurement competitions for transport services are often structured to evaluate (and, therefore, to reward bidders for) both the costs and quality of bids. A points system is often used. Under such an approach, points are

typically awarded for both cost and quality in a manner specified at the beginning of the procurement, and the contract is awarded to the bidder with the highest combined score¹¹⁴.

Typically, in a cost/quality evaluation,

- **cost** is evaluated mechanically: the lowest price offered by a bidder to deliver the contractual specification receives the greatest number of marks; prices higher than the lowest price receive marks that are calculated with respect to the lowest price (so that, for instance, a price that is very close to the lowest price will receive a similar but slightly lower number of marks);
- **quality** is evaluated on a qualitative basis, with bid evaluators assessing the quality offered by each bidder and awarding marks on a pre-agreed basis.

Before commencing a procurement that will be evaluated on a cost/quality basis, it is important for the authority to determine the appropriate weightings for each of cost and quality (in other words, the proportion of total marks that are available for each), and to determine in a precise manner the way in which quality marks will be awarded. A typical approach to the assessment of quality is to require bidders to submit extended documentation as part of their bids setting out their proposed approach to delivery of the service. Requirements for the production of this kind of pack could represent a significant barrier to entry for SMOs, who may not have experienced this kind of requirement previously.

A common alternative to the cost/quality approach described above is a 'lowest price' structure, under which the contract is by default awarded to the bidder who offers the lowest price for delivery of the contractual specification.

An overview of the potential advantages and disadvantages in respect of each of the two approaches described above is set out in Table 87 below.

Table 87: advantages and disadvantages of different evaluation approaches

Approach to evaluation	Advantages	Disadvantages	Commentary
Cost and quality assessed	<p>May allow the MCA to benefit from higher quality operations and a greater degree of operator investment</p> <p>May deliver better outcomes for passengers</p> <p>Does not necessarily reward a 'race to the bottom' with regard to cost</p>	<p>More complex for operators to bid</p> <p>More complex for the MCA to evaluate</p> <p>May result in higher prices than would be achieved under a 'lowest price' model.</p>	<p>May be most appropriate for large contracts where the scope is potentially less certain, and where operators may more typically hold the capacity or capability necessary to develop sophisticated bids.</p>
Lowest price assessed	<p>May allow the MCA to benefit from lower costs of operations</p> <p>Easier for operators to bid, potentially supporting the local SMO market</p> <p>Easier for the MCA to evaluate, reducing costs of procurement</p>	<p>May lead to bidders offering unsustainably low prices, leading to operator insolvency or a cost-focused approach to contractual relationships between operators and the MCA</p> <p>Provides limited incentive for operators to offer services beyond the basic specification provided by the MCA</p>	<p>May be most appropriate for small contracts where the scope is most clearly defined and operators potentially lack capacity or capability to develop sophisticated bids.</p>

Regardless of the approach to procurement design and evaluation that is ultimately selected for each franchise agreement, it is important that these processes are designed in such a way that overcompensation of bus operators is prevented, as retained Regulation 1370/2007¹¹⁵ will apply. A robust competition for contracts that can demonstrate strong competitive tension is likely to help to mitigate the risk of overcompensation.

¹¹⁴ A conceptual alternative approach is to assess the price/quality ratio: in other words, to assess the price per quality point, rather than to sum the price and quality scores. However, no examples of the use of this approach have been identified in the transport sector.

¹¹⁵ <https://www.gov.uk/eu-withdrawal-act-2018-statutory-instruments/the-regulation-ec-no-1370-2007-public-service-obligations-in-transport-amendment-eu-exit-regulations-2020>

3.14.1.11 *Limitations on contracts each entity can hold*

In designing a procurement strategy, 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. It may also be appropriate to extend such a limitation to other corporate structures such as wholly-owned companies or joint ventures.

3.14.1.12 *Mobilisation*

Following award of a franchise contract, it will be necessary to allow the successful bidder a period of mobilisation before operation of services under the new contract begins. The period necessary for mobilisation is likely to depend on the specific requirements of the contract; for example, contracts under franchise options that require bidders to provide their own large-scale depots are likely to require extensive mobilisation time to allow non-incumbent bidders to procure and prepare depots for service. Market engagement conducted in the development of this assessment suggests that at least one year would be necessary; in many cases it is likely that significantly more time would be required than this.

Similarly, options under which bidders must provide their own fleets are likely to require time during mobilisation to acquire the fleets that they propose to use. Market engagement conducted in the development of this assessment suggests that at a minimum this would require 9 months from contract award.

There is a legislative requirement that the minimum period to expire between the making of a local service contract and the actual provision of the service is 6 months¹¹⁶.

In any event, and regardless of the approach to depots or fleet, the market engagement conducted for this Assessment suggests that in order to generate robust competition in the market it is likely to be necessary to allow six to nine months for mobilisation of a large contract following contract award, as significant back-office work, recruitment and training may be required. A period that is too short may disproportionately favour incumbent operators who have already mobilised, potentially limiting competitive tension. However, mobilisation periods for smaller contracts may reasonably be shorter and this should be assessed through effective market engagement as contracts are developed.

3.14.1.13 *Contract Management processes*

Bus franchising contracts, once awarded, will require the MCA to develop and utilise a range of contract management processes that are appropriate for the contracts themselves and that are appropriately linked to MCA governance. The overarching objective of contract management is to ensure that each franchising contract is successful and meets the needs of the MCA. To do this, the MCA's contract management processes should seek to:

- **ensure compliance:** the process should hold franchised operators to account and ensure their compliance with the terms of the agreement.
- **maximise value:** the process should support the maximisation of the value of the contract to the MCA by working with the franchised operator to perform its obligations as effectively as possible, for example by supporting the identification of cost savings or efficiency opportunities.
- **manage change:** the contract management process should support the parties to make changes/variations to the contract, where these are necessary and appropriate.
- **manage risk:** the contract management process is a principal route through which risks associated with the contract, such as legal and financial risks, can be identified, managed and mitigated.
- **manage MCA retained risks:** the contract management process should support the MCA in managing the risks it holds itself (such as revenue risk).

¹¹⁶ Section 123H subsections (2) (d) and (3)(c) of the Transport Act 2000

- **maintain relationships:** the contract management process should seek to foster positive relationships between the parties involved in the contract to ensure effective communication and collaboration.
- **monitor performance:** the contract management process should ensure that there is a shared understanding of performance between the parties involved.
- **manage assets:** the contract management process should ensure that assets such as depots and fleets are being managed appropriately by the operator in a way consistent with the requirements of the contract and (subject to the Franchising Option chosen) any leases.

Regular contract management meetings

The principal component of the contract management process with regard to franchise contracts is likely to be a regular meeting in respect of each franchising contract between the relevant contract manager (on the MCA's side), and representatives of the operator. The frequency of these meetings may vary depending on the scale of the contract, but for anchor contracts is likely to be at least monthly. A standard agenda for these meetings will be developed and is likely to include items such as:

- A review of **operational performance** for the past period, with discussion of the causes of the performance level. This is likely to focus on areas relevant to the operator's performance-related fee.
- Discussion of **contract compliance**, including a review of any non-compliance issues and discussion of any proposed **changes or variations** to the contract.
- Review of **health and safety** over the past period, including a review of any accidents or incidents and discussion of any proposed changes to improve safety.
- A review of **financial performance** for the past period and, where appropriate, a wider timescale such as a financial year.
- A review of **risks** associated with the contract.
- A discussion of **marketing and promotion** including a review of any marketing and promotional activities planned by either party and discussion of any proposed initiatives to promote the service.

These meetings will be minuted and an action log maintained.

Operators will be obliged by their franchise contracts to participate in these meetings and provide appropriate information to support discussions.

Internal MCA discussion of contract management

In addition to contract management meetings for each operator, it would be appropriate for the MCA's team of contract managers to hold regular internal meetings to build a consistent internal understanding of the performance in respect of the different franchise contracts, to share best practice and ensure that a consistent approach is taken by the MCA to contractual issues across its suite of contracts.

Contract Management systems

Contract management systems are software tools designed to help organisations manage their contracts efficiently. They provide a centralised platform for managing contract terms and conditions, tracking contract performance, and ensuring compliance with legal and regulatory requirements. As set out in the Management Case of this Assessment, the MCA currently holds some systems capability for contract management, but it is likely that an upgrade to the existing systems would be required for the level of sophistication that a Franchising Option would introduce. As set out in the Management Case, if a Franchising Option is selected then a more detailed systems analysis would be conducted later in the programme.

3.15 TRANSITION PERIOD ARRANGEMENTS

This section considers the commercial arrangements in respect of the period between the making of the franchise scheme and the completion of mobilisation of the final tranche of franchise contracts, in a

scenario in which one of Franchising Options A to D is pursued by the MCA. There is no equivalent transition period under EP Plus.

3.15.1.1 Objectives for transition period

It is assumed that following a decision to make a franchise scheme, the MCA's objectives in respect of the transition period will be:

- to minimise disruption to passengers during transition; and
- to support the continued commercial viability of the commercial bus market as it transitions to a franchise scheme.

3.15.1.2 Overview of Service permits

Following the making of a Franchising Scheme in an area, no local bus service may be operated in that area once services can be run under the first local services contract let (the 'effective date'), unless one of the following five criteria are met:

- it is provided under a 'local service contract';
- it is an interim service provided by the franchising authority pursuant to section 123O of the Transport Act 2000;
- it is provided under a Service Permit;
- it is excepted by the franchising scheme;
- it is operated under a section 22 permit (often otherwise known as a Community Bus permit). The MCA does not anticipate that local bus services will be operated under section 22 permits.

The 'effective date' may not be earlier than six months after the franchising scheme has been made.

3.15.1.3 Necessity of the creation of a South Yorkshire service permit scheme

It is assumed that following the making of a franchise scheme (which, as described at section 3.6, is assumed to be made simultaneously across South Yorkshire and not by sub-area), commercial services and present tendered services that do not meet any of the other above exemptions will continue to run through a Service Permit Regime which will be established by the MCA in line with the relevant regulations¹¹⁷. Without such a regime, it would not be possible for most existing commercial services to continue to run in the period before the relevant routes are let through franchise contracts.

These regulations require that a consultation on the proposed Service Permit Regime is conducted before a regime is introduced. This consultation must include details of the proposed application procedure for a service permit, including fees and timescales.

Following the creation of a Service Permit Regime, the Transport Act 2000¹¹⁸ requires a franchising authority must grant an application for a service permit if they are satisfied that:

- a. the proposed service will benefit persons making journeys on local services in the area to which the scheme relates, and*
- b. 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.*

The franchising authority may not grant the service permit applied for if they are not satisfied as to the matters in (a) and (b) above.

¹¹⁷ The Franchising Schemes (Service Permits) (England) Regulations 2018, <https://www.legislation.gov.uk/uksi/2018/423/contents/made>

¹¹⁸ Section 123Q, Transport Act 2000, <https://www.legislation.gov.uk/ukpga/2000/38/contents>

3.15.1.4 *Service permit conditions*

The Transport Act 2000 allows franchising authorities to attach conditions to service permits, to the integration of services operated under service permits with the wider franchised network. They may do so at the time the permit is granted, or later.

The regulations specify the categories of conditions which a franchising authority may attach to a service permit. They are:

- a. *conditions about enabling tickets to be purchased or fares to be paid in particular ways – for example via contactless technology*
- b. *conditions requiring tickets of a specified description to be issued and accepted*
- c. *conditions setting out requirements as to the price to be charged for tickets that operators are obliged to accept as a condition being imposed on their service permit*
- d. *conditions requiring operators to offer discounted travel for specified groups and accept evidence of entitlement to such discounted travel issued by other persons operating local services or relevant local authorities*
- e. *conditions requiring operators to publish specified information about the local services provided by them in the franchised area and about other local services in that area*
- f. *conditions requiring operators to publish specified information about their fares, the fares of other persons operating local services and ticketing arrangements in the area to which the franchising scheme relates*
- g. *conditions requiring services under a permit to be provided in vehicles which comply with a specified standard*
- h. *conditions as to customer service standards*
- i. *conditions as to operational standards.*

The Franchising Guidance¹¹⁹ states that franchising authorities should also consult on the sorts of conditions they may decide to attach to service permits as part of their wider consultation on the service permit scheme.

3.15.1.5 *Use of a service permit scheme during transition*

It is anticipated that during the transition period of a Franchising Scheme, a Service Permit Regime would be consulted on by the MCA that would:

- allow services that are expected to be franchised, but where the relevant franchising contract has not yet been let and mobilised, to continue to operate on a commercial basis until they are franchised; and
- use conditions of service permits granted to require such bus services to adopt measures to support passengers during this phase, for example by ensuring consistency of information and the interoperability of tickets.

Once a route has been successfully let through a franchise procurement, the MCA, the successful franchise bidder, and the existing commercial operator for each route (the latter two of which may or may not be the same entity) will need to work closely throughout the mobilisation phase of each procurement to arrange the cessation of the commercial service under the service permit, and the introduction of the replacement franchised service under the franchise contract, so as to ensure that continuation of service is provided for passengers. Where changes to the route are envisaged under the franchise contract, it will also be necessary for these parties to work together to ensure that there are clear passenger communications about these changes as the transition to the franchised service approaches.

3.15.1.6 *Cross-boundary services*

¹¹⁹ <https://www.gov.uk/government/publications/bus-services-act-2017-bus-franchising-creation>

It is anticipated that the cross-boundary services that operate only partly in the South Yorkshire region and (as described in section 3.11.1.4) are not adopted by the MCA as franchised services, will be subject to the Service Permit Regime described above.

3.16 ANALYSIS OF ANTICIPATED COMPETITION, INCLUDING ATTRACTIVENESS OF THE COMMERCIAL PROPOSITION FOR SMALL AND MEDIUM OPERATORS

3.16.1.1 Introduction

Under the Franchising Options that are analysed in this Assessment, competitions would be run by the MCA for contracts to operate franchised bus services. It is through these competitions that the MCA would seek 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; and
- innovation, by rewarding through evaluation novel and creative proposals from bus operators that may increase the benefits expected from each contract.

However, conducting a competitive procurement process alone is not sufficient to secure these benefits in respect of any particular franchise agreement; there must in addition be robust competition for the contract within that procurement process. Robust competition in this context can be characterised as multiple suitable-qualified parties proactively seeking to secure the contract that is being let, with at least three, and ideally four or more, bidders for each contract. In a scenario in which robust competition is not generated and, for example, there is only a single market participant interested in securing the contract, there would be very limited incentives on that operator in bidding to optimise to the MCA's benefit the price offered, or to invest time and resources thinking creatively as part of the bid. Competition for contracts is, therefore, important.

This section considers, in the round, the steps available to the MCA to maximise competition for the franchise contracts that it would let under the franchising options.

3.16.1.2 Approach to generation of robust competition

Various factors have been identified that affect the degree of competition for potential future franchising contracts let by the MCA, along with potential steps that the MCA could take to ensure that each factor does not inhibit competition for the MCA's franchising contracts. These factors and steps are summarised in Table 88. The table is subdivided into factors that relate to the structure of the competition for a franchise contract (factors 1 to 7), and the nature of the contract itself (factors 8 to 10).

Table 88: factors relevant to competition for franchise contracts

Factor	Commentary	Potential approach to ensuring factor does not inhibit competition for the MCA's contracts
Factors relating to the structure of the competition		
1 Supplier knowledge of opportunity	It will not be possible to maximise competition if potential suppliers are unaware of the competition, or only become aware of it too late to be able to engage with it meaningfully.	<ul style="list-style-type: none"> • Clear, inclusive ongoing market engagement around both the MCA's overall franchising programme and in respect of each franchising competition. • Development of a regularly-updated supplier-facing timetable for competitions, to allow suppliers to plan the resourcing of their bids in advance. • Proactive identification of entities by the MCA that it would be desirable to have bidding for contracts, including those without a current presence in the region; establish dialogue.
2 Pre-qualification requirements	If a pre-qualification approach is used (as discussed in section 3.14.1.9), an excessively onerous approach to	<ul style="list-style-type: none"> • Appropriate approach to admission to the pre-qualification pool, if this structure is used.

Factor	Commentary	Potential approach to ensuring factor does not inhibit competition for the MCA's contracts
	prequalification will limit the pool of potential market participants.	
3 Information available to bidders	Potential suppliers may be reluctant to bid if the information that they consider necessary to design a strong bid is not available to them.	<ul style="list-style-type: none"> Development of an appropriate (digital or physical) data room as part of each competition that allows all bidders to access pertinent information on an equal basis during competitions.
4 Other market opportunities	Potential suppliers may have capacity to bid only for a limited number of franchise competitions at the same time. If other franchising authorities let multiple contracts simultaneously, bidder resource may be stretched, and bids may either not be submitted or be of lower quality than would otherwise be the case.	<ul style="list-style-type: none"> Development of a regularly-updated supplier-facing timetable for franchise competitions, to allow suppliers to plan the resourcing of their bids in advance. Engagement with other franchising authorities to identify any potential 'pinch points'.
5 Cost, timing and complexity of bidding	Potential suppliers may be less inclined to invest time and resources in bidding for contracts where the competitions are excessively expensive or complex to participate in, or insufficient time to develop a high-quality bid is offered.	<ul style="list-style-type: none"> Ongoing discussion of approach with market participants as competition design is undertaken. During competition design, consideration of areas where the MCA could reduce burdens on bidders — e.g. by providing templates, assumptions, or flexibility with regard to the format of certain elements of bids. Sufficient time (indicated by market engagement to be ideally four months) to be allowed for bids to be developed.
6 Likely competitors	Potential bidders may assess the likely competition that they will face in competing for a contract, and, in that context, assess their likelihood of success. Some bidders may only participate in competitions where they perceive that their likelihood of success surpasses a particular threshold.	<ul style="list-style-type: none"> Open market engagement to reduce perception among bidder community that there is an incumbent advantage Potential introduction of a limit to the number of contracts that an operator may hold simultaneously in order to support the diversification of the supply market
7 Planning and execution of competition	Potential suppliers may be less inclined to invest time and resources in bidding for contracts where the competitions are poorly designed and lack clarity with regard to supplier requirements.	<ul style="list-style-type: none"> Ongoing discussion of approach with market participants as competition design is undertaken. Time and resource committed to developing robust commercial arrangements for competitions. Robust clarification question process established during competitions.
Factors relating to the contract structure		
8 Barriers to entry	<p>A barrier to entry can be characterised as a fixed financial or logistical cost that must be incurred by a new entrant into a market that incumbents do not have or have not had to incur. Such barriers can represent significant obstacles for new entrants that may result in a decision not to participate in a competition.</p> <p>In the context of this Assessment, the most significant relevant barriers to entry are requirements under some options that operators provide depots and or fleet for the services that they are contracted to run.</p>	<ul style="list-style-type: none"> In options where fleet and depots are provided by the MCA, this factor does not represent a barrier to competition. In options where fleet and/or depots are provided by franchised operators, limited possible mitigations to this factor have been identified. This may mean that in options where fleet and/or depots are provided by franchised operators, competition is inhibited.
9 Contractual terms and duration	<p>Potential bidders are likely to examine the proposed contractual terms and duration closely before deciding whether or not to bid in a competition.</p> <p>If they are unable to deliver the requirements of the bid and/or if the terms</p>	<ul style="list-style-type: none"> Market engagement during the development of contractual terms to ensure that they are likely to be acceptable to bidders

Factor	Commentary	Potential approach to ensuring factor does not inhibit competition for the MCA's contracts
	<p>of the proposed contract are unacceptable to bidders, and if there is no scope for negotiation as part of the procurement process, then potential bidders may decide not to take part in the competition.</p> <p>Areas that are likely to be of particular focus for operators include the performance regime and precise nature of financial risk transfer envisaged by the contract.</p>	<ul style="list-style-type: none"> Provision for negotiation with bidders during the procurement may reassure bidders that unacceptable terms could be addressed.
10 Familiarity with contractual terms and structure	Bidders may be more likely to participate in competitions run by procuring authorities where the proposed contractual terms and structure is familiar to bidders, as it is likely to require a lesser degree of legal and commercial due diligence than a new contract structure.	<ul style="list-style-type: none"> Use of templated contracts as discussed in section 3.14.1.5 will mean the new contracts are relatively familiar to potential bidders.

The analysis in Table 88 indicates that the only factor that may inhibit competition for franchise contracts under franchise options for which a reasonable mitigation cannot be identified is item 6, Financial Barriers to Entry. This is reflected in the assessment made in section 3.16.1.3 below.

3.16.1.3 *Assessment of competition likely with respect to Franchising Options*

In light of the analysis in section 3.16.1.2 above, this section assesses the potential level of competition that could be expected from each of the four franchising options under consideration in this Assessment, on the assumption that the approaches identified in Table 88 to the mitigation of potentially competition-inhibiting factors are adopted by the MCA.

The following assessments have been made:

- Franchising Option A, under which the franchised operator provides both depot facilities and vehicles, and Franchising Option C, under which the franchised operator provides depots and is provided with a fleet by the MCA, are both assessed as not being capable of supporting robust competition for franchise contracts. This is because, as discussed in section 3.10.1.2 and in line with the evidence provided by market engagement, the requirement under these options that operators provide depot facilities represents a very high financial and logistical barrier to entry for operators that do not currently own or have access to an appropriate depot. It is unclear that these requirements would be deliverable for many new operators. In addition, these Franchising Options do not effectively enable the transfer of depots to a “successor operator” during a distress situation.
- Franchising Option D, under which the franchised operator provides vehicles, and the MCA provides depot facilities, is assessed as being capable of supporting robust competition for franchise contracts. While the provision of fleet does represent a meaningful barrier to entry for new operators, as discussed in section 3.10.1.5, market engagement indicates that these barriers are surmountable for new operators as long as sufficient time for mobilisation is provided.
- Franchising Option B, under which the MCA provides franchised operators with both vehicles and depot facilities, is also 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.

3.16.1.4 *Attractiveness of franchising proposition to SMOs*

The Franchising Guidance requires that authorities ‘consider how they intend to facilitate the involvement of small and medium sized operators’¹²⁰. This section therefore analyses the factors relevant to competition that were identified in Table 88 from the particular perspective of small and medium-sized operators. The results of this analysis are set out in Table 89.

¹²⁰ <https://www.gov.uk/government/publications/bus-services-act-2017-bus-franchising-creation>

Table 89: analysis of factors relevant to competition from the perspective of SMOs

Factor	Commentary	Potential approach to ensuring factor does not inhibit competition for the MCA's contracts among SMOs
Factors relating to the structure of the competition		
1 Supplier knowledge of opportunity	Unlike larger operators, SMOs may not have the resource routinely to monitor procurement journals for opportunities.	<ul style="list-style-type: none"> Market engagement should be conducted for all contracts, not merely the 'anchor' contracts in each tranche Bespoke engagement sessions focused on small contracts may be appropriate SMOs may be encouraged to enter Joint Ventures with other bidders
2 Pre-qualification requirements	SMOs may lack the capacity or capability to complete a pre-qualification application of the sort that may be appropriate for potential bidders for 'anchor' contracts.	<ul style="list-style-type: none"> Pre-qualification could not be required for bidders for small contracts. Alternatively, a separate pre-qualification system could be developed that would be used by bidders for small contracts as described in section 3.14.1.5
3 Information available to bidders	SMOs may lack the capacity or capability to interpret complex datasets.	<ul style="list-style-type: none"> Information necessary for SMOs to bid for contracts should be presented in an accessible manner Factual support could be made available by the MCA to ensure that all potential bidders are able to access and interpret data on an equal basis
4 Other market opportunities	SMOs may be less likely than larger operators to be seeking opportunities in multiple regions simultaneously, and this factor is likely therefore to represent a less significant barrier than for larger operators.	<ul style="list-style-type: none"> Development of a regularly-updated supplier-facing timetable for franchise competitions, to allow suppliers to plan the resourcing of their bids in advance
5 Cost, timing and complexity of bidding	SMOs may hold significantly less capability and capacity than larger operators with regard to development of bids.	<ul style="list-style-type: none"> Ongoing discussion of approach with market participants as competition design is undertaken During competition design, consideration of areas where the MCA could reduce burdens on bidders — e.g. by providing templates, assumptions, or flexibility with regard to the format of certain elements of bids Consideration of use of a price-only evaluation approach as described in section 3.14.1.5 Sufficient time to be allowed for bids to be developed SMOs may be encouraged to enter Joint Ventures with other bidders
6 Likely competitors	SMOs may be reluctant to bid for contracts if they perceive that they are likely to be awarded to large incumbent operators, who could (for example) benefit from the economies of scale associated with their existing operations.	<ul style="list-style-type: none"> A prohibition on holders of 'anchor' contracts bidding for 'small' contracts could be assessed SMOs may be encouraged to enter Joint Ventures with other bidders
Factors related to the contract structure		
7 Barriers to entry	As described in section 3.11.1.5, it is assumed that under all options, 'small' franchises will require franchised operators to provide depot facilities. Whether or not franchisees provide vehicles to operate their services will depend on the option selected.	<ul style="list-style-type: none"> The small scale of the 'small' franchises envisaged in section 3.11.1.5 mean that it is not anticipated that these requirements would constitute significant barriers to entry for SMOs. SMOs may be encouraged to enter Joint Ventures with other bidders

Factor	Commentary	Potential approach to ensuring factor does not inhibit competition for the MCA's contracts among SMOs
8 Contractual terms	SMOs may lack the capacity or capability to assess and respond to complex contractual requirements.	<ul style="list-style-type: none"> As described in section 3.14.1.5, it may be appropriate to create separate contract templates for 'anchor' and 'small' contracts, with contractual complexity commensurate with the scale of the contracts for which the template will be used SMOs may be encouraged to enter Joint Ventures with other bidders
9 Familiarity with contractual terms and structure	SMOs may lack the capacity or capability to be able to conduct due diligence on changing contract structures or terms in successive competitions.	<ul style="list-style-type: none"> Using a templated contract approach as described in section 3.14.1.5 will reduce the level of due diligence that operators need to conduct in order to bid

The analysis in Table 89 demonstrates that appropriate consideration has been given to the facilitation of the involvement of SMOs in potential future franchise competitions. As set out in section 3.16.1.5 below, this analysis could be developed further through a Procurement Strategy in the event that a franchising scheme is pursued.

3.16.1.5 *Incorporation of competition into procurement strategy*

It is envisaged that the MCA will produce a Procurement Strategy in respect of its procurement of franchising contracts, which will set out the steps that the MCA will take to ensure successful procurement of its franchise contracts. It is further envisaged that the factors considered in this section 3.16 will be developed further in this Procurement Strategy.

3.17 THE MCA'S COMMERCIAL CAPACITY AND CAPABILITIES

As described throughout this Commercial Case, adoption of any one of the four Franchising Options will transfer new roles and responsibilities into the MCA, many of which are important to the overall success of a Franchising Scheme. To deliver these new roles and responsibilities effectively, the MCA will need to develop a range of capabilities, some of which are relevant to this Commercial Case. This section 3.17 provides a brief overview of the capabilities that it is anticipated will be required by the MCA.

This analysis is carried forward into the Management Case of this Assessment.

3.17.1.1 *Analysis of principal commercial capacity and capabilities required*

Table 90 brings together the principal commercial activities identified in previous sections that it is likely that the MCA will need to resource in order to develop an appropriate Franchising Scheme. Further capabilities will also be required to deliver other areas of a Franchising Scheme as described further in the Management Case.

Table 90: commercial capabilities required by the MCA to deliver a franchising scheme

Key Commercial Capability	Commentary
1 Development of the commercial proposition	Work to develop this Assessment has resulted in an initial commercial proposition for franchising options, as summarised in section 3.13 of this Commercial Case. Further detailed work is likely to be required across all areas of this initial proposition before complete instructions may be given to lawyers for the creation of one or several template contracts.
2 Market engagement	As highlighted in section 3.16, it is likely that a continuous process of market engagement will be beneficial as development of a franchising scheme progresses. It will be necessary to ensure that this activity is appropriately resourced and that its results are effectively reflected in ongoing work.
3 Procurement — strategy and delivery	As explained in section 3.14, it is likely that it will be beneficial to develop a procurement strategy for franchise contracts. This will need to be developed.

	Following development of the strategy, it will be necessary for the MCA to have the capacity and capability to prepare, procure, evaluate, negotiate, award and mobilise successive tranches of franchise competitions.
4 Data and analytics	As described in section 3.9.1.1, an effective performance regime for franchised services is likely to require data and analytical capability to ensure that appropriate franchise payments are made.
5 Contract management and in-contract change	As described in section 3.7, a franchising scheme will require the MCA to be able to dynamically contract manage multiple high-value bus franchise contracts simultaneously, holding operators to account for delivery of contracted services. The MCA may also simultaneously require the capacity to agree in-franchise changes to these contracts with franchisees, for example if network requirements change.
6 Revenue management	As described in section 3.8.1.4, it is envisaged that the MCA will assume revenue risk in relation to franchised services. The MCA will therefore require a range of capabilities associated with revenue management including: <ul style="list-style-type: none"> • forecasting future revenue • assessment of the effects of network changes on revenue • assessment of the effect of possible schemes or initiatives on revenue
7 Fleet ownership and specification	In respect of all options, it would be necessary for the MCA to be able to specify the vehicles that it wishes to use to operate franchised services. In respect of Options B and C, in which the MCA owns the fleet, 3.10.1.4 identifies a number of responsibilities that would be likely to lie with the MCA in respect of its ownership of those vehicles.
8 Depot ownership	In respect of options B and D, in which the MCA provides depots to franchised operators, the MCA would need capacity to add as an effective landlord for those depots.
9 Commercial risk management	The MCA will require the capability to identify, assess and monitor commercial risks, including those relating to its contracts and to the supply chain.

3.18 COMMERCIAL RISKS

Table 91, below, sets out the commercial risks of reform of the bus model in South Yorkshire identified in the course of the development of this Assessment.

Table 91: commercial risks and mitigations

Name of Risk	Description	Relevant to option					Possible mitigation	Commentary on residual risk
		EP Plus	A	B	C	D		
1 Inability of the MCA to buy depots within anticipated timescales	The MCA may be unable to purchase the depots necessary to run franchised services from their existing owners, meaning that implementation of franchise contracts may be impossible or delayed.			•		•	<ul style="list-style-type: none"> Entry into commercial discussions with existing depot owners as early as possible in the programme For each depot, consider ability for MCA to use a Compulsory Purchase Order if commercial negotiations with existing owners are unsuccessful. Develop alternative options for use in the event that depots cannot be required. The MCA is conducting work to establish possible alternative sites for depots at which new depots could be constructed. 	Even following the mitigations identified, the acquisition of depots by the MCA represents a significant delivery risk for Franchise Options B and D.
2 Inability of non-incumbent operators to get access to depots	Non-incumbent operators may be unable to secure access to depots to be able to bid to run services, meaning that they face very high barriers to entry.		•		•		<ul style="list-style-type: none"> Transparency for the market as to what will be required as early as possible to allow potential bidders as much time as possible to develop their approach Sufficient time could be provided in the mobilisation phase following contract award for bidders to buy and develop new depots following contract award. 	Even following the mitigations identified, the design of an approach that allows the acquisition of depots by non-incumbent Operators remains highly challenging and may render Franchise Options A and C commercially unviable.
3 Inability of the MCA to buy fleet within anticipated timescales	It may not be possible for the MCA to procure and take delivery of the fleet necessary to deliver franchised services within the time anticipated, meaning that implementation may be delayed.			•	•		<ul style="list-style-type: none"> Appropriate project management and senior leadership of the procurement to avoid management/team distraction as a result of the wider franchising programme Early identification and ordering of fleet required Discussion with manufacturer or other providers to assess factors that may delay these timescales 	Even following the mitigations identified, the procurement of a significant fleet represents a significant and potentially complex procurement that will need careful management by the MCA.

Name of Risk	Description	Relevant to option					Possible mitigation	Commentary on residual risk
		EP Plus	A	B	C	D		
4 Inability of non-incumbent operators to get access to existing or alternative fleet	It may not be possible for non-incumbent operators to secure fleet with which to operate franchised services which therefore compromises competition interest.		•			•	<ul style="list-style-type: none"> Transparency for the market as to what will be required as early as possible to allow potential bidders as much time as possible to develop their approach Flexibility for bidders with regard to the fleet to be deployed, at least in the initial phases of the contract Monitoring of the market for buses 	The mitigations identified may reduce the likelihood of this risk materialising.
5 Lack of competition for franchise contracts	There may not be sufficient competition for the MCA's franchise contracts to generate competitive tension, leading to poor value for money. This may include a lack of opportunities for new entrants and smaller operators, which may limit innovation and lead to poor value-for-money and limited resilience in the market.		•	•	•	•	<ul style="list-style-type: none"> Possible mitigations are set out in section 3.16.1.2 of this Commercial Case Analysis of ways to improve the attractiveness of franchise contracts to SMOs is set out in section 3.16.1.4 of this Commercial Case 	The mitigations identified may reduce the likelihood of this risk materialising.
6 Changes to procurement legislation	Relevant procurement legislation may change as a result of the Royal Assent to the Procurement Bill, meaning that the commercial approach envisaged or developed must be changed.		•	•	•	•	<ul style="list-style-type: none"> Use of appropriately qualified procurement professionals who are able to monitor development in the procurement landscape Ongoing monitoring of legislation, regulations and consultation. Appropriate attendance at the centrally-funded learning and development package being provided by the Cabinet Office. 	The government has committed that any changes to the procurement regime will be accompanied by guidance and a programme of learning and development ¹²¹ , which may reduce the complexity associated with a change in procurement legislation during the franchise programme.
7 Collapse of commercial market	Commercial operators may withdraw services following the making of the franchise scheme	•	•	•	•	•	<ul style="list-style-type: none"> Ongoing engagement with existing commercial operators and monitoring of market conditions 	Although it is possible to mitigate this risk through the routes identified, decisions regarding the future of

¹²¹ <https://www.gov.uk/government/collections/transforming-public-procurement>

Name of Risk	Description	Relevant to option					Possible mitigation	Commentary on residual risk
		EP Plus	A	B	C	D		
	but before all routes have been franchised, or following the agreement of an Enhanced Partnership, requiring the MCA to take rapid action to support such services.						<ul style="list-style-type: none"> Consideration of consequences of different possible approaches to the lotting strategy. 	commercial services sit with commercial Operators and is therefore outside the control of the MCA.
8 Inaccurate forecasting of cost	The MCA may forecast the cost of franchise contracts inaccurately, leading to competitions resulting in higher costs than anticipated.		•	•	•	•	<ul style="list-style-type: none"> Effective engagement with potential Operators during contract design to understand different cost drivers. Development of best-practice approach to cost forecasting. Ongoing 'lessons learnt' approach during franchise transition. 	This risk is likely to decrease as increasing numbers of contracts are let, as the MCA will learn from experience with regard to tendered prices. However, in a competitive environment this risk can never be entirely avoided.
9 Inaccurate forecasting of revenue	The MCA may forecast the revenue that it will receive in respect of franchised services inaccurately, leading to a shortfall against the expected position.		•	•	•	•	<ul style="list-style-type: none"> Development of best-practice approach to revenue forecasting and modelling. Ongoing 'lessons learnt' Holding of a financial 'reserve' to cover any short-term shortfalls 	Even following mitigation, revenue forecasting remains a complex area that could drive significant financial shortfalls in the MCA's financial position.
10 Inadequate or poorly calibrated performance regime	The performance regime developed for franchise contracts may not be adequate to incentive Operators to perform to a high standard; or may be too harshly or easily calibrated giving rise to overcompensation risk		•	•	•	•	<ul style="list-style-type: none"> Consideration of best practice from other franchising authorities (such as TfL or TfGM) Ongoing 'lessons learnt' to develop best practice Limitations on payments in respect of the performance regime could be introduced to mitigate the risk of overcompensation if a performance regime is too easily calibrated. 	While it is likely that the performance regime developed by the MCA will be able to be optimised as further contracts are let and lessons learnt, the mitigations identified appear likely to be sufficient to avoid exceptionally poor performance.
11 Change mechanism in contract inadequate to manage demand volatility	The change mechanism developed in a franchise contract may not be adequate to allow the MCA to make changes to the contract during the		•	•	•	•	<ul style="list-style-type: none"> Consideration of best practice from other franchising authorities (such as TfL or TfGM) 	It is likely that the change mechanism developed by the MCA will be able to be optimised as further contracts are let and lessons learnt.

Name of Risk	Description	Relevant to option					Possible mitigation	Commentary on residual risk
		EP Plus	A	B	C	D		
	contract term that it would wish to make.						<ul style="list-style-type: none"> Consideration of possible in-life scenarios during contract development, to consider how the scenario could be managed. Ongoing 'lessons learnt' to develop best practice 	
12 Operator insolvency / default	Operators may default on franchise contracts or become insolvent, potentially leading to a loss of service provision.	•	•	•	•	•	<ul style="list-style-type: none"> Assessment of financial robustness of operators during procurement Ongoing monitoring of operators' financial position in-life Consideration of use of performance bonds or guarantees. Contingency plans established to allow the rapid take-over of routes by other operators following an operator default or insolvency. If legislation changes, this may allow for the creation of a SYMCA owned "shell company" to act as an "Operator of Last Resort". Effective contractual mechanisms developed to allow for transfer of key assets and people on default or early termination. 	The MCA will need to balance the stringency of its financial assessments against the resource requirements of ongoing monitoring of operators' financial position. Residual risk will exist where a defaulting operator cannot be replaced quickly and disruption to service exists.
13 Industrial relations	A move to a Franchising Option could give rise to industrial relations disputes, potentially leading to industrial action, which could disrupt services and lead to significant financial and commercial impacts.		•	•	•	•	<ul style="list-style-type: none"> Ongoing discussion with Trade Unions and employers, including through articulation of the benefits of the selected option to the bus sector. Careful consideration of implications of options pursued for employees of bus operators, with any potential concerns addressed. 	The risks of industrial disputes can be substantially mitigated through appropriate staff and Trade Union engagement and addressing of concerns raised.
14 Procurement complexity	Procurement complexity, including lotting strategy, does not support a robust competition and/or makes decision-making problematic.		•	•	•	•	<ul style="list-style-type: none"> Minimise complexity and adhere to best practice. Dry-run process to ensure robust. Ensure process is tested internally, and consulted with potential 	Comprehensive legal, financial, commercial and technical reviews to ensure process is clear, robust and does not give rise to unintended consequences.

Name of Risk	Description	Relevant to option					Possible mitigation	Commentary on residual risk
		EP Plus	A	B	C	D		
							bidders, and decision-making is clear through governance.	
15 Procurement challenge	Risk of procurement challenge from losing bidder(s).		•	•	•	•	<ul style="list-style-type: none"> Rigid adherence to procurement process and regulations, with robust and fair evaluation and decision-making subject to audit and assurance. Clarity of governance. 	The risk of procurement challenge can be substantially mitigated through strict adherence to process and relevant regulations, including robust assurance of process and decision-making.
16 Lack of co-operation of incumbent operators	Incumbent Operators fail to co-operate including providing access to data, systems and assets fundamental to bidding		•	•	•	•	<ul style="list-style-type: none"> Establish requirements on incumbent operators well in advance and ensure clarity on data required, and access required to systems and assets. 	Risks can be mitigated through early engagement and clarity on requirements.
MCA Commercial and Capabilities 17 Resources and	MCA has insufficient resources and capability to run procurements and subsequently manage contracts, leading to contract risk and poor change control		•	•	•	•	<ul style="list-style-type: none"> Develop credible plan including contingency arrangements to secure additional resources from other authorities and advisors. Ensure regular reviews/checks that MCA is delivering its plans and obligations. 	A credible plan of requirements and options to provide and/or augment resources at key times will support addressing this risk.
Failure to negotiate desired outcomes under EP Plus 18	Failure of the MCA to negotiate desired outcomes under an EP Plus model in a value for money way.	•					<ul style="list-style-type: none"> Develop robust negotiation strategy before commencing negotiations, and seek to develop win:win propositions that will benefit all stakeholders. 	The nature of EP Plus is such that it is not possible to achieve certainty that any desired outcome can be successfully negotiated.
19 Subsidy control challenge	Agreements reached with operators under an EP Plus model that entail MCA investment that benefits specific businesses might be subject to challenge under the Subsidy Control Act or other subsidy-related legislation	•					<ul style="list-style-type: none"> Robust legal advice and oversight of agreements reached under an EP Plus model. 	With appropriate legal oversight and advice sought and followed, the MCA is in a strong position to be able to successfully defend any challenges made.

3.19 CONCLUSIONS

3.19.1.1 *Conclusions regarding Franchising Options*

On the basis of the discussion set out in this Commercial Case, the following conclusions have been drawn regarding the four Franchising Options under consideration:

- All Franchising Options are commercially complex, and will require appropriate resourcing and programme management, as described in the Management Case of this Assessment. All Options face significant risks as described in section 3.18 of this Commercial Case and elsewhere in this Assessment.
- Franchising Options A and C, under which Operators are required to provide depots in respect of the franchised services that they operate, introduce very high barriers to entry for operators that do not already possess appropriate depots. These barriers to entry are such that it appears that these Options would not be capable of supporting robust competition for franchising contracts. Such a lack of competition appears likely to lead to poor value for money for the MCA. In addition, this structure presents significant challenges in the event of operator default or termination, as it would be challenging to bring in a new operator swiftly if a new depot had first to be sought.
 - Franchising Options A and C are therefore commercially unviable. They therefore fail the 'Deliverability' criterion set out in Table 8 of the Strategic Case of this Assessment.
- Franchising Options B and D, under which depots are provided by the MCA, both appear commercially viable routes to secure the provision of services under local services contracts. Both of these options, however, present potentially significant challenges for the MCA in respect of its acquisition of the depots necessary to deliver the options. Should commercial negotiation to purchase the depots in question be unsuccessful, it may ultimately be necessary for the MCA either to seek to subject the depots to compulsory purchase orders (which may not be successful), or for the MCA to construct new depots for use in a franchising scheme.
- Franchising Option B entails the MCA owning a fleet which is leased to operators. Such a structure would require the MCA to assume various new roles in respect of its ownership of the fleet, in addition those that are required in respect of its role as franchising authority. While commercially viable, this approach would introduce a further degree of commercial complexity to a programme that is already commercially complex.

Following consideration of the analysis set out in this Commercial Case, and elsewhere in this Assessment, the MCA has identified Franchising **Option B** as its preferred Franchising Option, noting that it better supports Objective 6 (Market Conditions) of the objectives set out in Table 7 of the Strategic Case of this Assessment in that it reduces barriers to entry by providing fleet and depots to operators, thereby supporting increased competition for franchise contracts.

3.19.1.2 *Conclusions regarding EP Plus*

The following conclusions have been drawn regarding EP Plus option:

- EP Plus appears commercially deliverable, as it comprises the same commercial structure that is currently in place in South Yorkshire — although it is assumed that greater outcomes can be delivered through this structure than have been to date. While the model is therefore deliverable, it is unclear that the outcomes that are assumed to be delivered through this structure are deliverable in a value-for-money way, as ultimately there is a lack of MCA control and any changes made to bus services need to be through mutual agreement, which is a significant risk.
- If it were possible to be certain that the assumptions made regarding the outcomes deliverable through EP Plus are accurate, then from a commercial perspective EP Plus presents several advantages over Franchising Options:
 - it avoids the significant commercial complexity associated with all of the Franchising Options, and

- it avoids the transfer of significant direct financial risk to the MCA (although indirect exposure remains through the assumption that the MCA will subsidise any routes that become otherwise commercially unviable)

However, it is not possible to be certain at this stage that the assumptions made regarding the outcomes deliverable through EP Plus are accurate or achievable.

- EP Plus also presents commercial challenges. In particular:
 - it risks entrenching incumbent operators' competitive advantage, making it harder for new entrants to successfully enter the market. It does not therefore support delivery of the benefits associated with competition;
 - its delivery of beneficial outcomes relies on agreement with operators whose fundamental objective (which is likely in many cases to be profit maximisation) may be at odds with the strategic objectives of the MCA. This may mean that agreement of measures that are (or could be) detrimental to the commercial interests of incumbent operators may be impossible or very costly to secure.

3.19.1.3 Identification of preferred option

On the basis of the analysis set out in this Commercial Case, and elsewhere in this Assessment, the MCA has identified **Franchising Option B** as its preferred option.

4.0 Financial Case

4.1 SUMMARY

This Financial Case forms part of the five-case assessment of the Franchising Scheme, as required under section 123B of the Transport Act 2000 (“the Act”). One of the requirements of the Franchising Guidance is consideration of whether the authority is able to afford to make and operate the proposed Franchising Scheme. The Financial Case sets out the financial implications of the EP, EP Plus and Franchising to determine whether they are affordable.

For Franchising, multiple options were considered with different asset ownership structures and the Financial Case focuses on Franchising Option B (where the MCA owns the depot and the fleet). This is on the basis that this is the best performing option out of the Franchising Options following consideration in the Strategic and Commercial Cases. References made in the Financial Case to Franchising therefore refer specifically to Franchising Option B.

The Financial Case examines the detailed cost, income and net financial position of EP, EP Plus and Franchising Option B, and considers whether they are affordable under the funding envelope agreed by the MCA for bus reform. Affordability is determined by considering whether the net financial position (income minus costs) of the option is sustainable long-term and depending on the option is considered at the MCA level or the ‘whole of industry’ level.

The existing EP option (the Reference Case) has been modelled on the basis of the current EP agreement in place in South Yorkshire and the existing commitments in MCA’s Medium Term Financial Strategy (MTFS). The network under this option is the October 2023 network with services then assumed to decline post-March 2025 based on a planned reduction in the tendered services budget. Both EP Plus and Franchising have been modelled with the same assumptions for the network, the renewal of buses and the rollout of Net Zero vehicles and operating costs. Both EP Plus and Franchising are therefore assumed to deliver comparable outcomes. These common assumptions include:

- *Network:* The network modelled is also the October 2023 network which is forecast to decline post-March 2025. As EP Plus or Franchising are implemented, the level of services in the original October 2023 network can then be reintroduced between 2027-28 to 2029-30.
- *Fleet renewal:* Under both EP Plus and Franchising, it has been assumed that up to 2035 around 30% of vehicles will be replaced with Net Zero vehicles once they life expire, and post-2035, 100% of vehicles will be replaced with Net Zero.

The key differences with EP Plus and Franchising include:

- *Asset acquisition:* Under Franchising Option B the MCA would acquire depots (which are assumed for Assessment purposes to be the existing major depots in the region). It is also assumed the MCA would need to acquire fleet, either new or second hand vehicles, on a residual value basis.
- *Funding:* Under Franchising Option B, the MCA has agreed that capital expenditure incurred between 2024-25 and 2026-27 could be funded from CRSTS1 until 2026-27 with the major depot acquisitions and fleet renewal funded from CRSTS2 for the period 2027-28 to 2031-32. Under EP Plus, subsidy control restrictions mean that there are limits on the use of CRSTS funding and other public funding available to the MCA and therefore operators will have the responsibility for funding fleet renewal or finding alternative sources of grant funding. It is assumed between 2027-28 to 2031-32 that operators can fund capital renewal through third-party funding sources.
- *Borrowing:* Beyond 2031-32, it is assumed there is no further capital funding available and that under Franchising the MCA would have to finance capital expenditure by borrowing under a PWLB loan at an assumed interest rate of 5%. Similarly, it is assumed under EP Plus that the operators would need to finance capital expenditure beyond 2031-32 with an interest rate of 7% (a 2% premium on the assumed PWLB rate).

- *Staffing and Management costs:* As outlined in the Management Case, there are different staffing requirements during the transition and business-as-usual phases for EP Plus and Franchising.
- *Margin:* Under EP Plus, the margin on Tendered Services contracted out to the market is assumed to be 10% whilst the margin on Franchising is 7.5%.

With these assumptions, the Financial Case shows that EP Plus is unaffordable on a cumulative basis over the term of the assessment. Franchising was shown to be affordable over the full appraisal on a cumulative basis up to 2053-54.

Sensitivity analysis has been conducted to understand the affordability impacts of volatility in the key assumptions in the case. This shows that reductions in forecast revenue or higher operating costs than expected could impact affordability and in these circumstances the MCA under Franchising would need to consider additional funding sources such as reserves, network change proposals or other efficiencies.

4.2 INTRODUCTION

The purpose of this Financial Case is to assess the financial implications to the MCA under the proposed options of EP, EP Plus and Franchising. It sets out the income, costs, funding options and affordability assessment in respect of each of these options.

As set out earlier in this Assessment, the current regulatory model in South Yorkshire is an EP between the MCA and the bus operators. This is the Reference Case or the Do-Nothing option in the Franchising Assessment. An EP Plus option and four potential Franchising Options were identified for assessment against this Reference Case. For Franchising, multiple options were considered with different asset ownership structures and the Financial Case focuses on Franchising Option B (where the MCA owns the depot and the fleet). This is on the basis that this is the best performing Franchising Option following consideration in the Strategic, Economic and Commercial Cases.

The EP Plus option aims to further improve the existing EP scheme operating in South Yorkshire to achieve comparable outcomes to Franchising.

The Financial Case uses the Green Book as a reference point¹²² and fulfils the requirements of the Franchising Guidance¹²³.

The Financial Case is structured as follows:

- Section 4.3 outlines the methodology of financial modelling, the different scenarios tested and the key assumptions underpinning the model including the appraisal period.
- Section 4.4 sets out the financial implications of EP (the Reference Case) option including the existing funding flows, the income, the operating costs, the MCA's net financial position and risks.
- Section 4.5 sets out the common assumptions for both EP Plus and Franchising Option B including the network and revenue, operating costs, approach to Optimism Bias, acquiring and upgrading depots, fleet acquisition and renewal and financing and cash balances.
- Section 4.6 sets out the financial implications for the EP Plus option including specific assumptions in relation to funding flows, tendered services margin, staffing and management, funding scenarios, and the output and results of EP Plus including the annual and cumulative surplus and deficit.
- Section 4.7 sets out the financial implications for Franchising Option B including specific assumptions in relation to funding flows, the lotting strategy, staffing and management costs and the financial implications including the MCA's net financial position including funding scenarios
- Section 4.8 sets out the results of different sensitivity tests on the key assumptions in the Financial Case.

¹²² <https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government/the-green-book-2020>

¹²³ <https://www.gov.uk/government/publications/bus-services-act-2017-bus-franchising-creation>

- Section 4.9 sets out the balance sheet and accounting implications for the MCA under Franchising.
- Section 4.10 provides conclusions on the overall financial implications and an assessment of affordability.

4.3 FINANCIAL MODELLING APPROACH

The financial model has been developed to show the overall financial impact on the MCA of the EP, EP Plus and Franchising Option. The model is based on annualised cashflows which, unlike the Economic Case which is based on real values, are stated in nominal terms. All tables and diagrams in the Financial Case are therefore stated in nominal terms.

The base year for the financial model is 2024-25 and the model assumes a 30-year appraisal period from 2024-25 to 2053-54.

The Financial Model incorporates revenues and costs from a range of sources including those specified in other cases. The revenues are derived from the Economic Case and are based on the following network scenarios:

- **Reference Case network** – The MCA bus network as of 29 October 2023 with an assumed reduction in Tendered Services post-2025 to reflect a planned reduction in the MCA's tendered services budget as outlined in its Medium-Term Financial Plan.
- **EP Plus and Franchising network** – The MCA bus network as of 29 October 2023 with the same assumed reduction as the reference case post-2025. However, after 2027-28 the network begins to be restored and by 2029-30 services are assumed to be back at the level they were on the 29 October 2023. These services are then maintained through the appraisal period.

The period in the Financial Model is split into distinct phases for Franchising including:

- **Design Phase** – the period to prepare for the implementation of Franchising between 2024-25 to 2025-26. Planning for the procurement will continue into 2026-27.
- **Transition Phase** – the transition period where Franchising contracts are mobilised between 2027-28 to 2029-30. Under Franchising, different franchise contracts are lotted over this period in line with the lotting strategy set out in the Commercial Case.
- **The Business as Usual (BAU) Phase** – from 2030-31 onwards the network is fully franchised.

Under EP Plus, there is also a design phase for the same years as Franchising between 2024-25 and 2026-27 and there is a transition back to the October 2023 network by 2027-28.

4.4 ENHANCED PARTNERSHIP (THE REFERENCE CASE)

The EP is the Do-Nothing Option (or Reference Case) in this Assessment and is used to set the baseline for EP Plus and Franchising. The EP scheme is outlined in detail within the Strategic Case. Under an EP, operators are still responsible for revenue and cost risk in running the commercial services whilst the MCA is responsible for funding Tendered Services that cater to social needs. Further details of the funding flows for EP are set out in section 4.4.2 below.

4.4.1 Overall financial position of the MCA

As of the 1 April 2023, the MCA has combined and absorbed the functions of the South Yorkshire Passenger Transport Executive (SYLTE) into the MCA. For budgeting purposes, the financial position is looked at from the perspective of the Local Transport Authority (LTA). The financial position of the LTA component of the MCA for the Financial Year 2023-24 is stated in Table 92 below.

Table 92 – MCA's LTA FY2023/24 Budget, revised at Q1 (nominal)

MCA Budget (£m)	2023-24 Expenditure
Concessionary Expenditure (Mandatory)	(19.1)
Financial Obligations (Mandatory)	(11.0)
Other Discretionary Expenditure	(9.1)
Tendered Bus Services (Gross Expenditure)	(23.3)
Operational Departments	(21.5)
Overall Transport Total Cost	(84.0)
Funded by:	
Transport Levy	55.5
Government Grant	11.0
General Commercial Income	12.8
Reserves	7.8
Total Income	87.0
Surplus/(Deficit)	3.0

The MCA's total expenditure for transport is budgeted to be £84.0 million in 2023-24, as per the table above. This expenditure comprises spending on the public transport network including both tram and bus services. It is organised on the basis of spending on concessions, tendered bus services, proposals (initiatives on fares and services for tram/bus services) and the costs of operational departments overseeing the public transport network. Just over £23 million was spent on Tendered Services to provide emergency support the bus network. This represents a one-off increase in expenditure and has been funded by reserves. These services are not deemed financially sustainable long-term and therefore unless further funding is found, the Tendered Services budget is expected to fall to around £13 million per year in the next two years.

The total £84.0 million expenditure is funded by:

- **Transport Levy** – which raised £55.5 million in 2023-24. This is a levy to the district authorities of South Yorkshire to fund transport services (the levy is passed on to residents in South Yorkshire via council tax). A planning assumption in the MCA's Medium Term Financial Plan is that the levy will continue to increase by 2% a year up to 2029-30. In 2023-24, approximately 57% of the levy funded bus activity including concessionary fares, tendered services, and associated staffing costs. By 2025-26 the proportion of the levy funding buses will increase to around 62%.
- **Government Grant** – which raised £11 million of funding. This funding source consists of a range of central government grants across transport including the Bus Services Operators Grant (BSOG) for Tendered Services and other more discretionary grants such as the recent Bus Services Improvement Plan (BSIP+) grant from the DfT. Further grants within this funding line relate to other transport modes.
- **Commercial Income** – around £12.8 million comes from commercial income including the LTA's share of income from the MCA's cash balances (which makes up the largest share), car parking revenues (from Park and Ride), income from operators for using the MCA's bus infrastructure ("Departure Charges"), and income from any revenue share arrangements with existing local operators.

There are a range of challenges for the MCA's existing expenditure on transport including:

- There is a lack of certainty over future government funding including for bus services. Support grants that were provided during Covid-19 have reduced and DfT are considering reform of BSOG that will likely apply different rates or methodologies which may affect the funding the MCA receive.
- There are likely to be further pressures due to inflation which would impact staff cost lines.
- Reserves have been depleted as resource has been deployed to offset the withdrawal of Government funding to support commercially unviable services.

The sections below discuss the specific categories of bus services expenditure in more detail.

4.4.2 Funding flows under EP

As stated in the Strategic Case, the MCA has implemented an EP scheme with major operators in South Yorkshire in line with the approach outlined in DfT's Bus Back Better strategy¹²⁴. The model does not fundamentally alter the structure of financial flows or the allocation of risks in the bus industry in South Yorkshire. These financial flows are illustrated in Figure 43 below.

As noted in the Commercial Case, under EP, private sector bus operators currently take revenue and cost risk on the operation of commercial bus services. The MCA is responsible for funding or providing subsidy for Tendered Services which are not commercially viable in their own right. These services fulfil social needs including evening and weekend services or provide coverage to areas that the commercial market does not cover. The MCA also provides reimbursement to operators to compensate them for providing services to passengers eligible for concessionary tickets.

To help fund tendered and concessionary services, the MCA receives funding from South Yorkshire district authorities including Barnsley, Doncaster, Rotherham and Sheffield through the Transport Levy. Contributions for the Transport Levy are based the population of each district and each authority factors in the levy when setting their council tax levels. The MCA also receives funding directly from Central Government including BSOG for Tendered Services and other discretionary grants such as grants for BSIP+ funding. Each of these lines are discussed in detail below.

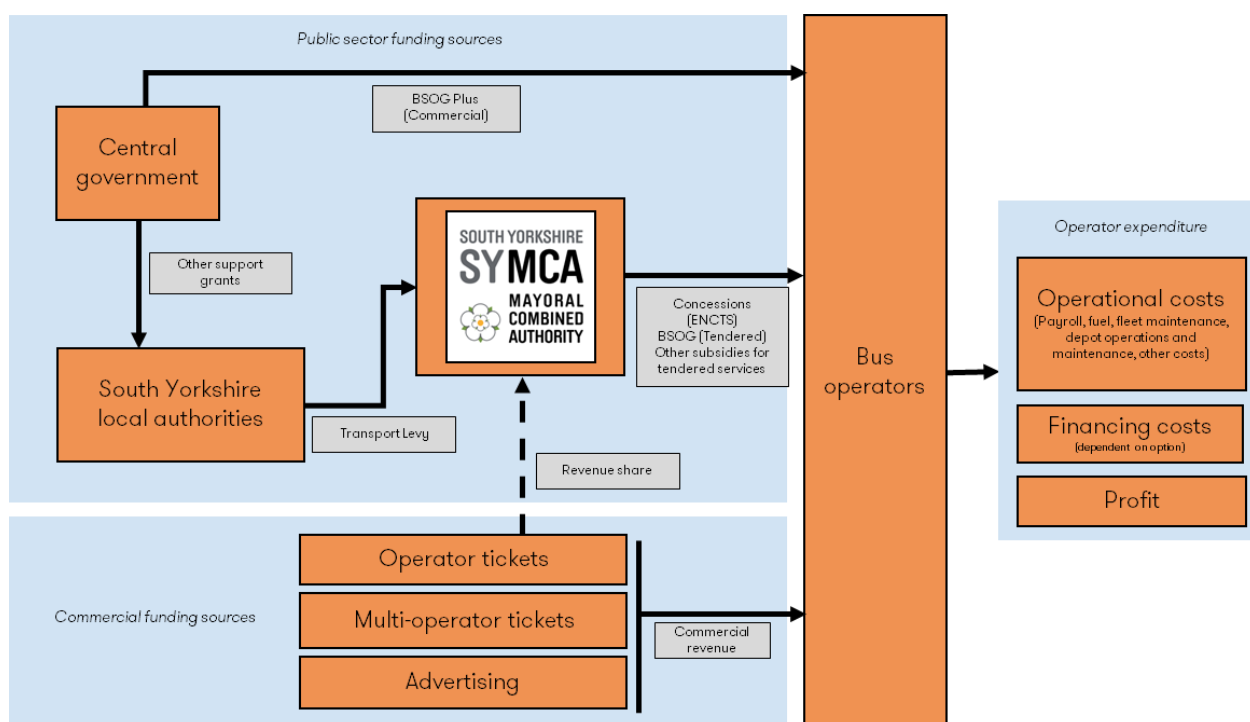


Figure 43 Funding flows under EP

4.4.3 The MCA's income

A 30-year forecast for income under EP is based on the MCA's Medium Term Financial Plan for the LTA that covers the next five financial years from 2023-24 onwards. A subset for this has been extracted to summarise the income that relates to the provision of bus services and is shown in **Error! Reference source not found.** below for 2023-24 to 2027-28. Income due to the LTA directly related to bus over this period is forecast to decline from £8.97 million in 2023-24 to £3.08 million in 2026-27 as discretionary income lines such as Local Transport Funding Settlement 4 (LTF4) and Bus Service Improvement Plan Plus (BSIP+) reduce beyond 2026-27, a flat profile for income is assumed with no growth.

¹²⁴ [Bus Back Better \(publishing.service.gov.uk\)](https://publishing.service.gov.uk)

Table 93 – Enhanced Partnership Income 2023/24 to 2027/28 (nominal)

EP Income (£m)	Indexation	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028
Concessions – Zero fare pass income	No escalation	1.55	1.55	1.55	1.55	1.55
BSOG (Devolved)	No escalation	1.13	1.13	1.13	1.13	1.13
LTF 4	No escalation	1.63	-	-	-	-
BSIP+	No escalation	3.15	3.15	-	-	-
Fare Box income (Minimum Cost Contracts)	No escalation	0.96	0.29	0.29	0.29	0.29
Contribution from 3 rd Party (Other)	No escalation	0.02	0.02	0.02	0.02	0.02
Cross Boundary	No escalation	0.10	0.10	0.10	0.10	0.10
Grant Income	No escalation	0.22	0.22	0.22	-	-
Total Income		8.77	6.46	3.31	3.09	3.09

A description of each of these income lines is provided below:

- **Zero fare pass income:** This is an income line where the MCA receives funding from Local Education Authorities (LEA), including Barnsley, Doncaster, Rotherham and Sheffield councils. The funding supports the provision of free passes to eligible students for travel between their home and school. This line offsets some of the cost of child concessions. It is £1.55 million in 2023-24 and is assumed to be flat going forward to reflect the likely funding commitment from districts.
- **BSOG (Devolved):** The Bus Service Operators Grant is annual funding the MCA receives from the DfT for running Tendered Services. This is distinguished from BSOG (Commercial) which is paid by DfT directly to operators. BSOG is a fuel-based subsidy that aims to reduce the costs of running bus services and also includes incentive-based payments. Around £1.13 million per year with a flat profile is assumed for BSOG over this period. No growth is assumed given the current uncertainty over the future of BSOG with DfT currently looking to reform the grant. Reforms being considered include new BSOG Plus payment based on distance and a range of other metrics such as patronage in some areas. DfT are due to launch a consultation. However, at the time of the Assessment these reforms have not been announced and therefore the status-quo position on BSOG has been maintained.
- **LTF 4:** Local Transport Funding was received from the DfT as a final support package in the wake of COVID-19. As this was a discretionary funding line for COVID-19 as the impact of the pandemic on patronage has eased, £1.6m has been forecast for 2023/24 and then it is assumed that no further funding will be provided from 2024/25 onwards.
- **BSIP+:** The Bus Service Improvement Plan Plus grant is a time-limited funding received in 2023/24 and 2024/25 from DfT, with £3.15m assumed in both years. Additional BSIP+ funding of £7.8m is expected for 2024/25. It is intended to fund the development of a BSIP strategy by South Yorkshire. No further BSIP+ funding has been assumed in the financial model. However, recent guidance released by DfT on 2024 BSIP Plans indicates that further funding opportunities for BSIP+ may arise between 2025-26 to 2028-29.
- **Fare Box income (Minimum Cost Contracts):** This income line represents a portion of the revenue risk that the MCA assumes for certain Tendered Services. By doing so, the MCA directly influences the local transport ecosystem, managing the delicate balance between maintaining essential services and ensuring their financial sustainability. During COVID-19, the MCA had to assume more revenue risk on bus services for this purpose. In the post-pandemic period, around £958k has been assumed for 2023/24, and from 2024/25 onwards £290k per annum has been assumed as only a small fraction of Tendered Services have revenue risk on them.
- **Contribution from 3rd Party (Other):** This income is derived from third-party contributions for any extensions or deviations to existing routes or services. It is likely that some of these contributions will continue and around £20k per annum is assumed going forward.
- **Cross-boundary:** Cross Boundary income represents the revenue share received by the MCA from cross-boundary services that are jointly specified by the MCA and neighbouring authorities. This is a volatile income line which fluctuates and therefore the forecast includes £100k per

annum of net income from cross-boundary services. This nets off against the cost of cross-boundary services line on the cost side.

- **Grant Income:** This represents the income from the EP capacity grant provided by the DfT to enable the MCA to fund the resources required to deliver EP. It is a total of £660k that the MCA has spread over 3-years of £220k per annum. As this is a discretionary one-off grant by DfT it is not assumed to continue from 2026/27 onwards.

4.4.4 The MCA's operating costs

A 30-year forecast for costs under EP is also based on the MCA's Medium Term Financial Plan. A subset for this has been extracted to summarise the cost that relates to the provision of bus services and is shown in Table 94 below for 2023-24 to 2027-28.

It is important to highlight that this cost forecast makes the following assumption:

- That the MCA's Tendered Services budget (see description below) only grows at 2% per year from 2025-26.¹²⁵ Growth of 2% per year may not be sufficient to account for the risk that the MCA needs to fund additional Tendered Services if services are cut by operators. This issue is discussed in more detail in section 4.4.7 on the risks under EP.

Costs over this period are forecast to remain relatively flat at around £40 million per annum from 2025-26. Beyond 2027-28, various indexation assumptions have been applied to the costs which are set out in the table below.

Table 94 – Enhanced Partnership Costs 2023/24 to 2027/28 (nominal)

EP Costs (£m)	Indexation	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028
Concessions – ENCTS	Assumed 2% growth	(17.42)	(17.60)	(17.77)	(18.13)	(18.49)
Concessions – Child Concessions	No escalation assumed	(4.24)	(4.24)	(4.24)	(4.24)	(4.24)
Discretionary Expenditure – Community Transport	No escalation assumed	(1.66)	(1.66)	(1.66)	(1.66)	(1.66)
Tenders – Tendered Bus network	Assumed 2% growth from 2025/26	(23.30)	(31.20)	(13.87)	(14.14)	(14.43)
Tenders – Cross Boundary	No escalation	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)
Bus Services (Tender Contract Management) – Wages & Salaries	RPI	(0.47)	(0.48)	(0.49)	(0.50)	(0.51)
Bus Services (Tender Contract Management) – Supplies & Services	No escalation for 4 years then RPI	(0.12)	(0.12)	(0.12)	(0.12)	(0.13)
Concessions & Ticketing – Team Cost	RPI	(0.25)	(0.26)	(0.27)	(0.27)	(0.28)
Concessions & Ticketing – Supplies & Services	RPI	(0.48)	(0.48)	(0.48)	(0.48)	(0.50)
Contact Centre – Team Cost	RPI	(0.50)	(0.51)	(0.52)	(0.53)	(0.55)
EP – Staff costs	RPI	(0.12)	(0.12)	(0.12)	(0.13)	(0.13)
EP – EP Marketing	No escalation	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)
Total Costs		(48.76)	(56.87)	(39.74)	(40.40)	(41.12)

A summary of the operating costs for the MCA's EP scheme are provided below.

- **ENCTS:** It is mandatory in England for Transport Concession Authorities, such as the MCA, to ensure concessionary fares for eligible passengers. The English National Concessionary Travel Scheme (ENCTS) is a subsidy that the MCA pays to operators to cover fares for such eligible passengers, including seniors and disabled individuals. The MCA forecasts the costs for ENCTS annually, using a combination of passenger usage data and the most recently negotiated reimbursement rates with each operator. The goal of this subsidy is to promote accessibility and

¹²⁵ SYMCA's Medium Term Financial Plan

mobility among vulnerable populations. Around £17.4 million has been budgeted for 2023-24 specifically for bus, and this is assumed to grow over time based on patronage forecasts from the MCA provided up to 2029-30. After this date, the cost of ENCTS is assumed to grow at 2% which reflects the MCA's planning assumption for the MTFP.

- **Child Concessions:** This is a subsidy that the MCA pays to operators to compensate them for discounted fares given to eligible children. This is a discretionary subsidy and is not mandatory like ENCTS. The costs associated with this line item are calculated by the MCA on an annual basis, using forecasts for patronage and the most recent reimbursement rates negotiated with operators. This subsidy plays a crucial role in promoting affordability and accessibility of public transport for younger riders, underlining the MCA's commitment to supporting education and youth mobility. The cost of child concessions across all modes is £4.2 million in 2023-24. No escalation in the cost is assumed as in practice the actual amount reimbursed to operators has been significantly less than this budget in recent years and therefore there is already headroom in this budget line to accommodate future growth.
- **Tenders – Bus Network:** This is the subsidy that the MCA pays for services that it tenders out including evening and weekend services and other socially important bus services that are not viable to be provided on a commercial basis. Around £23.3 million is budgeted in 2023-24 and £31.2 million in 2024-25 which reflect an increase in BSIP+ funding received. This will reduce to just over £13.8 million in 2025-26 when this funding tails off and certain temporary services are removed. The cost of Tendered Services is assumed, as mentioned at the beginning of the section, to rise by 2% per year to be sustainable from a financial perspective. However, there is uncertainty whether this will be enough to maintain service levels if operators make further cuts to the network.
- **Tenders – Cross Boundary:** Subsidy for cross-boundary services that are funded by the MCA (including jointly with other neighbouring authorities) and have a net cost associated with them. This is a volatile line and fluctuates on a yearly basis depending on the cost of cross-boundary services. A cost of £100k is assumed which nets off the income from cross-boundary services specified above.
- **Bus Services (Tender Contract Management) – Wages and Salaries:** The wages and salaries of staff working on tendering bus services within the MCA, within the Public Transport Operations team. This cost was £470k in 2023-24 and is expected to grow in line with RPI.
- **Bus Services (Tender Contract Management) – Supplies and Services:** The equivalent cost of supplies and services for tendering bus services within the MCA. This cost is forecasted to be flat for 4 years and then assumed to grow with RPI.
- **Concessions and Ticketing – Wages and Salaries:** The wages and salaries of staff working on concessions and ticketing within the MCA within the Public Transport Operations team. This cost was £250k in 2023-24 and is expected to grow in line with RPI.
- **Concessions and Ticketing – Supplies and Services:** The equivalent cost of supplies and services for concessions and ticketing within the MCA. This cost is forecasted to be flat for 4 years and then assumed to grow with RPI.
- **Contact Centre Ticketing – Wages and Salaries:** The MCA have staff that handle customer complaints and queries relating to bus services in the area. The wages and salaries cost £250k in 2023-24 and is assumed, along with other staff costs, to grow along with RPI.
- **EP – Staff Costs:** The cost of the additional staff that have been hired to implement the EP scheme in South Yorkshire. The cost is £120k in 2023-24 and is forecast to grow in line with RPI.
- **EP – Marketing Costs:** Budget provision for any marketing costs for bus initiatives through the EP scheme. The cost is £100k in 2023-24 and is forecast to be flat going forward.

The costs above relate to the provision of bus services only. There is also spending, including capital expenditure, on bus infrastructure as well which is not shown above. This has been excluded on the basis that bus infrastructure measures are assumed to stay the same in all EP and Franchising Options.

However, under Franchising, the MCA will be able to benefit directly from bus infrastructure measures as it can capture the revenue directly.

4.4.5 The MCA's Funding and Affordability

The main source for funding for the bus services in the MCA under EP is the Transport Levy specified above. Figure 44 below shows the profile of funding available from the Transport Levy in total (including for all modes) and the Transport Levy available for bus services expenditure. It is assumed that the Transport Levy available for bus services expenditure grows at 2% per year up to 2029-30. From 2030-31 onwards, for the Reference Case, it is also assumed that the Transport Levy for bus services expenditure will continue to grow at 2%.

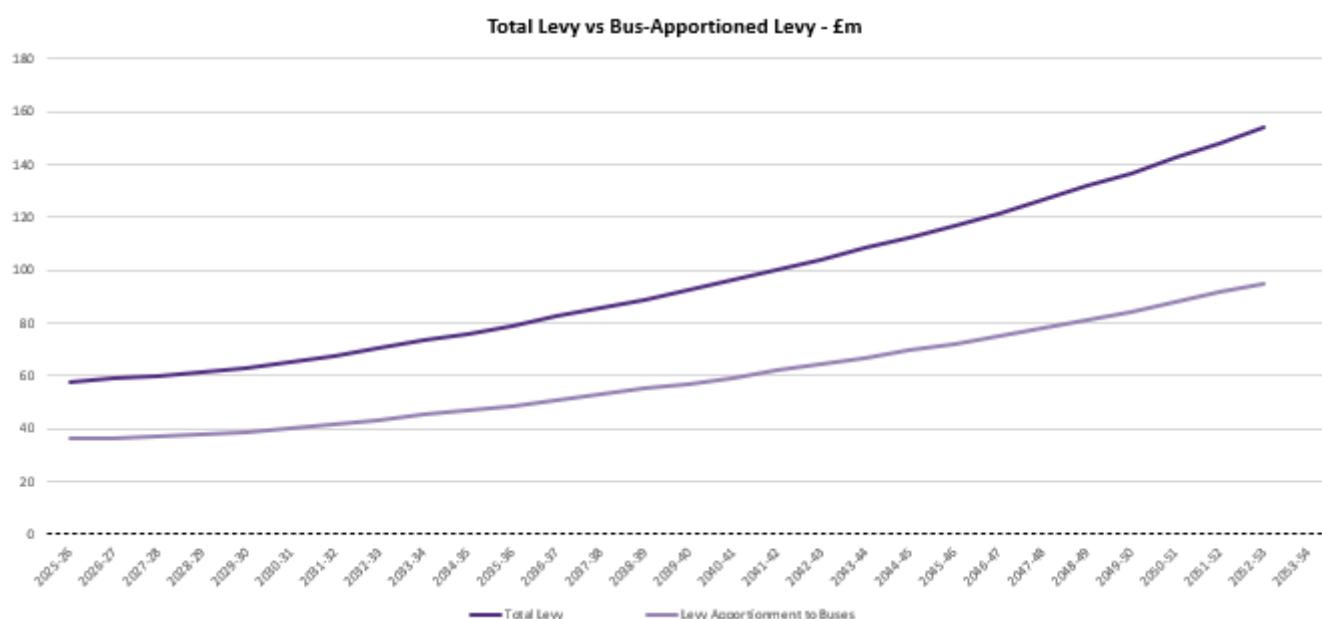


Figure 44 Total Transport Levy available and Transport Levy available for Bus Services Spending (nominal)

4.4.6 EP Outputs and results for the MCA

The net cost of EP remains flat at current levels based on the costs and revenues set out above under the MCA's Medium Term Financial Strategy and is therefore affordable. The modest rise of 2% in the Tendered Services budget is funded by a planned rise of 2% in the Transport Levy available for bus services expenditure in the long-term.

However, this modest rise in the Tendered Services budget, whilst affordable, leads to a risk that the network will decline further. If the MCA sought to offset this decline then the Tendered Services budget would rise and likely lead to EP becoming more unaffordable over time.

4.4.7 Risks – EP

The table below sets out the key risks and potential mitigations under EP.

Table 95 Risks under EP

Name	Description	Mitigation	Commentary on residual risk
Tendered services budget pressure	The primary risk of continued EP is in the event operators cut further commercial services which would lead to areas in South Yorkshire losing public transport links. The industry at present is operating at margins below historic norms due to the impact of Covid-19. It is likely that commercial operators will need to make further cuts to achieve historic margins in the range of 10-15%. If this risk were to materialise the MCA may be expected to support the loss of key services by tendering services. This could require further budgetary provision for tendered services.	This risk could be mitigated by the MCA by: <ol style="list-style-type: none"> 1) Accepting some level of network decline and maintaining its budget for tendered services. 2) Funding some tendered services through reserves on a temporary basis 3) Seeking additional funding sources (see funding section below) to raise further funding including via options such as the Transport Levy, funding from central government or other areas. 	Allowing the network to decline would mitigate the affordability challenge but it would cause instability in the bus network if further services were cut. The instability could further make the bus network less appealing to passengers and therefore additional revenue could be lost. Seeking additional funding would work more effectively if a sustainable source of funding was found. Current budget constraints are limited as under EP, the MCA do not benefit from the revenues of commercial services to subsidise Tendered Services. Therefore, only funding from levies, taxes or long-term grants from central government would address the affordability challenge long-term.
Enhancement costs for EP higher than current forecast	The EP proposal does not account for any MCA enhancement costs for EP including replacing the bus fleet, ticketing or other measures. These costs are assumed to be borne by the industry. As the average age of the fleet in South Yorkshire is 11.5 years, there may be fleet renewal or enhancement costs that emerge over the appraisal period. These costs could be funded by operators, but it is possible that the MCA may have to bear some of these costs especially if they want the renewal to happen quicker or in relation to initiatives such as Net Zero buses.	To mitigate this risk, the MCA could accept an older fleet for longer, therefore deferring the required investment for new fleet. Additional funding, including from central government through initiatives such as ZEBRA could also speed up the rollout of new vehicles and reduce the costs for either operators or the MCA. The MCA could also consider funding options such as CRSTS to address gaps in fleet renewal funding.	Accepting an older fleet for longer may help the affordability challenge in the short-term but could exacerbate the challenges long-term as older vehicles are less reliable. Should operators fund fleet renewal from their business income it is likely that the commerciality of some routes could be challenged, leading to calls for greater public funding through Tendered Services. Should operators look to increase fares to support fleet renewal it is also possible that there would be calls for greater public subsidy for certain fares. Central government funding via ZEBRA would help fund Net Zero vehicles to come into the fleet sooner but as these are competition-based grants, it may only fund a small portion of the fleet.
Transport Levy does not grow in line with business planning assumptions	Currently the Transport Levy is collected from various authorities that raise these funds through Council Tax. The MCA budget for the Transport Levy to grow by 2% annually up to the end of the decade. If any policies are introduced which have an impact on this levy (such	The MCA would need to develop alternative funding strategies that could be used were the risk to materialise. Various funding options that could	Cost savings and additional funding sources would help reduce the risk, but any residual risk would depend on the sustainability of the funding source.

Name	Description	Mitigation	Commentary on residual risk
	<p>as freezing Council Tax) the growth budgeted will not be realised and could cause a funding gap.</p> <p>The Transport Levy is divided between bus, light rail and an element of heavy rail. For 2025/26, based on the MCA's forecasts, EP utilises approximately 62% of the total Transport Levy. This percentage is expected to remain consistent annually within the model as the overall Transport Levy grows by 2%. If demands on this Transport Levy causes the funds to be diverted from bus to light or heavy rail, there will be a financial implication to funding the bus network.</p> <p>If this risk were to materialise, the MCA would need to develop other revenue sources to bridge the funding gap.</p>	<p>be considered are outlined in the funding scenarios section below.</p> <p>Otherwise, the MCA could consider finding savings in the Tendered Services budget to reduce costs.</p>	

4.5 COMMON ASSUMPTIONS ACROSS EP PLUS AND FRANCHISING

The Franchising Assessment has been developed on the basis that comparable outcomes can be achieved under both EP Plus and Franchising. As a result, the EP Plus and Franchising schemes are assumed to deliver the same network, level of investment in terms of fleet renewal, net zero upgrades and other measures that drive key outcomes on the network. A summary across these key cost areas is provided below.

4.5.1 Network and Revenue

Under EP Plus and Franchising the network is assumed to begin at the level of service of the October 2023 network. Like the Reference Case, this declines post-March 2025 to reflect reduced budgets for Tendered Services. However, as the network transitions to either EP Plus or Franchising, the original October 2023 network is brought back as EP Plus or Franchising are implemented.

Under Franchising, the MCA will be in full control of network planning and the levers will be in place to contractually mandate that franchise operators serve routes to specified frequencies corresponding to the October 2023 network. Under EP Plus, operators will still be running commercial services and the October 2023 network will be delivered by a combination of these commercial services and through Tendered Services contracts that the MCA mandates.

The revenue is based on the network assumptions and is discussed in more detail in the Economic Case. Within the Financial Case, it is assumed revenue grows at RPI.

4.5.2 Network operating costs

To determine the total operating costs, six years of historic financial and operational data was sourced from operators in South Yorkshire in March 2023. This data was distilled into the key cost lines for operating bus services including:

- **Fuel Costs:** The cost of fuel is volatile and subject to fluctuations based on variables like geopolitical events, crude oil supply, and exchange rates. Larger operators will have greater economies of scale to purchase fuel at a better price and some may also pursue hedging strategies to get a fixed price and reduce the volatility. Operators are currently subsidised on their fuel by DfT through the BSOG (Commercial) grant. For modelling purposes, the fuel cost continues to be netted off by BSOG (Commercial). Under Franchising though, in practice the DfT would roll up BSOG (Commercial) into a single grant and pay it directly to the MCA.
- **Residual Overhead Costs:** These are the ongoing costs of the organisation that cannot easily be attributed to activities relating to running bus services. This includes administrative functions, utilities, and depot / premises rent.
- **PCV (Passenger Carrying Vehicles) Insurance Costs:** This covers potential liabilities, including accidents, damages, or injuries. Factors influencing PCV insurance cost include the size and type of vehicle, fleet size, and the company's claims history.
- **Maintenance Costs:** Maintenance costs pertain to the upkeep of bus fleets, including regular servicing, repairs, and part replacements to ensure vehicle safety, reliability, and compliance with legal standards. Costs can be high, particularly for older fleets, and are affected by vehicle type, fleet age, local terrain and weather conditions.
- **Pension Costs:** These are the costs associated with providing retirement benefits to employees. Managing pension schemes can be complex due to fluctuating regulatory requirements and market conditions that impact pension fund investments. The cost will vary based on the type of pension scheme, employee numbers, and the terms of the pension plan.
- **Maintenance Staff Costs:** These are the wages, benefits, and training costs for staff members tasked with maintaining the bus fleet, including mechanics, engineers, and other support staff. Costs can fluctuate based on fleet size, the maintenance schedule, and labour market conditions.

- **Driving Staff Costs:** Driving staff costs are a significant part of operational costs and include salaries, benefits, and training for bus drivers. Influencing factors include peak vehicle requirement to run registered services, number of routes, and labour market conditions.
- **Other Staff Costs:** These encompass wages and benefits for all other staff not directly involved in maintenance or driving, such as administrative personnel, customer service representatives, schedulers, and management. The size and efficiency of the organizational structure can significantly impact these costs.
- **Depreciation:** This covers the depreciation costs that operators incur as a result of the reduction in the value of their fixed assets such as fleet or depot in a given year. Depreciation has been accounted for by explicitly modelling a capital acquisition and renewal profile for depots and fleet based on the useful life of those assets. Further detail on fleet financing and acquisition is set out in section 4.5.4 and 4.5.5 below.

Based on these key cost lines, from the operator data received, a set of operator metrics were constructed which provided the key costs for running bus services on a per mile, per vehicle or alternative metric basis. A summary of the metrics used is provided in Table 96 below along with the indexation approach.

Table 96 Operator data metrics

	Unit	Indexation
Fuel Costs	£/mile	RPI
Residual overhead costs	£/mile	RPI
PCV Insurance costs	£/fleet	RPI
Maintenance costs	£/mile	RPI
Pension costs	£/total staff cost	No escalation - (is a % of total staff cost)
Maintenance staff costs	£/fleet	RPI
Driving staff cost	£/mile	RPI
Other staff cost	£/mile	RPI
Depreciation cost ¹²⁶	£/fleet	N/A

These metrics are then used to allow the costs to be scaled for the EP Plus and Franchising network. The mileage and vehicle requirements are specified in the table below and used along with the metrics to calculate the operating costs.

Table 97 Network mileage and PVR (from network section of Economic Case)

Network Scenario	Mileage (millions)	Vehicle Requirement (including spare vehicles)
EP Plus and Franchising network	26.7	745 (653 excluding spares)

¹²⁶ See depreciation bullet point above, these costs are stripped out of the model and are accounted for by explicitly modelling a capital acquisition and renewal profile based on the useful life of those assets.

Using the operator metrics and the mileage and vehicle requirement data above, the proportion of operator costs for the year 2023-24 are shown in Figure 45 below. It can be seen below that the most substantial cost is driving staff which accounts for 41% of total operating costs. Maintenance and maintenance staff costs account for 9% and 10% of total operating costs respectively. Other notable cost lines include fuel costs (which have been netted off with BSOG) and residual overhead costs at 19% of total operating costs.

It should be noted that as the fleet transitions to ZEBs, it is expected that operating costs dependent on mileage will be significantly less as ZEB are generally cheaper to run on a per mile basis than Diesel buses subject to electricity prices. However, the financial modelling has taken a conservative assumption and not accounted for this reduction in future operating costs. This potential upside has been reserved to cover potentially unforeseen cost risks.

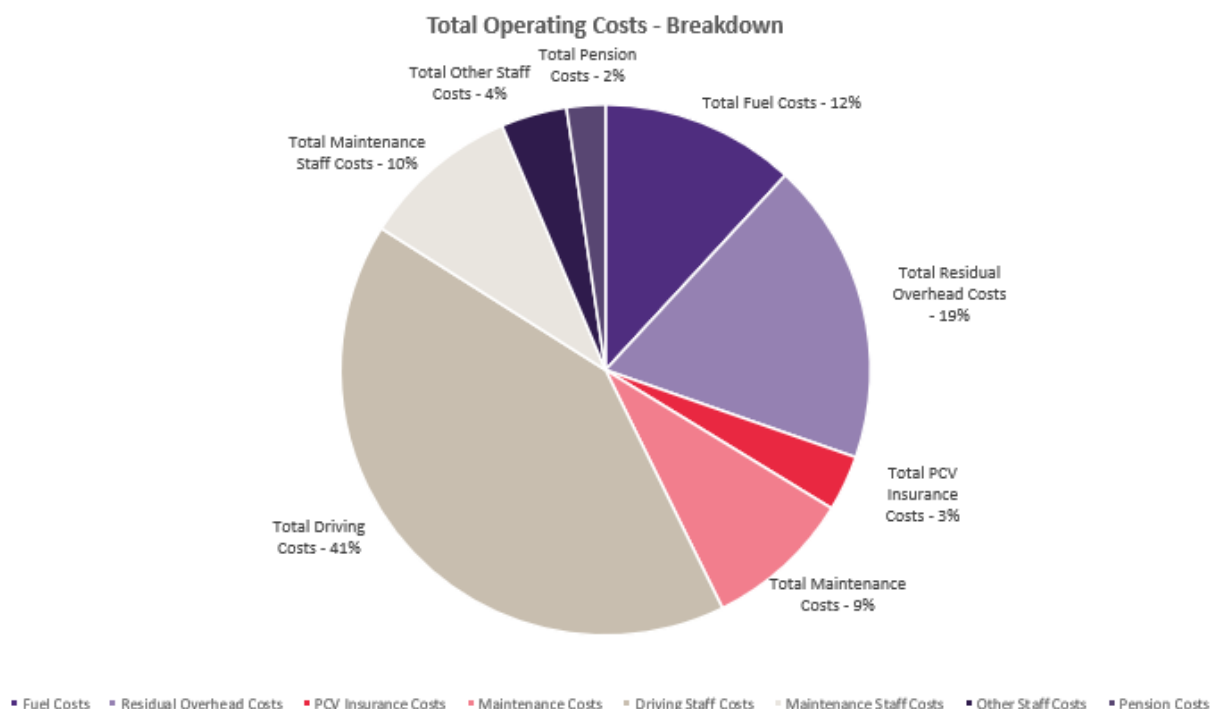


Figure 45 - Operator costs 2023-24

4.5.3 Approach to Optimism Bias

As well as in the Economic Case, Optimism Bias has been applied in the Financial Case to the cost estimates of items given the early stage of analysis to account for the fact that:

- There are known risks that could lead to cost estimates changing but these may be difficult to quantify.
- There are unknown risks (uncertainty) that could also inflate costs (e.g. force majeure risks) that cannot be quantified.
- There are psychological biases amongst project appraisers that lead to overly optimistic estimates for costs, revenues and time.

Optimism Bias (OB) is therefore applied to these cost estimates to account for the risk factors stated above. A summary of the cost categories and the amount of OB required is provided in Table 98 below. Given the early stage of work, generally the approach taken is that the top end of the range for OB or higher has been applied based on the cost category in the Green Book. The one exception is vehicle costs where there is not a standard Green Book / TAG category. For this cost, there is already a buoyant market for buses in the UK and the costs are well understood and known – especially for diesel buses. The MCA have recently acquired Zero Emissions Buses through the Zero Emission Bus Regional Areas (ZEBRA) scheme which involved consulting directly with the market on prices. As a result, an OB of 20%

has been chosen to balance the fact that this is a fairly well-known cost with the fact that there may still be some residual uncertainty because cost estimates have not directly been obtained for this particular Franchising Assessment but based on comparable business cases.

Table 98 Optimism bias assumptions

Cost area	Data Source	Risk factors	Green Book / TAG category	OB Uplift
Depot acquisition (Capital)	Survey work on depot valuations by Sanderson Weatherall (including on-site inspections)	Costs could increase based on commercial negotiation. There may be alternative uses for the depots that could make operators reluctant to sell.	Standard Buildings used as reference point for MCA assumption but uplifted to represent risk factors.	70% applied as MCA assumption
Depot Infrastructure Upgrades (Capital)	Estimates based on MCA's cost for ZEBRA funded upgrades of Rawmarsh	Costs extrapolated from original ZEBRA bid and would need to be updated to account for site specific factors. Uncertainty in relation to substation costs	Non-standard Civil Engineering	70%
Fleet (Capital)	Operator data – fleet register	Much of existing fleet is old and will require renewal and replacement	Greener Bus Tool Guidance	20%
Ongoing Staff costs for BAU phase (MCA Operating Costs)	Management Case work on Target Operating Model The MCA Salary Bands	There may be difficulties with recruitment at present salary levels. Some expertise assumed in-house may have to be outsourced.	Outsourcing	41% for outsourcing category
Staff costs for Transition Phase (MCA Operating Costs)	Management Case work on Target Operating Model the MCA Salary Bands	There may be difficulties with recruitment at present salary levels. Some expertise assumed in-house may have to be outsourced.	Outsourcing	25% for outsourcing category
Franchise Payments	Operator Data Cost Base	Operator costs could be higher than expected	Not applicable as recent costs from operators	Not applicable as recent costs from operators – sensitivities for Franchise Payments shown

4.5.4 Acquiring and upgrading depots

There are 7 major strategic depots within South Yorkshire that are listed in Table 99 below. Under EP Plus, operators will continue to retain access to the depots they already own. Under Franchising Option B (which is the preferred option for Franchising as set out in the Strategic, Economic and Commercial Cases), the MCA will need to secure access to these depots. However, under EP Plus, the depots will not need to be acquired as the existing market structure remains intact and operators in South Yorkshire will retain access to the depots they own.

The MCA has undertaken surveys of these 7 major strategic depots within South Yorkshire to determine their current market value and potential cost of acquisition. It should be noted that the Ledger Way depot in Doncaster is already owned by the MCA and currently leased out to an operator.

As outlined in the Commercial Case, these depots will need to be upgraded to deliver the MCA's planned rollout of Net Zero vehicles. At present only the depot in Rawmarsh (Rotherham) has charging provision for 27 ZEBs through a previous round of ZEBRA funding. The cost estimates for depot upgrades are based on previous MCA analysis in relation to the costs of transitioning their bus fleet to Net Zero. Upgrading depots is profiled to take place between 2027-28 to 2031-32.

The total cost to upgrade depots is set out in Table 100 below. In the longer-term, depot renewal costs have been factored in for activities including maintenance and refurbishment of the buildings and associated infrastructure. These are assumed to equal the costs of the original acquisition of the depots.

Table 99 Major strategic depots in South Yorkshire

Depot
Ledger Way (Doncaster)
Barnsley
Rawmarsh (Rotherham)
Olive Grove (Sheffield)
Holbrook (Sheffield)
Ecclesfield (Sheffield)
Halfway (Sheffield)

Table 100 ZEB Infrastructure upgrade costs

Depot	Cost (£m) – Nominal cost including OB
Total ZEB Infrastructure upgrade costs between 2027-28 to 2031-32	57.9

4.5.5 Fleet Acquisition and Renewal

The average age of fleet in South Yorkshire is high at 11.5 years. The MCA's ambitions are to acquire (or build into the franchise) vehicles that are not older than 15 years old. Under Franchising, vehicles 14 or less years old will be acquired on a residual value basis from operators and this has been accounted for in the modelling.

Given the age of the fleet, this will require significant bus renewals under both EP Plus and early in the Franchise contracts when vehicles life expire at 15 years old. The following scenario has been used in the model and applies to both the EP Plus option and Franchising Option B:

- **Between 2027-28 and 2034-35:** 30% of all vehicles requiring renewals will be upgraded to ZEBs
- **From 2035-36:** 100% of vehicles requiring renewals will be upgraded to ZEBs.

By taking this approach Figure 46 shows the composition of the South Yorkshire bus fleet over time. It can be seen that:

- Circa 30% of the fleet will be ZEB by 2035
- The vast majority of the fleet will be ZEB by 2045 – with a very small tail of diesel vehicles due to some diesel vehicles still being bought in the early 2030s and not life expiring until post-2045.

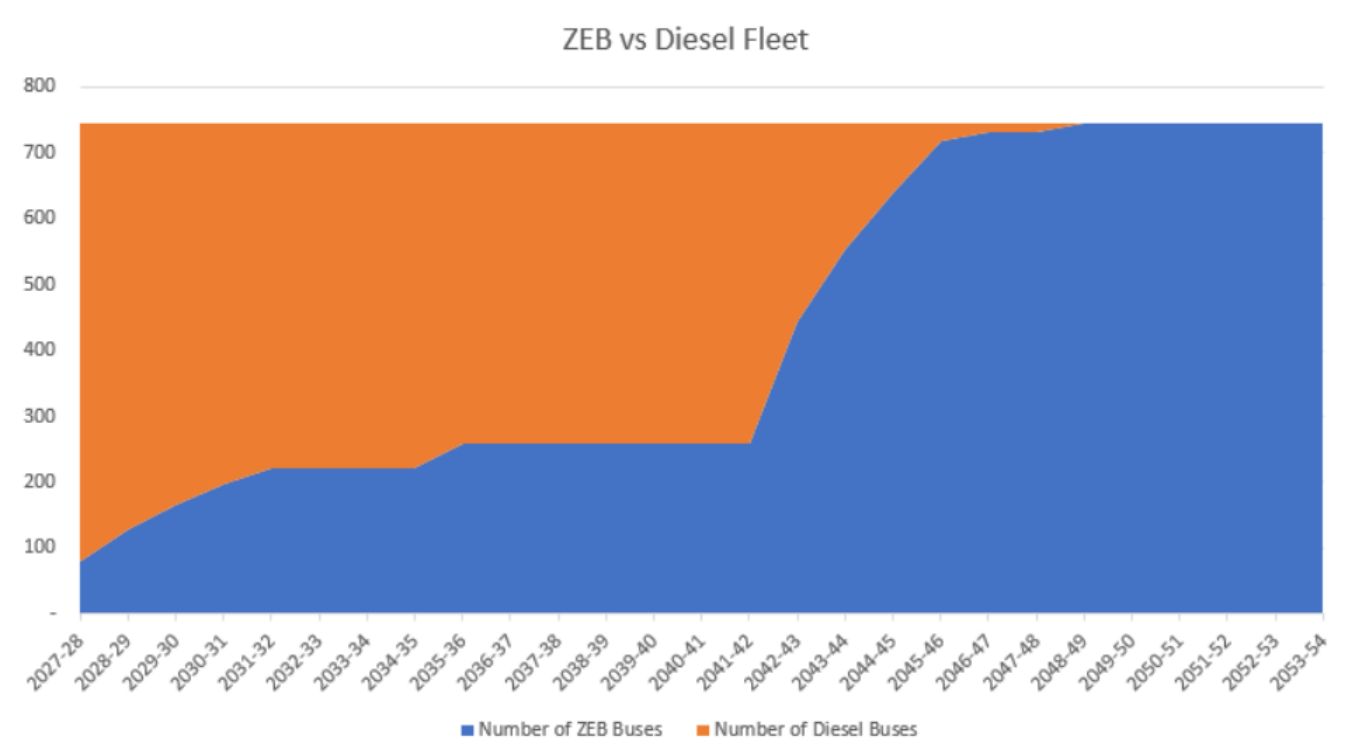


Figure 46 Number of Diesel and ZEB during appraisal period

Net Zero buses are assumed to require a battery replacement in the 8th year of their life, which is assumed to be at 30% of the cost of a Net Zero bus. A 100% ZEB bus fleet generally requires 4% higher vehicles than a bus fleet comprising 100% diesel vehicles. This has not been modelled in the Assessment as there is a gradual transition to ZEB vehicles but in general there is an assumption of spare vehicles of up to 15%.

Modelling has been conducted of what the full renewal profile would look like over the 30-year appraisal period. The profile of the capital cost of fleet and depot expenditure is shown in Figure 47 below. This assumes that vehicles are replaced when they reach the end of their useful life of 15 years. There is an initial acquisition and renewal period primarily between 2027-28 to around 2031-32 and there is a second renewal cycle beginning in 2042-43. It is assumed that the cost of a vehicle grows at RPI.

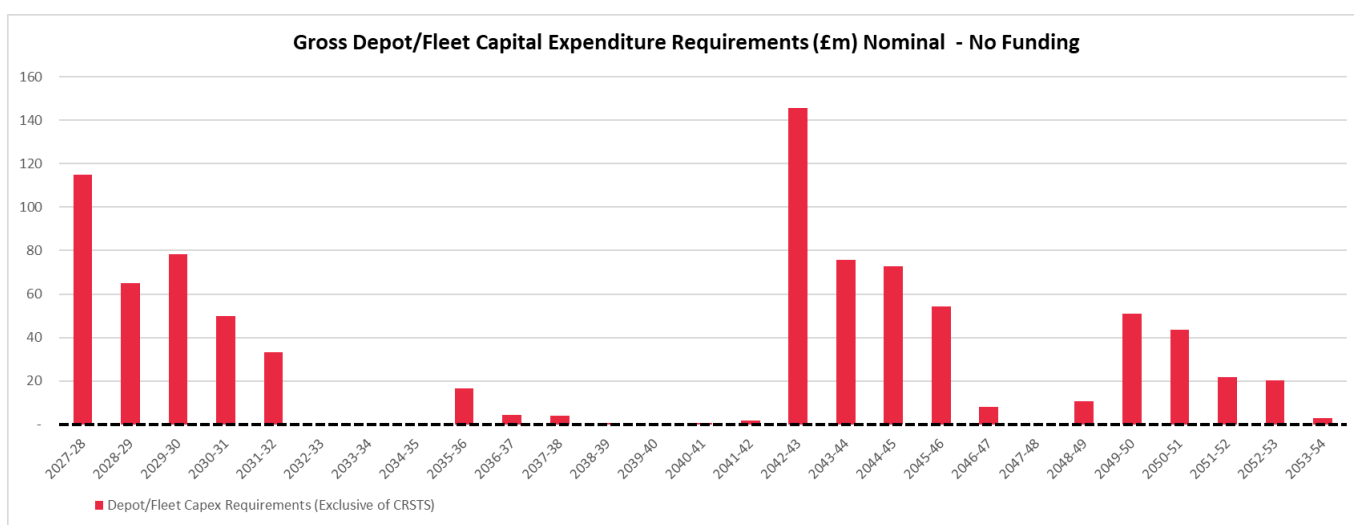


Figure 47 Depot and Fleet capital expenditure profile £m (nominal)

4.5.6 Financing and Cash Balances

The public sector rate of financing assumed is 5% and based on a broad average of the Public Works Loan Board (PWLB) interest rates in 2023-24 and historical trends. Private sector interest rates are assumed to have a 2% premium on PWLB to represent the greater risk of private sector borrowing. The assumed interest rates are set out in Table 101 below.

For years where there is a cumulative surplus for EP Plus or Franchising, cash balances have been assumed to grow at 2%. This is a prudent assumption compared to the level of interest rates in 2023-24 and matches the lower end of estimates of what can typically be obtained in the current market.

Table 101 Public and Private Sector borrowing rates

Financing assumptions	Interest rate
Public Sector Borrowing Rate	5%
Private Sector Borrowing Rate	7%
Interest on cash balances	2%

4.5.7 Inflation

A summary of the indexation assumptions taken on key income and the cost lines that are common to EP Plus and Franchising are provided in Table 102 below.

Table 102 Indexation for key income and cost lines

Income (indexation)		Costs (indexation)	
Fare Paying Ticket Revenue	RPI	Operating Costs – see section 4.5.2	Dependent on cost line
Concession Ticket Revenue	RPI	Concessions – only during transition period	RPI
BSOG (Devolved)	No escalation	Tendered Services – only during transition	2% from 2025-26
Other income	No escalation	Staff costs for buses team including concessions and ticketing and contract management	RPI
		Additional Franchising Staffing Costs during transition and BAU	RPI
		Depot / Fleet purchases.	RPI for underlying asset acquisition values

4.6 ENHANCED PARTNERSHIP PLUS

4.6.1 Funding Flows

As stated in the Strategic Case, the Franchising Assessment is considering a further option, which is known as the EP Plus model. This model does not fundamentally alter the structure of financial flows or the allocation of risks in the bus industry in South Yorkshire. These financial flows are illustrated in Figure 43 above. Under EP Plus, as with the Reference Case the MCA and operators need to jointly agree on proposals for the bus network. The Reference Case specified above assumes the MCA's

existing agreement with bus operators. Under EP Plus, the assessment goes beyond the existing EP agreement and assumes that further interventions and changes can be achieved so that outcomes are broadly comparable with Franchising.

As noted in the Commercial Case, under EP Plus, private sector bus operators will take revenue and cost risk on the operation of commercial bus services. The MCA will be responsible for funding or providing subsidy for Tendered Services which are not commercially viable in their own right – which will expand under this option to fund the additional services forecast to be run under the EP Plus option. As mentioned in the Commercial Case, operators take revenue risk on most of these Tendered Services which are let on a ‘minimum subsidy’ basis whilst school services are typically let on a ‘minimum cost’ basis where revenue risk sits with the MCA. The MCA also provides reimbursement to operators to compensate them for providing services to passengers eligible for concessionary tickets.

To help fund tendered and concessionary services, the MCA would receive funding from South Yorkshire district authorities including Barnsley, Doncaster, Rotherham, and Sheffield through the Transport Levy. Contributions for the Transport Levy are based on the population of each district and each authority factors in the levy when setting their council tax levels. Under this model, the MCA will also receive funding directly from Central Government including BSOG for tendered services and other discretionary grants such as grants for BSIP+ funding. Each of these lines are described in detail in section 4.4.3.

4.6.2 Tendered services margin

The margin for Tendered Services is assumed to be 10% which reflects the historic margins operators have reported. Furthermore, whilst competitive processes are run for Tendered Services, in practice many of the contracts have little competition. For example, many Tendered Services contracts relate to extending existing services provided by incumbent operators to also run in the evenings and weekends. As a result, it would be expected that operators will negotiate to secure their target margin. Under Franchising, however, it is expected that greater competition from attracting new bidders will drive down margins.

4.6.3 Staffing, Management and other transition costs

The staff and resource requirements are set out in the Management Case. These have been converted into costs within the Financial Case based on standard rates for the external resources required and using the MCA’s salary bands for internal staff. MCA staffing and management costs consist of temporary transition costs which are external resources required to develop the EP Plus option between 2024-25 and 2026-27. Additional internal staff resources will also be required and these gradually ramp up from 2024-25 to 2027-28 and settle at the same level from 2028-29 onwards. Additional costs are factored in for implementing unified ticketing with operators through Travelmaster – although it should be noted that these costs are uncertain.

Table 103 Transition Staff Costs for EP Plus

Cost category	£m Nominal with OB
Transition Staffing Costs for EP Plus between 2024-25 to 2027-28	5.5

4.6.4 Funding scenario EP Plus

The base funding scenario for the MCA is set out in section 4.4.5 above and involves the Transport Levy available for funding bus services. As noted above, the Transport Levy available for bus services expenditure is assumed to rise by 2% per year up to 2029-30 under this scenario. For comparative purposes it is assumed that to facilitate EP Plus, from 2030-31 onwards, the Transport Levy available for

bus services expenditure can then rise at RPI+1% which is in line with the funding scenario also made for Franchising.

No further funding from the MCA is assumed for EP Plus for capital expenditure as the MCA would be restricted by subsidy control rules from using a significant amount of CRSTS funding to buy buses for private sector operators. In order to fund fleet renewal, it is assumed that:

- Between 2027-28 and 2031-32 the private sector is able to fund the fleet renewal through its own sources of capital – for example, via funding from its parent company – or alternative sources of public funding could be found that would not fall foul of subsidy control rules.
- After 2031-32, the private sector will borrow money in order to fund fleet renewal.

Under EP Plus, if private sector operators were not able to fund capital requirements for fleet directly and no further sources of public funding could be found, then fleet renewal may be slower and comparable outcomes to Franchising may not be achievable. Furthermore, there is significant uncertainty as to how much of any investment into a new fleet would be absorbed by the bus operators. For comparability with Franchising, we have assumed that the operators would be able to secure a similar amount of grant funding to that assumed the MCA can secure under Franchising. Therefore, these costs would not be passed onto the MCA or passengers. In the event this funding is not available it is possible that either fewer outputs would be possible, or more costs would be recovered from the MCA which would create affordability challenges.

4.6.5 EP Plus Output and Results

The financial position of EP Plus has been shown in Figure 48 and Figure 49 on a “whole of industry” basis which accounts for the revenues and costs of all the bus operators as well as the revenues and costs of the MCA and the funding position outlined above. This makes the position more comparable with Franchising (where all the revenues and costs of the bus industry are internalised into the MCA’s budgets).

The results show that:

- EP Plus is not affordable on a cumulative basis over the appraisal period.
- The industry marginally stays in a modest annual surplus on the assumption that capital expenditure for fleet renewal can be funded through third-party grants.
- The industry tips into a significant annual deficit though when another major capital renewal cycle begins and the private sector is assumed to borrow to finance the fleet.

This analysis indicates that if the EP Plus option seeks to deliver the same outcomes as those secured under the Franchising Option then the industry is unlikely to be financially sustainable long-term.

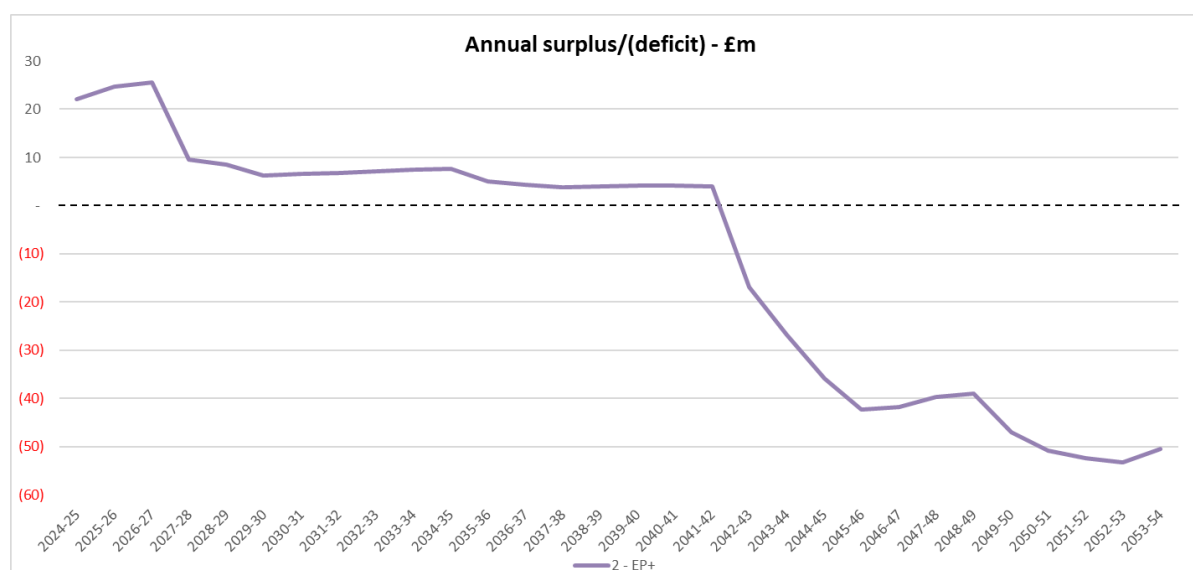


Figure 48 EP+ Whole Industry Annual surplus / (deficit) £m

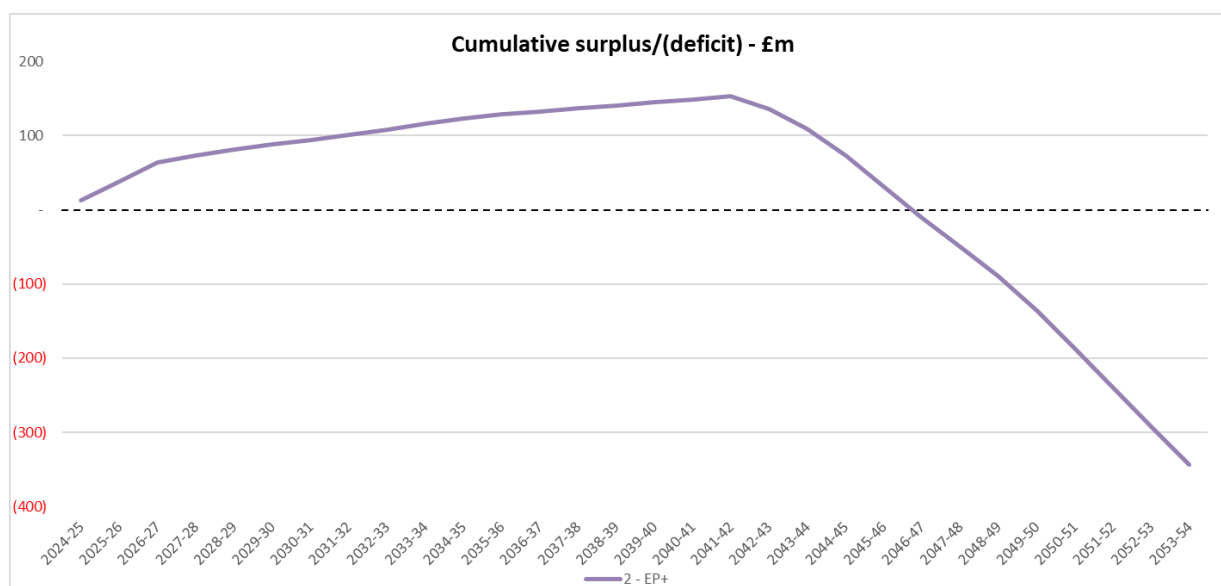


Figure 49 EP+ Whole Industry Cumulative surplus / (deficit) post levy apportionment (£m)

4.6.6 Risks – EP Plus

The table below sets out the key risks and potential mitigations under EP Plus.

Table 104 Risks under EP Plus

Name	Description	Mitigation	Commentary on residual risk
Tendered services budget pressure	The primary risk with EP Plus is in the event operators cut further commercial services which would lead to areas in South Yorkshire losing public transport links. The industry at present is operating at margins below historic norms due to the impact of Covid-19. It is likely that they will need to make further cuts to achieve historic margins in the range of 10-15%. If this risk were to materialise the MCA may be expected to support the loss of key services by tendering services. This could require further budgetary provision for tendered services, which in any case would be a larger budget for tendered services under EP Plus.	This risk could be mitigated by the MCA by: <ol style="list-style-type: none"> 1) Accepting some level of network decline and maintaining their budget for tendered services for EP Plus (which would be larger than the budget for EP). 2) Funding some tendered services through reserves on a temporary basis 3) Seeking additional funding sources (see funding section below) to raise further funding including via options such as the Transport Levy, funding from central government or other areas. 	Allowing the network to decline would mitigate the affordability challenge but it would cause instability in the bus network if further services were cut. The instability could further make the bus network less appealing to passengers and therefore additional revenue could be lost. Seeking additional funding would work more effectively if a sustainable source of funding was found. Current budget constraints are limited as under EP Plus, the MCA do not benefit from the revenues of commercial services to subsidise Tendered Services. Therefore, only funding from levies, taxes or long-term grants from central government would address the affordability challenge long-term.
Enhancements under EP Plus do not materialise or costs for EP Plus higher than current forecast	The enhancements under EP Plus may not materialise as they depend on both operators and the MCA agreeing them. There is no existing agreement in place for the enhancements similar to the level of Franchising. The EP Plus proposal could lead to MCA funding of enhancement costs for EP Plus if	To mitigate this risk, the MCA could accept an older fleet for longer, therefore deferring the required investment for new fleet. Additional MCA funding, including from central government through initiatives such as ZEBRA could also speed up the rollout of new	Deferring investment through accepting an older fleet for longer may help the affordability challenge in the short-term but could exacerbate the challenges long-term as older vehicles are less reliable, thus requiring greater maintenance.

Name	Description	Mitigation	Commentary on residual risk
	they are unaffordable for the private sector including replacing the bus fleet, ticketing or other measures. These costs are assumed to be borne by the industry. As the average age of the fleet in South Yorkshire is 11.5 years, there may be fleet renewal or enhancement costs that emerge over the appraisal period. These costs could be funded by operators, but it is possible that the MCA may have to bear some of these costs especially if they want the renewal to happen quicker or in relation to initiatives such as Net Zero buses.	vehicles and reduce the costs for either operators or the MCA. The MCA could also consider funding options such as CRSTS to address gaps in capital fleet renewal funding although this would be subject to state-aid restrictions.	Central government funding via ZEBRA would help fund Net Zero vehicles to come into the fleet sooner but as these are competition-based grants, it may only fund a small portion of the fleet.
Transport Levy does not grow in line with business planning assumptions	<p>Currently the Transport Levy is collected from various authorities who raise these funds through council tax. The MCA budget for this levy to grow by 2% annually up to the end of the decade. If any policies are introduced which have an impact on this levy (such as freezing council tax) the growth budgeted will not be realised and could cause a funding gap.</p> <p>The transport levy is divided between bus, light rail and an element of heavy rail. For 2025/26, based on the MCA's forecasts, EP utilises approximately 62% of the total Transport Levy. This percentage is expected to remain consistent annually within the model as the overall Transport Levy grows by 2%. If demands on this transport levy causes the funds to be diverted from bus to light or heavy rail, there will be a financial implication to funding the bus network.</p> <p>If this risk were to materialise, the MCA would need to develop other revenue sources to bridge the funding gap.</p>	<p>As part of the MCA's financial planning, if this risk materialised then the MCA would need to develop an alternative funding strategy that included consideration of a range of options. Various funding options that could be considered are outlined in the funding scenarios section below.</p> <p>Otherwise, the MCA could consider finding savings in the tendered services budget to reduce costs.</p>	Cost savings and additional funding sources would help reduce the risk, but any residual risk would depend on the sustainability of the MCA funding source.
Inflation risk	Inflation risk is borne by commercial operators but this risk impacts MCA directly via its Tendered Services budget. The key risk is that MCA's funding sources (including the Transport Levy) do not increase in line with inflation.	MCA would need to secure additional funding sources and/or accept a degree of network decline. Any other cost savings could be explored including with tendered services.	The residual risk will be dependent on measures to secure any additional funding and/or secure cost savings.

4.7 FRANCHISING

4.7.1 Funding Flows

Franchising changes the funding flows of the bus industry as shown by Figure 50 below. The MCA would be in control of specifying the routes, services, fleet and fares and would tender the operations of those services to private sector bus operators.

The MCA would now receive the 'farebox income' from passengers using bus services and take on revenue risk. The revenue is demand led as its level depends on the number of fares sold and the price of those fares which the MCA would be responsible for setting. It should be noted that in practice farebox revenue may be *collected* on behalf of the MCA by bus operators through, for example, on-board sale of tickets. Any revenue collected in this way, however, is not kept by the bus operator in this model but transferred to the MCA through contractual mechanisms. Gaining revenues directly for bus services would mean that the MCA can use the revenues from profitable commercial services to cross-subsidise socially important but not commercially viable services. As a result, tendered services for socially important services that exist under the EP options today would be wrapped up into bus franchising contracts and the distinction between commercial and tendered services would no longer exist. Taking on revenue risk would mean that the MCA would have to manage a potentially volatile income stream and the risks associated with this are described in more detail in the financial risks section below.

Under Franchising, the MCA makes Franchise Payments to bus operators in respect of their operation of franchised bus services. As noted above, given that operators are expected to manage cost risk through the duration of their franchise, the level of these Franchise Payments would be determined through an MCA-run competition for franchise contracts, with operators expected to offer a price for delivery of the services. The price for services would, in principle, be fixed for the duration of the franchise contract and would reflect the operator's assessment of the costs through the period of the franchise. The price will include either explicitly or implicitly (depending on how the bidding requirements are specified) a margin on top of the costs. It is intended that the competitive bidding process for bus tenders will incentivise operators to be cost efficient when they price their bid. There will be fixed components in the franchise agreement that cannot be changed through the length of the contract. There will also be variable components where there may need to be greater flexibility for more changes in-life. Section 3.9.31 of the Commercial Case has a further discussion of this. Non-exhaustively, examples of such factors could include:

- indexation agreed in the franchise contract — for example, contract payments may change in line with a measure of inflation (such as RPI or CPI);
- areas of the operator's cost base that they may have limited control over and therefore it is decided that they should not have exposure to cost risk in the contract (e.g. fuel). In these circumstances, the Franchise Payment must therefore change to reflect such variations in the underlying cost base;
- any changes to the agreed bus service specification agreed following procurement — where, typically, an enhancement in services would lead to higher Franchise Payments, and reductions in service levels would lead to lower Franchise Payments; or
- where operator performance as measured through the contracted performance regime would result in adjustments to Franchise Payments through either the payment of performance related fees or abatement (see Section 4.6 of the Commercial Case).

There are also funding or financing costs associated with any asset acquisitions that need to be conducted. The MCA would be responsible for financing any depot, fleet, and systems investment needed to make to deliver Franchising. Between 2024-25 to 2031-32 it is assumed that all capital investment can be funded by the CRSTS1 and CRSTS2 grants. Beyond that, it is assumed that the MCA borrows through PWLB to finance capital expenditure.

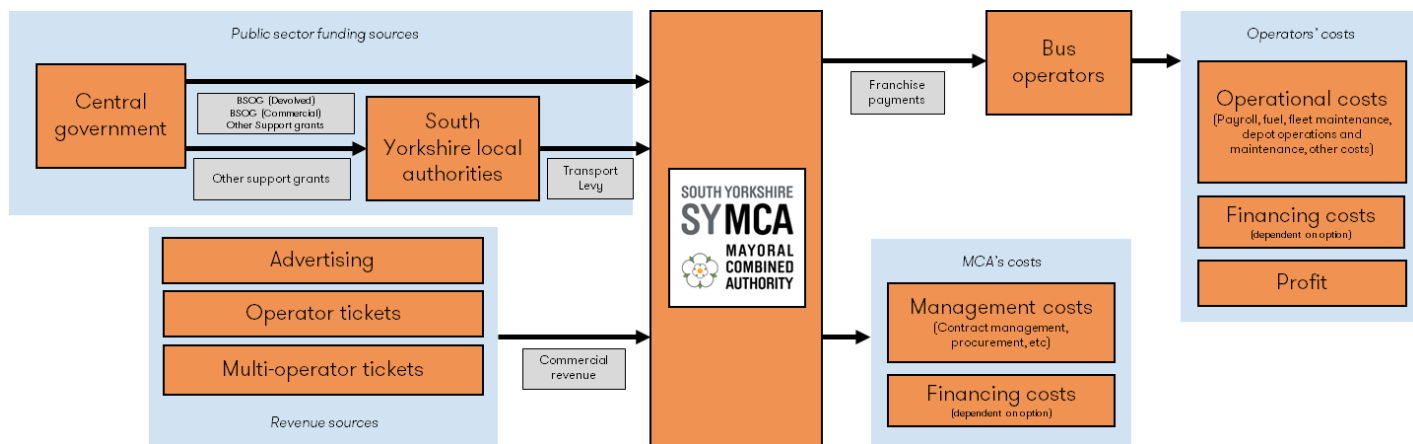


Figure 50 Funding flows under Franchising Options

4.7.2 Franchise Payments – Margin

One of the largest costs under Franchising will be the payments that the MCA makes to operators that are running Franchised Services. The Franchise Payments are a single payment and for the purposes of the Franchising Assessment their assumed level is calculated by summing the estimated operating costs to the margin. The total operating costs are described in section 4.5.1 above.

The margin chosen is based on the analysis about reasonable expectations that operators may have for franchise contracts and the margins observed in other areas. As outlined in the Commercial Case, market engagement with operators who are prospective bidders has indicated that there is a strong preference for competitions where the depot is provided by the MCA and a preference for the fleet to also be provided by the MCA. This is in line with Franchising Option B which is the preferred option for Franchising and analysis indicated that comparable competitions had a bid margin of 7.5% as shown in Table 105 below.

Table 105 Assumed margins for different options

	Franchising Option B (MCA owned Depots and Fleet)
Margin on Cost – part of Franchise Payment	7.5%

4.7.3 Lotting Strategy

The Lotting Strategy is set out in the Commercial Case. Lots have an anchor depot(s) and are intended to include one or more large franchises and several smaller franchise contracts. There are 3 tranches in total and these are planned to be delivered from 2027-28 to 2029-30. Table 106 below shows the timing of each tranche and the depots that will be acquired. These have been derived by considering the revenue that services from each depot generates compared with the operating costs of those services based on the mileage and PVR.

Table 106 Timing of each tranche and depots being acquired

Tranche No.	Planned Start	Depot
1	2027-28	Ledger Way (Doncaster) and Olive Grove

Tranche No.	Planned Start	Depot
2	2028-29	Barnsley and Rawmarsh (Rotherham)
3	2029-30	Sheffield Depots – Holbrook, Ecclesfield and Halfway

4.7.4 Staffing and Management and other transition costs

The staff and resource requirements are set out in Table 7 of the Management Case. MCA Staffing and management costs are split between the design phase (in 2024/25) when the target operating model is developed, the transition phase between 2027/28 to 2029/30 when the franchises are lotted and from 2030/31 onwards the business as usual phase of the project once all the franchise contracts have been tendered.

The resource requirements during the design and transition phase are estimated at £20.8 million (nominal) and it has been assumed that externally procured staff would make up these requirements. Table 107 below summarises these costs.

There are also internal staff that would need to be hired during the design and transition phase and who would remain in place during the business-as-usual phase. The resource requirements are set out in section 3.4.2 of the Management Case and the costs of these resources are factored into the case throughout the appraisal period.

As mentioned in the Management Case around £5 million of costs have been set aside to cover any ticketing or IT related costs that may arise.

Table 107 MCA Design and Transition Staff Costs under Franchising

Cost category	Time Period	£m Nominal (excluding OB)
Design and Transition Staffing Costs for Bus Franchising (includes external resources)	2024-25 to 2029-30	20.8

4.7.5 Franchising Outputs and Results

Based on the income and cost factors set out above for Franchising, the graphs and tables below show the net surplus / (deficit) of the preferred option, Franchising Option B, over the appraisal period of 30 years.

4.7.5.1 Funding: Transport Levy rising by RPI+1% and all capital expenditure is funded by CRSTS

The base funding scenario for the MCA is set out in section 4.4.5 above and involves the Transport Levy available for funding bus services. It is assumed that the Transport Levy available for bus services expenditure rises by 2% per year up to 2029-30 under this scenario. It is also assumed that from 2030-31 onwards the Transport Levy available for bus services expenditure can rise at RPI+1%.

In addition to that, the MCA has also agreed that £355 million from CRSTS1 and CRSTS2 can be used to fund capital expenditure between 2024-25 to 2031-32. New indicative CRSTS funding allocations were announced for the MCA as part of the Government's Network North announcement on the 4 October 2023. The announcement indicated that the MCA would receive a £543 million uplift on its CRSTS2 baseline allocation of £912 million – hence a total of £1.455 billion between 2027-28 to 2031-

32¹²⁷. This funding allocation is currently indicative, will be assessed on a portfolio basis by the MCA and would require further scrutiny and approval from Government.

Capital requirements over the appraisal period go beyond 2031-32 when CRSTS2 ends. No further capital has yet been confirmed. Capital expenditure for the next few years up to 2034-35 has therefore been brought forward into the CRSTS2 period between 2027-28 to 2031-32. These include depot infrastructure upgrade costs and some fleet costs. From 2032-33 onwards, it is assumed that capital expenditure is financed through MCA securing PWLB borrowing.

4.7.5.2 Annual and Cumulative Surplus / (Deficit) with Funding Scenario

Figure 51 and Figure 52 below show the MCA's annual and cumulative surplus or deficit after the funding scenario set out above has been applied. The results show that:

- Franchising goes into a significant annual financial surplus from 2027-28 up to 2042-43 as revenue from commercial services is obtained and CRSTS1 and CRSTS2 are used to grant fund the depot, depot upgrade and fleet requirements for the first renewal cycle from 2027-28 to 2031-32 years.
- After 2042-43, the second fleet renewal cycle occurs which the MCA finances through borrowing via PWLB. This causes a significant annual deficit to begin to emerge in 2042-43.
- Franchising remains affordable on a cumulative basis over the appraisal period which results in a £54.6 million surplus by 2053-54. This is because it is assumed that the surpluses between 2027-28 to 2042-43 can be ring-fenced, placed on deposit and receive interest. These are then used to fund the annual deficit that begins to emerge in 2043-44 to the end of the appraisal period.

It should be noted that these results are based on the following conservative assumptions:

- Over this period it is assumed the network is stable after 2029-30. In practice, the MCA could consider a range of measures that could significantly drive patronage including new routes, enhanced frequencies, integration with other public transport modes, or bus priority measures. This could drive revenue and mitigate the risk of an annual deficit emerging.
- As the fleet is renewed, a significant proportion of vehicles become Zero Emission. ZEBs are cheaper to operate than diesel buses, however, operational cost savings of ZEBs have not been accounted for in the financial modelling.
- It is assumed that no capital funding is available from central Government beyond 2031-32 and the MCA will need to borrow to fund capital investment beyond this date. Any available capital grant funding post-2032 will improve the affordability of the Franchising Scheme further.
- The interest rate on borrowing for the public sector is 5% and is based on recent figures and is assumed to remain constant through the appraisal period. If interest rates are lower, then the borrowing costs will fall and the potential deficit in the 2040s will be lower.

¹²⁷ [https://www.gov.uk/government/publications/city-region-sustainable-transport-settlements-2/network-north-crsts2-indicative-allocations-4-october-2023#:~:text=Settlements%20\(%20CRSTS%20\).,-CRSTS2%20indicative%20allocations%20for%20existing%20CRSTS%20city%20regions,2031%2F32%20\(%20CRSTS%20\).](https://www.gov.uk/government/publications/city-region-sustainable-transport-settlements-2/network-north-crsts2-indicative-allocations-4-october-2023#:~:text=Settlements%20(%20CRSTS%20).,-CRSTS2%20indicative%20allocations%20for%20existing%20CRSTS%20city%20regions,2031%2F32%20(%20CRSTS%20).)

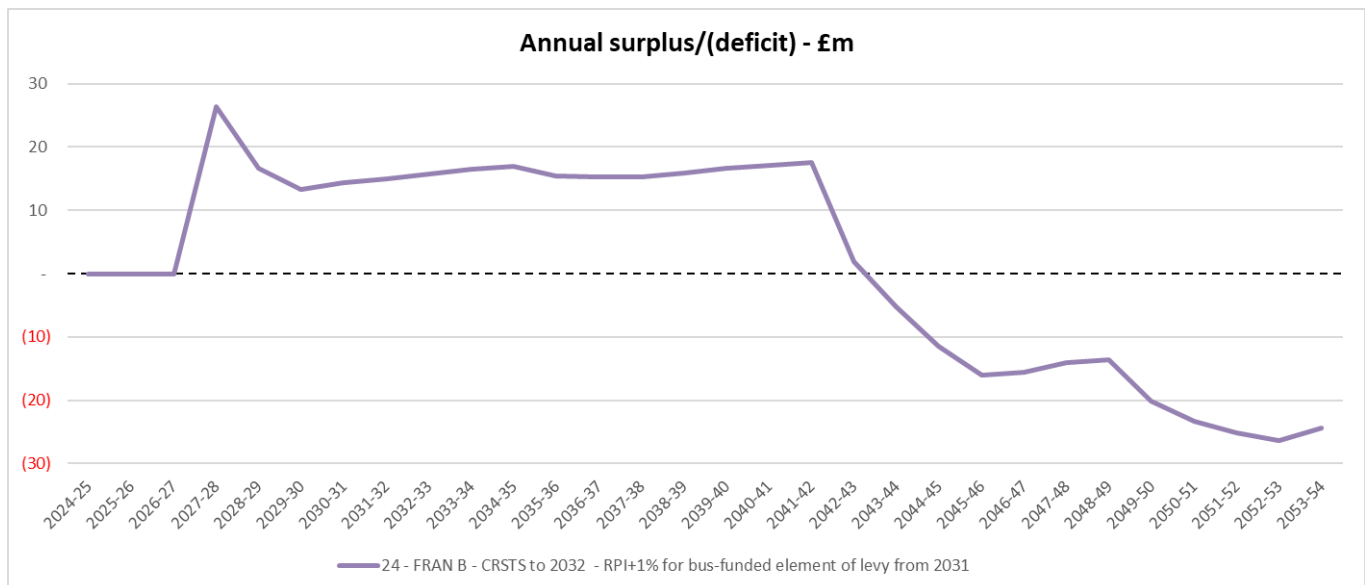


Figure 51 Franchising Surplus/(deficit) annual position (nominal)

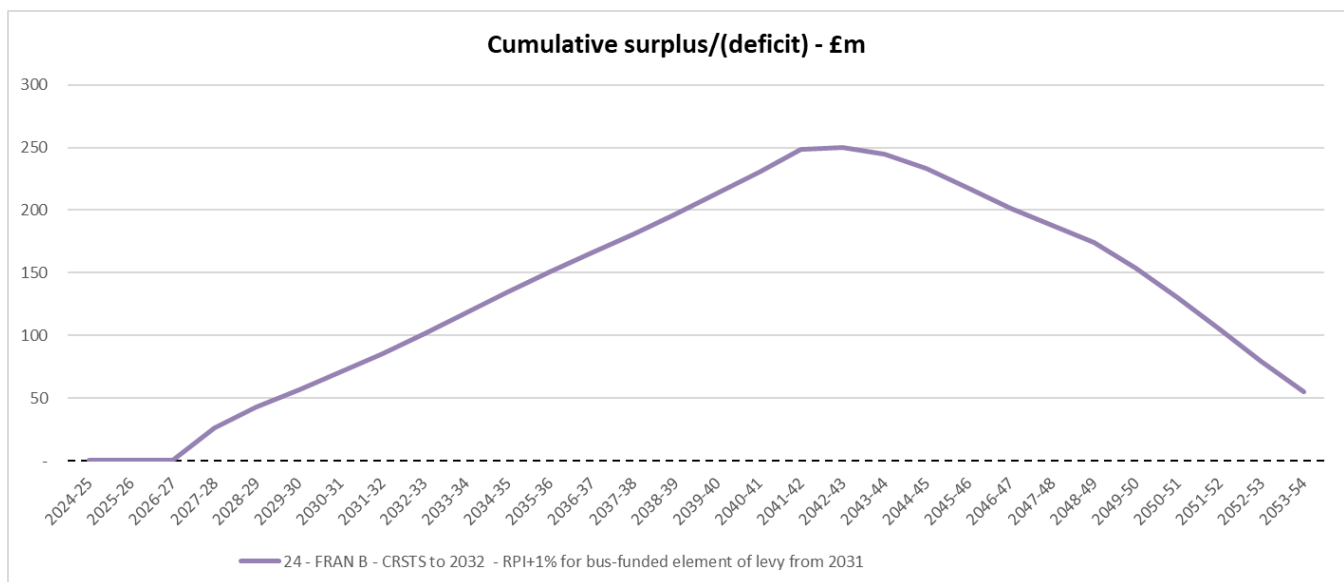


Figure 52 Franchising Cumulative Surplus / deficit (nominal)

4.7.6 Risks – Franchising

Transitioning from a privatised bus market to a Franchising model under the control of the MCA is a significant shift. This transition comes with significant risks for the MCA that will have financial implications but can be managed and mitigated.

Table 108 Risks of franchising

Name	Description	Mitigation	Commentary on residual risk
Volatility in revenues	A primary financial risk lies in the predictability of revenue streams. Under a franchising model, the MCA sets the fare structure and retains all revenues, unlike in the deregulated model where private operators set fares and keep the revenues. While this may offer potential benefits in terms of fare control and standardisation, it also shifts the burden of revenue risk to the MCA. A decline in passenger numbers due to factors like economic downturns, demographic changes, or shifts in transportation trends could significantly impact expected revenue, thus affecting the financial viability of the system.	<p>If revenue outturn is below that forecast, the MCA would need to accommodate the funding gap by:</p> <ul style="list-style-type: none"> - Using reserves (which could be built up over time particularly if there are any years where Franchising was in surplus) - Scaling the network to reduce costs to reduce the funding gap - Reallocating funding from other sources to fill the funding gap or raising revenue <p>Therefore, to manage this risk, the MCA will develop a robust Financial Management Strategy including ensuring detailed forecasting is conducted and a process is in place to manage volatility between years. It would also be prudent to develop a reserve account for franchising which could be topped up in years where surpluses are likely.</p>	Robust financial management would help plan and mitigate the risk associated with volatility. However, the MCA could still be vulnerable to volatility including that arising from force majeure events, that could have a significant short-term impact on demand and cause revenue to fall.
Transition to franchising	During the transition phase there is the risk that whilst specific areas are being franchised, the remaining commercial market becomes commercially unviable. This could lead to a significant cost increase in the tendered services budget if the MCA needs to maintain the network.	To mitigate this risk the MCA will develop a full transition planning strategy and contingency plan. Detailed engagement with operators in advance to understand the implications of the Lotting Strategy on them and work collaboratively to mitigate the risks during transition.	Whilst planning and close collaboration with operators will help mitigate this risk, there is still a risk that the remaining market could collapse, and this will have to be closely monitored during the transition phase with contingency plans in place.
MCA Costs, Resource and programme risk	The transition to Franchising requires robust planning, procurement, contractual management and monitoring. There is a risk that resource requirements have been underestimated either during the transition phase to tender the lots or longer-term for the ongoing additional resources that the MCA will require, and/or delays in programme add additional MCA costs. The impact if sufficient resources are not available is that timescales could be delayed for implementing Franchising which would cause costs to rise.	Optimism bias has been built into the budget for the MCA staffing costs to provide additional contingency should additional staff and resources be required. The MCA is closely engaging with other transport authorities that have pursued franchising to learn lessons including TfGM, LCRCA and WYCA.	There are still residual risks as recruiting additional staff could take significant time and would depend on expertise being available. Further contingency measures could include going to the market to procure further expertise.

Name	Description	Mitigation	Commentary on residual risk
Operating Costs higher than anticipated	There is a risk that operating costs for running bus services could rise which the MCA would be exposed to because it provides a Franchise Payment to operators. This could result from operators pricing in a premium due to uncertainty and/or inflation is higher than forecast in key cost categories such as fuel or staff costs. This could also result from franchise competitions being less competitive than expected.	The MCA should conduct extensive market engagement ahead of Franchising lots to develop the most appealing proposition to the market that will encourage competition and bring down bid prices. The Commercial Case outlines the Procurement Strategy to achieve this.	There could still be a risk of operating costs being higher than anticipated due to Macroeconomic factors (e.g. inflation) outside of the bidders' control. Robust forecasts will need to be developed to anticipate these likely factors and work should be conducted with operators to help reduce these costs.
Depot Acquisition costs and delivery	The costs of depot acquisition are based on valuation estimates from surveys commissioned by the MCA. There are significant uncertainties over these cost estimates as depots will need to be acquired from their owners which will involve commercial negotiation. There is a risk these costs could rise significantly. There are also risks associated with the delivery of the programme as depots will need to be acquired in time to allow franchise competitions to go ahead.	<p>The MCA will develop a comprehensive Depot Acquisition Strategy ahead of the transition phase which will include further analysis of the value of the depot locations, site-specific factors, alternative uses and the use of mechanisms including CPO to acquire the depots. Furthermore, detailed surveys may also be commissioned to gain a better understanding of the underlying asset conditions and the value.</p> <p>The MCA is conducting work to consider alternative depot locations which will remain a key option should existing depots prove difficult to acquire. Temporary locations will also be considered as part of the acquisition strategy.</p>	The development of a comprehensive strategy and consideration of alternative locations will mitigate the risks somewhat but there is still a high risk that costs could escalate during the acquisition phase. Given this uncertainty, optimism bias of 70% on depot costs have been applied.
Fleet and other capital acquisition costs	There is a risk that fleet and other capital acquisition costs (such as upgrades of depot infrastructure) could rise as a result of inflation or other factors that impact the manufacturers.	The MCA will work with operators and vehicle manufacturers to negotiate the best possible prices for vehicles and other depot infrastructure necessary.	The market for vehicles is a mature one and therefore the likelihood of this risk arising is limited but macroeconomic pressures on manufacturers could push costs up.
Funding – CRSTS and Transport Levy	<p>A rise in the Transport Levy of 2% per year has been committed up until the end of 2029-30. Given the funding uncertainty facing local authorities, it is possible that this amount could be reviewed if other pressures mean funding needs to be reallocated from Transport.</p> <p>For CRSTS, the UK Government have set out allocations up to the end of 2031/32. However, capital expenditure over such a long-time frame would be subject to future Government decisions and there may be residual uncertainty.</p>	<p>The MCA has worked with district councils to agree the Medium-Term Financial Plan which commits to a 2% rise in the levy to the end of this decade. The MCA will work closely with district councils to monitor the plan and if further pressures arise then various measures could be taken to address any funding shortfall:</p> <ul style="list-style-type: none"> - Using reserves (which could be built up over time particularly if there are any years where Franchising was in surplus) - Scaling the network to reduce costs to reduce the funding gap - Reallocating funding from other sources to fill the funding gap or raising revenue 	There may still be residual risks depending on the scale of any funding shortfall and the political risks associated with scaling the network to reduce costs.

Name	Description	Mitigation	Commentary on residual risk
		<ul style="list-style-type: none"> - Descoping or delaying capital investment in the bus network. 	
Insolvency risk of operator in-life	Bidders may underestimate their costs for operating services and then operators in-life may not be able to deliver to those costs.	<p>The MCA will develop a bidding process that will reduce the incentives on operators to bid a lower price at bid stage to win the bid which they cannot then deliver. Bidders will also be vetted on the overall financial stability of their business and wider owning groups.</p> <p>As mentioned in the Commercial Case, the MCA will develop a process for appointing an Operator of Last Resort at short notice to run services in case an operator goes insolvent/defaults. Ongoing monitoring of the financial health of operators would be undertaken.</p>	There are still residual risks as even with a fair bidding process in place, future uncertainty over operating costs could still cause insolvency and these will need to be closely monitored and managed.
TUPE risk on transferring staff	Franchised operators unable to match TUPE transferring Work Force terms and conditions, particularly with Defined Benefits schemes.	Request information from incumbent operators to assess cost and risk implications.	There may be residual risks remaining with MCA depending on approach taken, particularly if MCA acts as guarantor to conditions.
Pension risks	There is a risk that a broadly comparable pension scheme for employees of operators cannot be found. This would cause bidder costs to rise to cover the cost of setting up a scheme that was comparable and bidders could charge the MCA back via the Franchise Payment.	During the bidding process the MCA will request information from incumbents to assess risk.	Any residual risk will depend on finally accepted risk position. If risk remains with incumbent operators, then no MCA residual risk.

4.8 SENSITIVITIES

A summary of the sensitivities tested is set out in Table 109 and Table 110 below and are based on the risks set out in section 4.7.6 above. The net financial surplus / (deficit) position is shown and assumes the funding scenario for Franchising set out in section 4.7.5.1.

The impact of these sensitivities is discussed in more detail in the sections below.

Table 109 List of sensitivities considered in Financial Case

	Downside Sensitivity	Base Case	Upside Sensitivity
Revenue	-10% of base	As per data in model	+10% of base
Tendered Services Budget	-20% of base	As per data in model	N/A
Operating Costs	-10% of base	As per data in model	+10% of base
Depot Acquisition Costs	-25% of base	As per data in model	+25% of base
Fleet Capital Costs	-10% of base	As per data in model	+10% of base
Inflation	RPI+1%	RPI	CPI
Margin	5%	7.5%	10%
Cash Balances	1%	2%	3%

Table 110 Impact of sensitivities (appraisal period from 2024-25 to 2053-54)

	Cumulative Impact in 2053-54	Cumulative Impact in 2053-54	Cumulative Impact in 2053-54
	Downside Sensitivity	Base Case	Upside Sensitivity
Revenue	(£413.8m)	£54.6m	£560.1m
Tendered Services Budget	£32.6m	£54.6m	N/A
Operating Costs	(£518.2m)	£54.6m	£681.0m
Depot Acquisition Costs	£43.8m	£54.6m	£65.5m
Fleet Capital Costs	£3.5m	£54.6m	£105.8m
Inflation	(£387.8m)	£54.6m	£516.6m
Margin	(£89.4m)	£54.6m	£200.3m
Cash Balances	(£10.0m)	£54.6m	£110.8m

4.8.1 Revenue Sensitivity

One of the key risks highlighted relates to volatile revenues which could be caused by a number of factors including changing travel patterns or force majeure events. The sensitivity modelled in Figure 53 and Figure 54 below shows the annual and cumulative financial impacts of a 10% reduction or increase in revenue compared to the central scenario. It can be seen that:

- A 10% increase in revenues across the appraisal period compared to the central scenario would increase revenues by an average of just over c.£10 million per annum by the mid-2030s. This causes a significant surplus to accumulate over time and under this sensitivity Franchising would be affordable.
- A 10% reduction in revenue across the appraisal period compared to the central scenario would also reduce revenues by an average of just over £10 million per annum. Under this scenario, after the transition period, the scheme is only in an annual surplus until 2034-35 when a modest financial deficit emerges. After 2041-42, this annual deficit increases due to the second renewal cycle where the MCA is borrowing to finance capital expenditure. A cumulative deficit emerges in 2043-44 under this sensitivity therefore causing the scheme to become unaffordable.

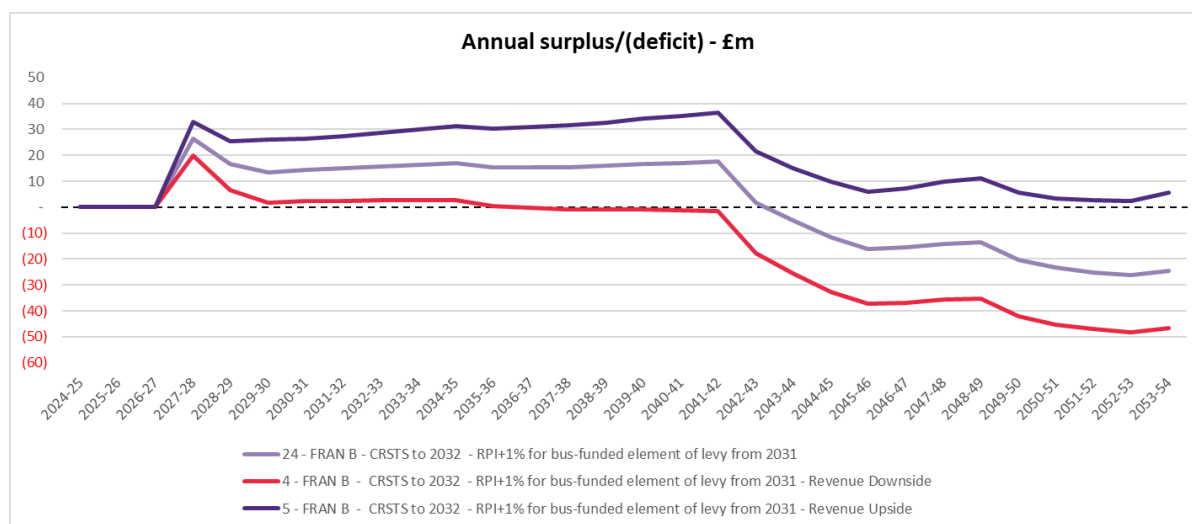


Figure 53 Franchising Revenue Sensitivity: Annual Surplus / (deficit) 10% Higher and Lower revenue

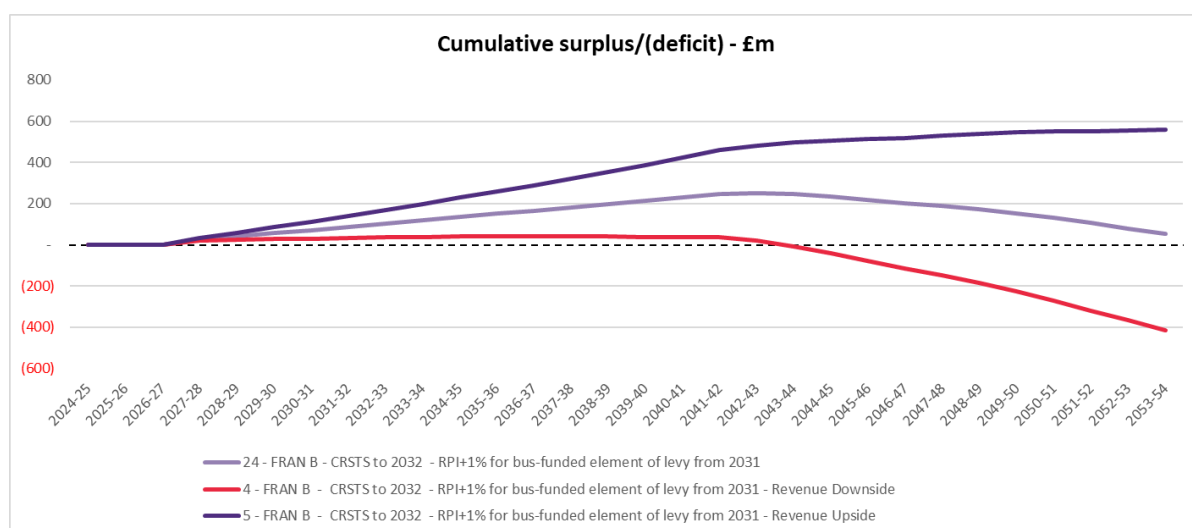


Figure 54 Franchising Revenue Sensitivity: Cumulative Surplus / (deficit) 10% Higher and Lower revenue

4.8.2 Operating Costs sensitivity

Another key risk highlighted above is if operating costs are higher than expected compared to the baseline. It is also possible that they are lower than expected as well due to the competitive bidding process in place. The sensitivities modelled in Figure 55 and Figure 56 shows the annual and cumulative financial impacts of a 10% reduction or increase in operating costs compared to the central scenario. It can be seen that:

- A 10% increase in operating costs causes the financial position to reduce significantly by just over £15 million per year on average compared to the central scenario. This causes the cumulative financial position to go into deficit by 2040-41.
- A 10% reduction in operating costs causes the annual surplus to increase by around £15 million. This enables a large cumulative financial surplus to accumulate over time.

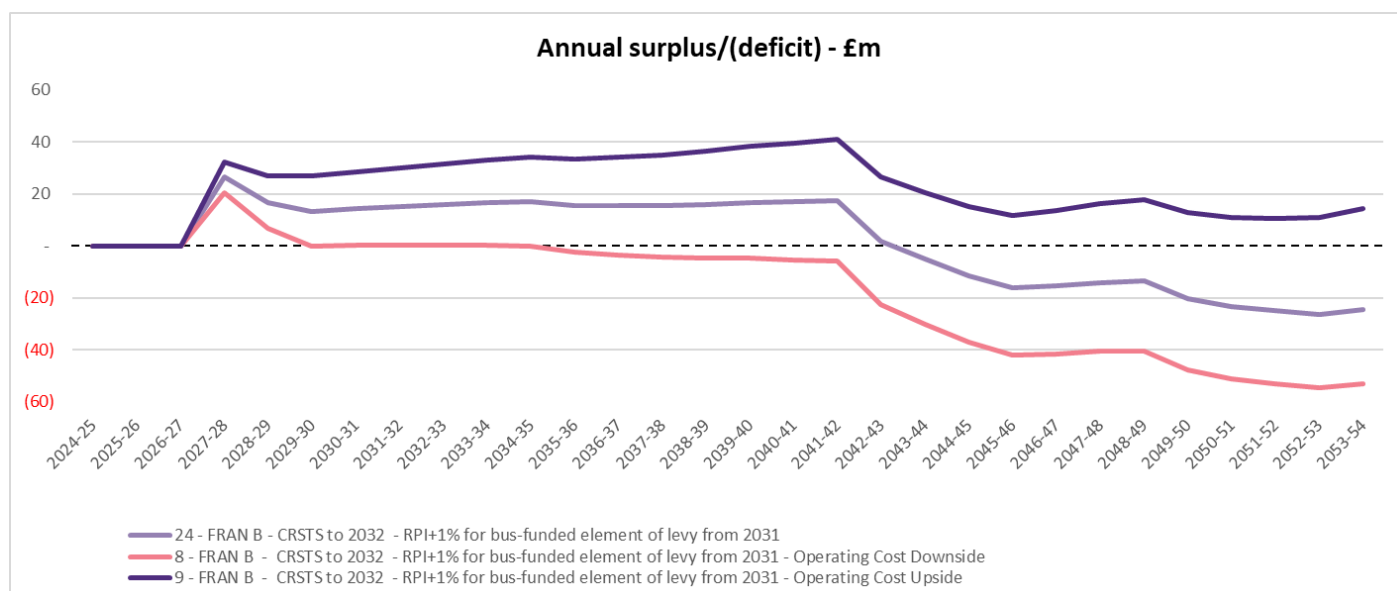


Figure 55 Franchising Operating Costs Sensitivity: Annual Surplus / (deficit) 10% Higher and Lower Operating Costs

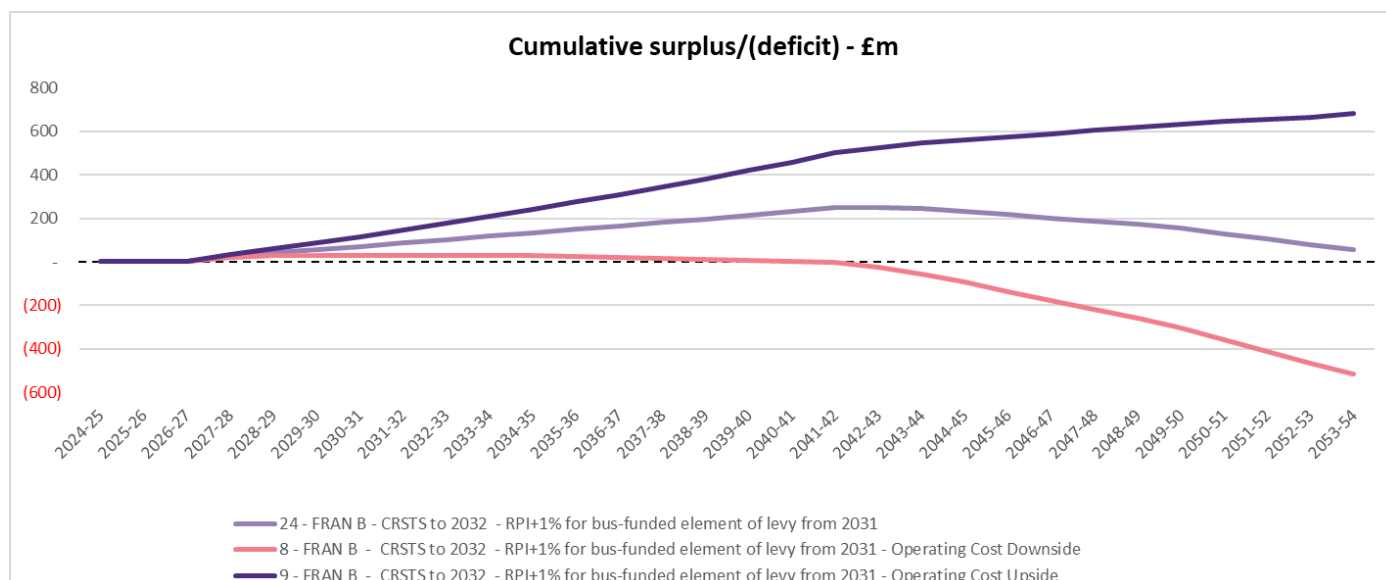


Figure 56 Franchising Operating Costs Sensitivity: Cumulative Surplus / (deficit) 10% Higher and Lower Operating Costs

4.8.3 Tendered Services Budget sensitivity

There is a risk the Tendered Services budget could spike during the transition period if operators remove services before they become Franchised. Figure 57 shows the impact of a 20% downside in the Tendered Services budget during the transition period. This will significantly increase the short-term cost of transitioning to Franchising and put the scheme into deficit in the early years. This deficit would be quickly offset once the revenues from Franchising are obtained. There is a modest impact on the cumulative position and the scheme is still affordable under this scenario.

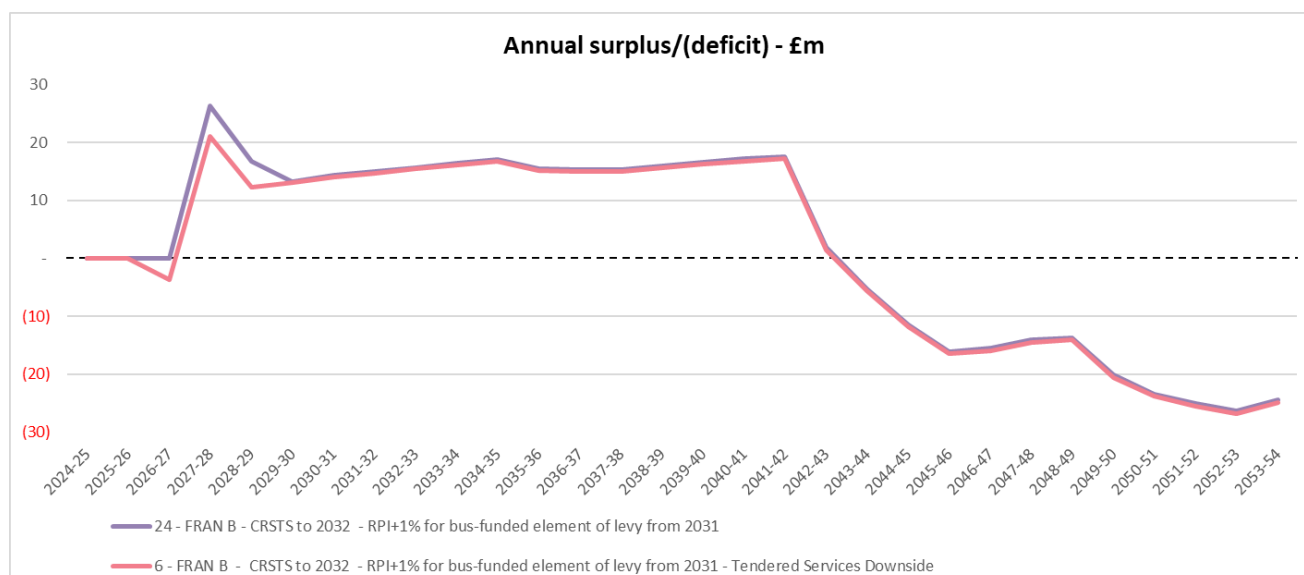


Figure 57 Franchising Tendered services sensitivity: Annual Surplus / (deficit) 20% Higher and Lower tendered services budget

4.8.4 CPI and RPI Sensitivity

As outlined above, the Franchising Assessment has taken a conservative assumption that costs grow at Retail Price Index (RPI). RPI is generally around 1% higher than the Consumer Price Index (CPI) and is forecast to be 3% long-term. The sensitivities shown in Figure 58 and Figure 59 below show the annual and cumulative impact of different inflation scenarios including the base scenario of RPI as well as CPI (RPI-1%) and RPI+1%. Lower inflation scenarios such as CPI will lead to a greater annual surplus emerging and being retained through the appraisal period. This results in a large cumulative surplus emerging. However, higher inflation scenarios at RPI+1% lead to major annual and cumulative deficits emerging in the late 2040s during the second fleet renewal cycle.

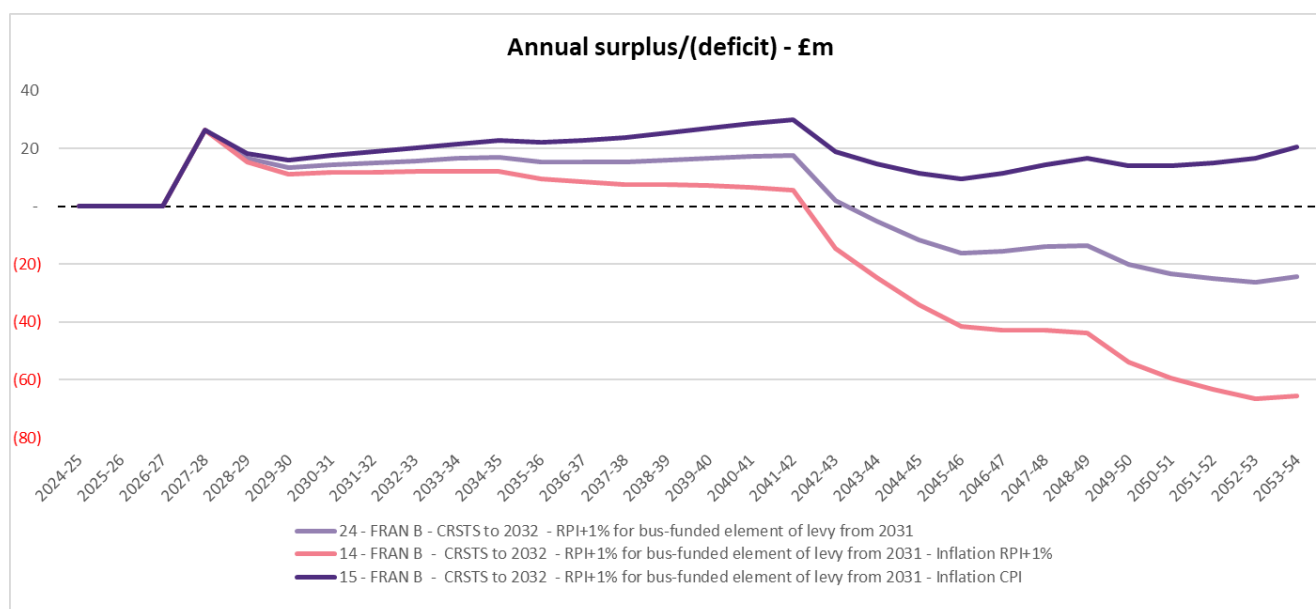


Figure 58 Franchising inflation sensitivity: Annual surplus / (deficit) for RPI, RPI+1% and CPI

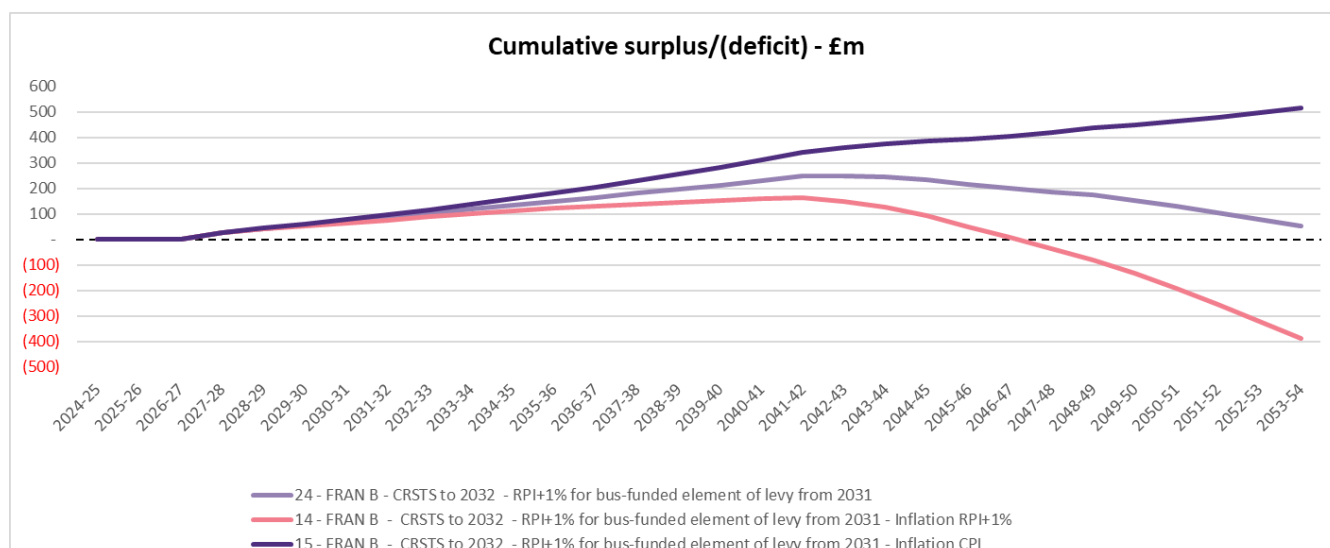


Figure 59 Franchising inflation sensitivity: Cumulative surplus / (deficit) for RPI, RPI+1% and CPI

4.8.5 Depot acquisition and upgrade sensitivity

The cost of acquiring and upgrading depots are a smaller proportion of the overall capital costs of the scheme compared to the costs of the fleet. As the acquisition of depots will take place through a commercial negotiation there are uncertainties in relation to the cost estimates. The impact of a 25% reduction or 25% increase in depot costs on CRSTS is shown in Table 111 below.

Table 111 Depot acquisition and upgrade cost sensitivities

Scenario	Total CRSTS Requirement between 2024-25 to 2029-30
Total Capital Expenditure on Depots – Base Case	£85m
Total Capital Expenditure on Depots with 25% increase in Depot acquisition and upgrade costs	£106m
Total Capital Expenditure on Depots with 25% reduction in depot acquisition and upgrade costs	£63m

4.8.6 Fleet costs sensitivity

Table 112 shows the revised CRSTS requirement if fleet costs increase or reduce by 10% for the period 2027-28 to 2031-32 where there is available capital funding for fleet. Table 59 and Table 60 below also shows the longer-term impact of this sensitivity as, beyond 2031-32, it is assumed that fleet capital expenditure is financed by MCA borrowing. A 10% reduction in fleet costs has a modest impact of improving the financial position by £2-3 million on an annual basis in the early 2040s which improves the cumulative position. However, a 10% reduction causes an equivalent deterioration in the financial position and causes the scheme to be borderline break-even on a cumulative basis by 2053-54.

Table 112 Fleet sensitivities

Scenario	Total CRSTS Requirement between 2027-28 to 2031-32
Total Capital Expenditure on Fleet – Base Case	£257m
Total Capital Expenditure on Fleet with 10% increase in fleet acquisition and renewal costs	£283m
Total Capital Expenditure on Fleet with 10% reduction in fleet acquisition and renewal costs	£231m

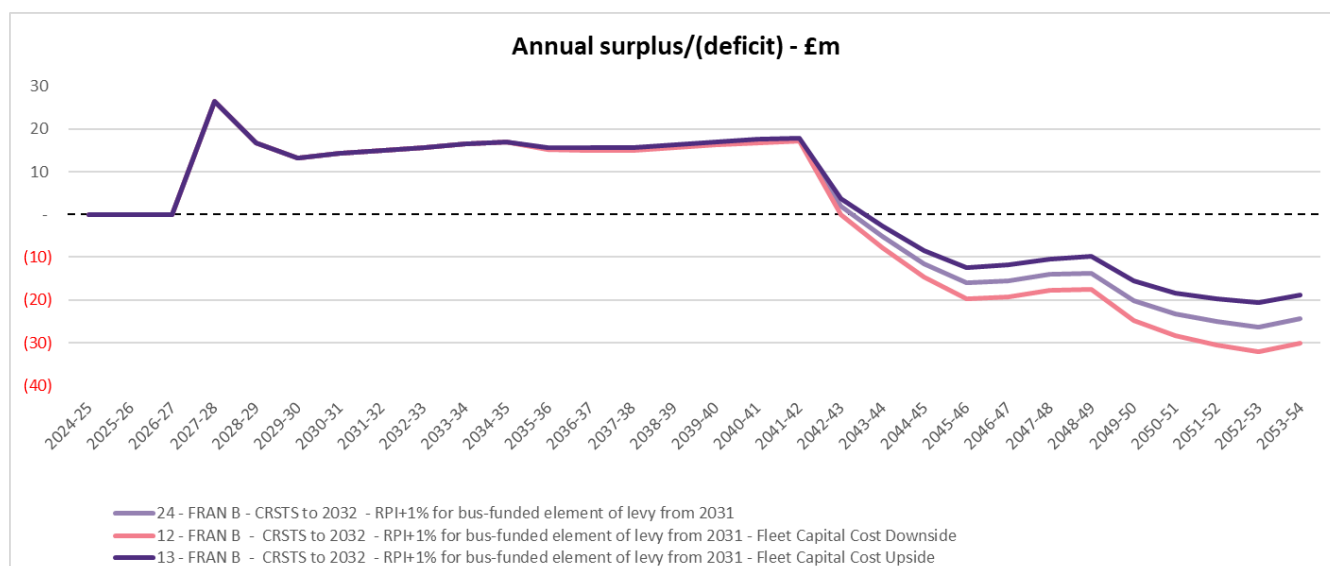


Figure 60 Franchising Fleet acquisition sensitivity – Annual surplus / (deficit) 10% upside and downside

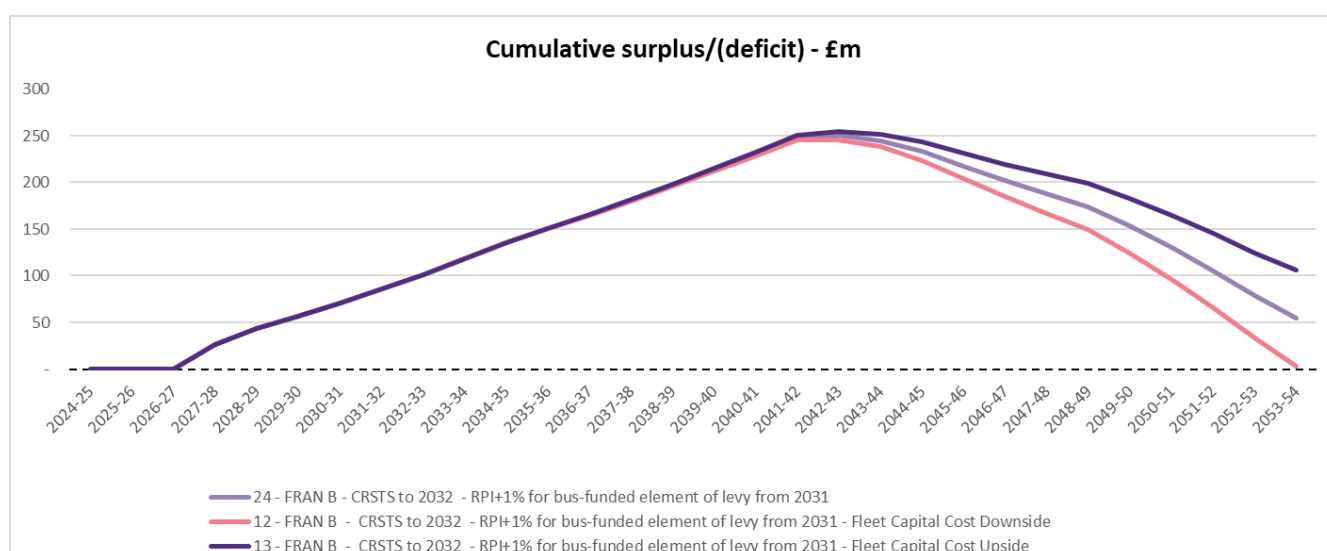


Figure 61 Franchising Fleet acquisition sensitivity - Cumulative surplus / (deficit) 10% upside and downside

4.8.7 Margin sensitivity

As mentioned above, the operating margin paid to operators under Franchising has been assumed to be 7.5%. In practice the margin would be subject to a competitive tendering process and the sensitivity in Figure 62 and Figure 63 show the impact of an alternative 5% and 10% margin scenarios. A higher margin of 10% leads to a reduction in the annual surplus of around £2-3 million on average per year from 2029-30 to 2041-42. The opposite effect can be observed if the margin is only 5%. After that, the differential increases during the 2040s. On a cumulative basis, the 10% margin scenario would tip into a cumulative deficit by 2050-51 with all other scenarios remaining in a cumulative surplus.

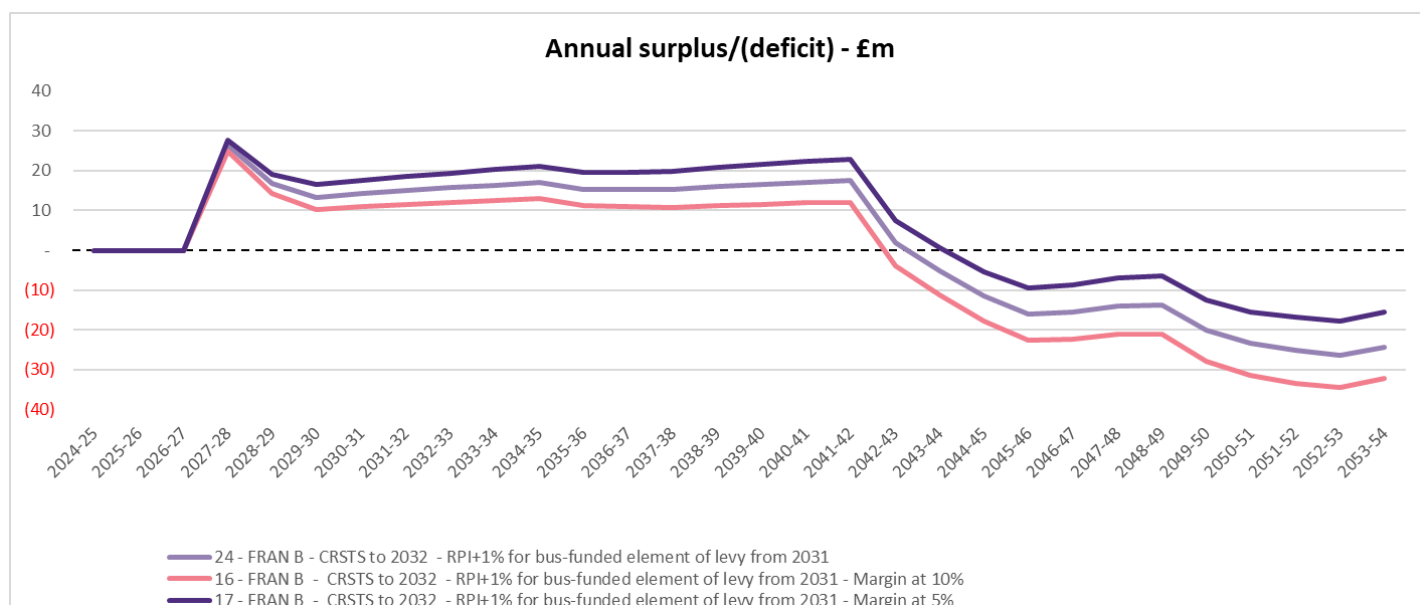


Figure 62 Franchising Margin sensitivity: Annual surplus / (deficit) of 5%, 7.5% (central) and 10% margin assumptions

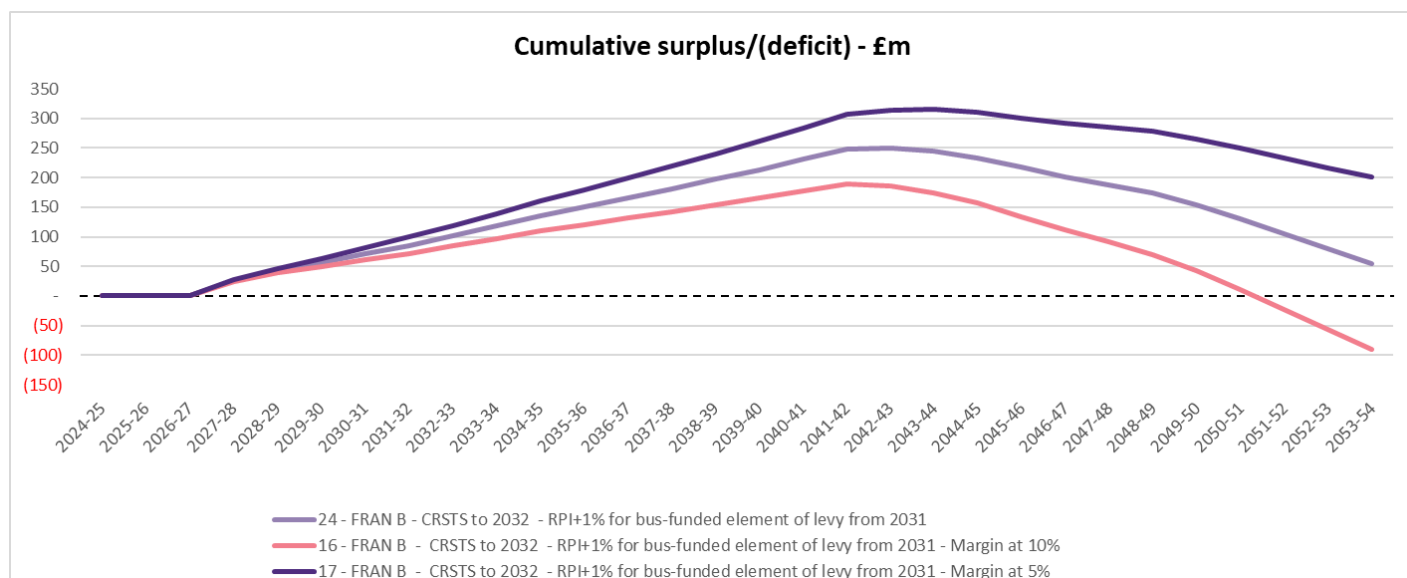


Figure 63 Franchising Margin sensitivity: Cumulative surplus / (deficit) of 5%, 7.5% (central) and 10% margin assumptions

4.8.8 Cash balances sensitivity

Cash balances are assumed to rise by 2% in the model and any financial surpluses that arise accumulate at this rate and are used to fund the years where deficits may arise.

Figure 64 below show the impact of alternative assumptions of 1% and 3% for cash balances on the cumulative financial position. Whilst the 2% and 3% interest on cash balances lead to healthy surpluses at the end of the appraisal period in 2053-54, assuming a cash balance of 1% leads to the Franchising being close to break-even on a cumulative basis by 2053-54.

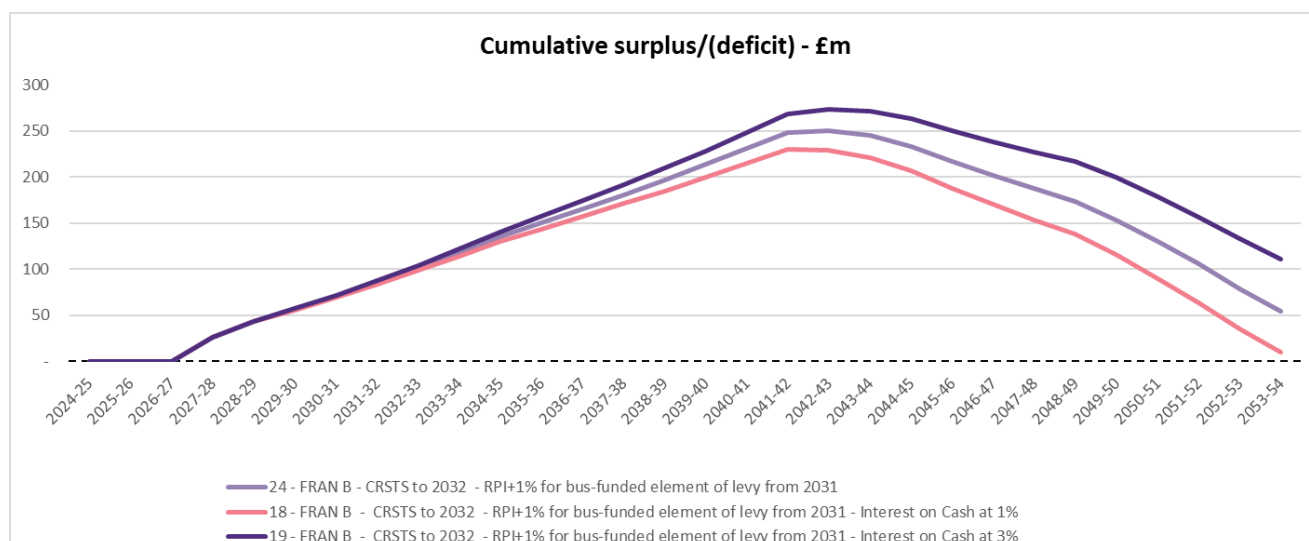


Figure 64 Franchising Cash balances sensitivity: Cumulative surplus / (deficit) of 1%, 2% (central) and 3% cash balance assumptions

4.8.9 Additional EP Plus sensitivities

Financing

The assumption on private sector borrowing under EP Plus is 7%. Figure 65 and Figure 66 below shows annual and cumulative impact of a sensitivity test where the interest rate is 5%. There is an improvement in the financial position with a lower interest rate (shown in blue) but EP Plus would still not be affordable on a cumulative basis.

It should be noted that if a similar test was applied for Franchising with interest rates at 7% then there would be a modest cumulative deficit at the end of the appraisal period of £19.7 million.

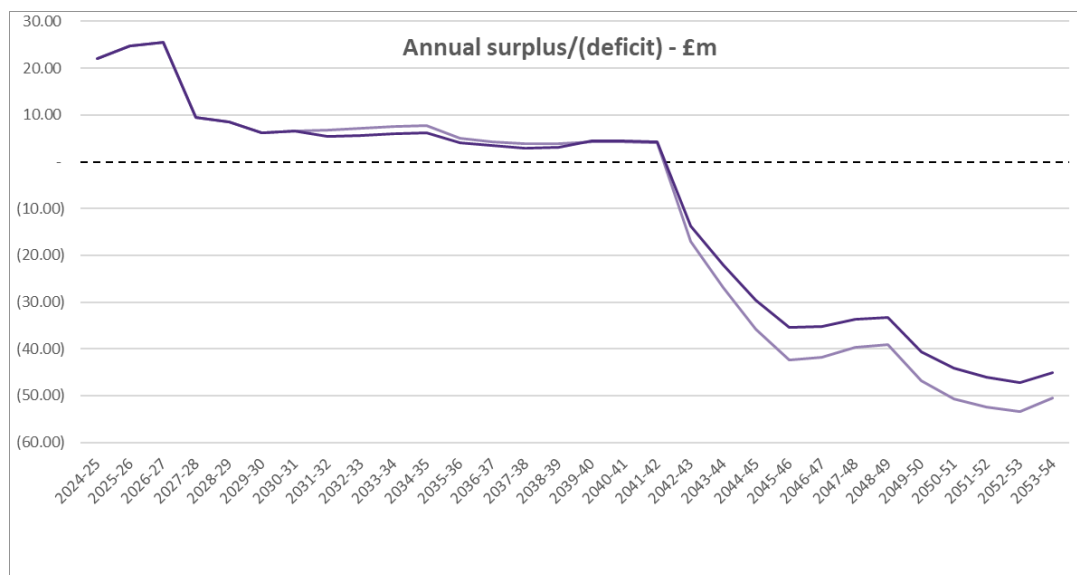


Figure 65 EP Plus Financing sensitivity: Annual surplus / (deficit) of 7% (central) in blue and 5% interest rate (light blue) on borrowing

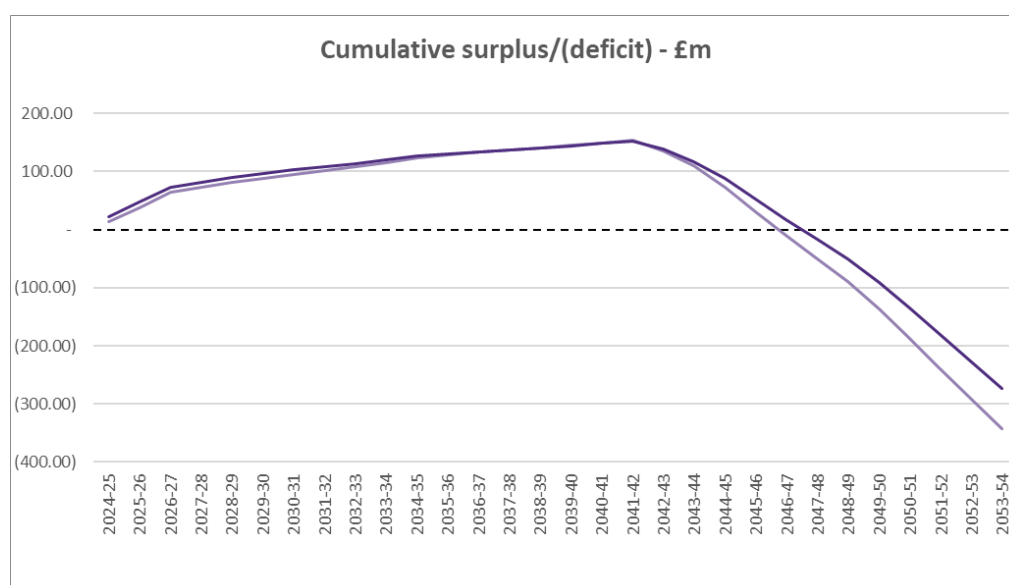


Figure 66 EP Plus Financing sensitivity: Cumulative surplus / (deficit) of 7% (central) in blue and 5% interest rate (light blue) on borrowing

4.9 BALANCE SHEET AND ACCOUNTING IMPLICATIONS

The Franchising Guidance states that authorities should set out the impact on the balance sheet and income and expenditure statement of the authority. This section addresses the impact of each option and the preferred Franchising Option (B) on the MCA's balance sheet as well as outlining further accounting implications for the MCA.

4.9.1 EP

Under this option, it is assumed that depots and vehicles would be Operator owned, therefore there is no immediate balance sheet impact assumed for the MCA.

4.9.2 EP Plus

Under this option, it is assumed that depots and vehicles would be Operator owned, therefore there is no immediate balance sheet impact assumed for the MCA.

4.9.3 Franchise Option B; depots and fleet are owned by the MCA

Under the preferred Franchising scheme option, the MCA would own both the fleet and depots using CRSTS funding and long-term debt to purchase these assets over the appraisal period.

As detailed in section 4.7.4.2, the MCA will use money from CRSTS1 and CRSTS2 to fund initial capital expenditure on fleet and depots between 2027-28 to 2031-32. Furthermore, capital expenditure profiled between 2032-33 to 2033-34 has been brought forward into the CRSTS period so that it can be funded from this source. Under CRSTS funding, the MCA will initially recognise a cash asset on the balance sheet reflecting CRSTS money received and a corresponding deferred income liability. When purchasing the fleet and depot assets; the MCA will de-recognise the cash asset and recognise the fleet and depot assets as non-current assets on the balance sheet. Furthermore, the MCA will release the deferred income from the CRSTS at the point of purchase of the asset for the full value of the asset to the income and expenditure statement. There is not expected to be a prolonged deferred income balance as the assessment assumes purchasing of the assets as soon as the funding is received meaning the deferred income balance will immediately be released. Depreciation from assets purchased using CRSTS funding will be depreciated on a straight-line basis over the useful economic life of the asset and will subsequently reduce the value of these assets on the balance sheet. Under Local Authority accounting regulations, depreciation charges from CRSTS funded assets will be reversed out from the operational revenue reserve to the capital adjustment account (an unusable reserve) which means that depreciation for these assets does not have an impact on the general fund revenue account.

From 2034-35 onwards, the MCA have assumed that it will use PWLB borrowing to finance capital costs used to purchase fleet and depots. Under this funding, the MCA would initially recognise the cash asset

received from the loan on the balance sheet with a corresponding long-term liability for the duration of the debt. Upon purchase of the assets, the cash asset will be de-recognised and the fleet and depot assets would be recognised as non-current assets on the MCA's balance sheet. The profile of the debt is assumed to match the useful lives of the fleet assets and depot assets respectively. A minimum revenue provision on the capital expenditure funded by borrowing would be charged to the general fund, where amounts will be transferred from the capital adjustment account and reported in the movement in reserves statement over the useful economic life of the asset. Over the appraisal period, the value of the fleet and depots on the balance sheet would decrease due to depreciation charges being deducted from the initial asset value, and the loan liability would reduce through repayments made on the debt. Debt interest costs will be charged to a general fund revenue on an accrual basis.

Under the preferred Franchising Option B, the commercial Franchise contract requires the Operator to lease fleet and depots from the MCA. Depending on the conditions of the contract, there are potentially two balance sheet impacts on the MCA. These are:

- If the Franchise contract transfers substantially all the risks and rewards incidental to ownership of the assets from the MCA to the Operator then this may give rise to the conditions of a finance lease, and therefore International Financial Reporting Standard (IFRS) 16 conditions. If finance lease conditions are met, then IFRS 16 applies to the MCA as lessor. The MCA would derecognise the assets and recognise lease receivables on their balance sheet. The Operator would recognise right-to-use assets on their balance sheet. The MCA would continue to recognise the debt used to the purchase the assets as a liability on their balance sheet.
- If the Franchise contract does not transfer substantially all the risks and rewards incidental to ownership of these assets to the Operator, it is classified as an operating lease. Under an operating lease, the assets would continue to be recognised on the MCA's balance sheet and would continue to recognise the debt used to the purchase the assets as a liability on their balance sheet.

These would be considered further within the final business case in line with the relevant IFRS and CIPFA standards and have not been considered within the financial model of this outline business case. Furthermore, the CIPFA code of practice on local authority accounting in the United Kingdom will adopt IFRS 16 in 2024/25 when implementation will be mandatory.¹²⁸

It should also be noted that there would be tax implications should the MCA purchase depots and fleet outright that would require further consideration. For example, stamp duty on the purchase of depots and VAT if an option to tax has been applied on certain properties. No tax has been assumed to be included within the financial model on the purchase of assets for the appraisal period, however OB has been included on the purchase value on both fleet and depot assets.

4.9.4 Special Purpose Vehicle

Should the MCA use a Special Purchase Vehicle (SPV) to lease fleet to Operators as referenced within the Commercial Case further consideration would need to be given to Corporation Tax, gift aid and VAT group implications. There would also be further accounting implications if a SPV was to be used, such as group consolidation accounting depending on the ownership structure, which would need to be considered. The use of a SPV has not been factored into the preferred option.

4.9.5 Working Capital

Working capital requirements reflect any short-term timing differences between income and expenditure cash flows (including the timing of payment and recovery of VAT) which are not captured at the annual forecasting level in the financial model. The precise quantum of working capital requirements will principally depend on any timing differences between payment of service fees and receipt of fare revenues.

The MCA expects any working capital requirements to be manageable, based on the following factors and financial management approach if franchising was implemented:

¹²⁸CIPFA Code of practice on local authority accounting 2023-24

- in the event of a mayoral decision to proceed with Franchising, there will be a design phase, transition phase and a business as usual phase. This will provide the MCA a period of time to undertake sufficient financial planning to reserve working capital requirements for earlier contract phases;
- the proposed Franchising Scheme is based on a phased roll out of contracts across the MCA, with a consequent phased build-up of fare revenue and Franchise Payments relating to Franchised Services. This will support the MCA to ensure sufficient working capital requirements are in place during the transition period;
- if a decision is made to proceed with the Franchising Scheme, it is expected that the MCA would undertake detailed financial model forecasts to support funding and working capital requirements both during the transition period and once steady state has been established; and
- the MCA has experience of managing working capital requirements across its whole transport network and has cash and cash equivalents held to support working capital requirements.

4.10 CONCLUSIONS

The results of the Financial Case indicate that under the existing EP scheme (the Reference Case or Do-Nothing option), the October 2023 network will further decline up to 2025. After that, the budgets committed within the MCA's MTFS do not allow for reinstatement of the October network and the growth of the Tendered Services budget is only 2% per year. This leads to a risk of further network decline in the future as this budget may not be sufficient to accommodate further services becoming tendered if more commercial services become less viable.

Under both EP Plus and Franchising, it is assumed that the network decline up to 2025 is offset once EP Plus or Franchising are implemented, and the original October 2023 network can be reinstated between 2027-28 to 2029-30 during the transition period. It is assumed under both EP Plus and Franchising that comparable outcomes on fleet renewal can be achieved and that around 30% of the fleet will be Net Zero by 2035. Whilst under Franchising the MCA would be in control of these outcomes, under EP Plus they would have to be negotiated with Operators and there is no guarantee that these outcomes could be realised. Under both EP Plus and Franchising, it is assumed that the Transport Levy available for bus services expenditure rises by RPI+1% from 2030-31 onwards.

With these assumptions, the financial case shows that EP Plus is not affordable over the appraisal period on a cumulative basis. This is on the basis that the financial position deteriorates rapidly once capital expenditure is no longer grant funded and is instead financed by borrowing at a higher rate than that assumed under Franchising and a higher margin is sought by Operators under EP Plus.

Franchising is shown to be affordable over the full appraisal period on a cumulative basis. This is on the basis that capital expenditure could be funded via CRSTS up to 2031-32. There are significant annual surpluses that emerge over this period up to the early 2040s which are driven by the MCA gaining the revenues from commercial services. When the second fleet renewal cycle begins and the MCA is assumed to have to borrow to fund this fleet renewal, similar to EP Plus, this causes an annual deficit to emerge. However, as the surpluses from the early years are saved to reserves and assumed to earn interest, then on a cumulative basis Franchising is still affordable over the full appraisal period. It should be noted as well that several conservative assumptions have been made to inform this analysis:

- No further interventions to drive patronage on the network have been factored in. Over the appraisal period the MCA could consider a range of measures that could significantly drive patronage including new routes, enhanced frequencies, integration with other public transport modes, or bus priority measures. Other interventions to encourage public transport usage and discourage car use could also be considered.
- As more of the fleet transitions to Net Zero, the savings in operating costs from ZEBs have not been factored into the financial modelling.

- It is assumed that no capital funding is available from central Government beyond 2031-32 and the MCA will need to borrow to fund capital beyond this date. Any available capital grant funding post 2032 will improve the affordability of the Franchising Scheme further.
- The interest rates on borrowing for the public sector is 5% and is based on recent figures and is assumed to remain constant through the appraisal period. Lower interest rates would lower borrowing costs and reduce the deficit in later years.

The sensitivity analysis shows that the affordability of EP Plus and Franchising is vulnerable to increases in the operating costs and reductions in the revenue. In particular, it was shown that:

- If operating costs are 10% higher or revenue is 10% lower than Franchising is no longer affordable on a cumulative basis over 30 years. Conversely, if operating costs are 10% lower or revenue is 10% higher then this will make all options, including EP Plus, more affordable.
- If CPI inflation (at 2%) is assumed rather than the baseline RPI inflation (at 3%) that has been assumed then all options are significantly more affordable. Conversely, if inflation is higher than the baseline RPI estimates assumed this will significantly impact affordability.
- There are also modest impacts that reduce affordability from other assumptions including higher financing costs, higher margins and additional capital costs.

In circumstances where this emerged the MCA will have a range of mitigations it can utilise including:

- Using reserves which it will build up over time from the years where Franchising was in a financial surplus.
- Scaling the network to reduce costs to reduce the funding gap.
- Reallocating funding from other sources to fill the funding gap or raising revenue.

5.0 Management Case

5.1 SUMMARY

Section 123B of the Transport Act 2000 (as amended by the Bus Services Act) requires authorities to consider, as part of their assessment, how they would make and operate the proposed Franchising Scheme.

The Franchising Guidance states that the authority should consider how it would successfully deliver and manage the options and set out the arrangements it plans to put in place to manage and mitigate risk in relation to each option.

The Franchising Guidance further states that the authority should set out how it intends to manage the transition process from the current system to the introduction of any of the proposed Franchising Options; and clearly set out any contingency plans for providing replacement services should operators stop running their services before the introduction of the Franchise Scheme.

This Management Case therefore considers how the MCA would deliver the EP, EP Plus and the preferred Franchising Option (as determined in the Strategic Case, as Franchising Option B) and manage and mitigate risk in each case. Under a Franchising Scheme, the MCA would take on a significantly greater levels of responsibilities and therefore risk than under the EP and EP Plus options. It sets out the Design and Transition activities required to change to a Franchising Scheme and EP Plus operating model, including the implementation of new systems and processes, including governance.

It also identifies the level of additional resource required by the MCA to manage the Franchising Scheme, with up to an additional 28 full-time equivalent roles required during the Design phase, and an overall total of 34 roles for the business-as-usual state once the Transition phase is complete. The resource required in the Design phase will be performing activities such as PMO, Target Operating Model design, template contract design and fleet specification. The Management Case outlines an 18-month Design phase for exploring the required elements of the Franchising Scheme operating model. This is then followed by a Transition phase which cycles through 12 to 18-month iterations for three Franchising Scheme tranches, the first cycle of which includes preparation, procurement and mobilisation before the deployment of contracts with each franchised operator.

This Management Case also lays out the additional level of resource required to implement and manage EP Plus, with Design and Implementation phases, with the Design phase carried out over 9-months, and the Implementation phase a further three and a half years. There will be a total of up to 17 full time equivalent roles required during the Design phase, focusing on activities such as organisation design, marketing and branding and fleet specification, and in total 33 full time equivalent roles required to operate EP Plus on an ongoing steady-state (business as usual) basis.

5.2 INTRODUCTION

The purpose of the Management Case is to demonstrate that robust arrangements can be put in place for the delivery of the Franchising Scheme and EP Plus options. This involves the review of proposed arrangements for managing and delivering both options, including the overall programme plan, governance arrangements, how performance and success will be monitored, how benefits will be tracked and realised, and the management of stakeholders.

5.3 STRUCTURE OF THE MANAGEMENT CASE

The Management Case will review current governance arrangements, organisational structures and roles being undertaken by the MCA as part of EP, before outlining future requirements, the changes required and the delivery mechanisms to transition to a chosen future system such as Franchising or EP Plus.

Following this introduction, the sections of the Management Case are outlined below:

2. **Enhanced Partnership operating model** – this section explains the current operating model for running buses in the current EP. This section includes the processes and accountabilities; people and skills; technology and data; and governance and organisation.
3. **Enhanced Partnership Plus operating model** – this section explains the future potential operating model for running buses under an EP Plus. It covers the processes and accountabilities; people and skills; technology and data; and governance and organisation.
4. **Franchising Scheme operating model** – this section explains the operating model for running buses under a Franchising Scheme, covering the potential processes and accountabilities, the people and skills, technology and data, governance and organisation for the opted-for Franchising Option whereby the MCA own the depots and the fleet.
5. **Programme management methodology and strategy** – this section details how the MCA would manage the delivery and governance of a transition to the Franchising Scheme and EP Plus through effective programme management.
6. **Programme plan** – this section includes the programme plan for the transition to the Franchising Scheme, including fleet and depot ownership, and the transition to EP Plus. It includes the plan across the Design, Implementation and Transition phases.

5.4 BUS OPERATING MODEL FRAMEWORK

The three following sections describe the operating model framework for the bus system in South Yorkshire under an EP, an EP Plus and the Franchising Scheme. An operating model is the operational design that enables an organisation to deliver its strategic objectives with the delivery of the required capabilities and the corresponding people, processes and systems. This section sets out the key principles and features of an operating model.

Figure 67 has been used as a consistent framework for defining the operating model and includes the following components:

- **Vision and Strategy** – The objectives and outcomes for the bus system as defined by the MCA.
- **Customers** – An understanding of bus passenger usage and satisfaction and how to increase usage by non-bus users.
- **Value proposition (what is being delivered)** – The offer of value to customers to achieve organisational objectives for each component of the bus system. The value proposition is made up of the following aspects:
 - **Network: routes and frequency** – the bus network is how the whole network is planned; designing and optimising routes and services, and the schedule of these services, to deliver a coherent and holistic system which meets the needs of the public most effectively.
 - **Infrastructure** – the physical infrastructure required such as depots, bus shelters, travel hubs and stops. Additionally, road infrastructure such as bus lanes and priority traffic signals.
 - **Fleet** – the fleet of bus vehicles is key to the delivery of a bus system. This includes diesel and will also soon include zero emission buses.

- **Operations and systems** – the back-office and customer facing systems, processes and functions required to deliver buses.
- **Fares and ticketing** – the structure and packaging of fares and ticketing, including pricing models and concession passes for buses.
- **Travel information** – how information on bus routes and frequency, including live travel updates and timings, is provided to passengers.
- **Branding** – the advertising and design used to promote, distinguish, and give meaning to the bus system and network.
- **Governance and funding** – the oversight, monitoring, and funding of the bus system.

The Strategic and Economic Cases outline the qualitative and quantitative analysis of interventions being proposed through an EP, EP Plus and the Franchising Options across the value proposition components listed above.

Capabilities (how is this achieved) – These are the enablers required to deliver a bus system and the role of different organisations in achieving this.

The capabilities required to deliver a bus operating system will be the focus for the Management Case for an EP and the Franchising Scheme. These capabilities are:

- **Process and accountabilities** – the processes that enable the delivery of the value proposition and understanding which organisation has accountability.
- **People and skills** – the capabilities from a people and skills perspective.
- **Technology and data** – the IT systems required to deliver under an EP or Franchising Scheme.
- **Governance and organisation** – the structure of governance bodies such as boards, and the organisation structure to enable delivery and oversight.

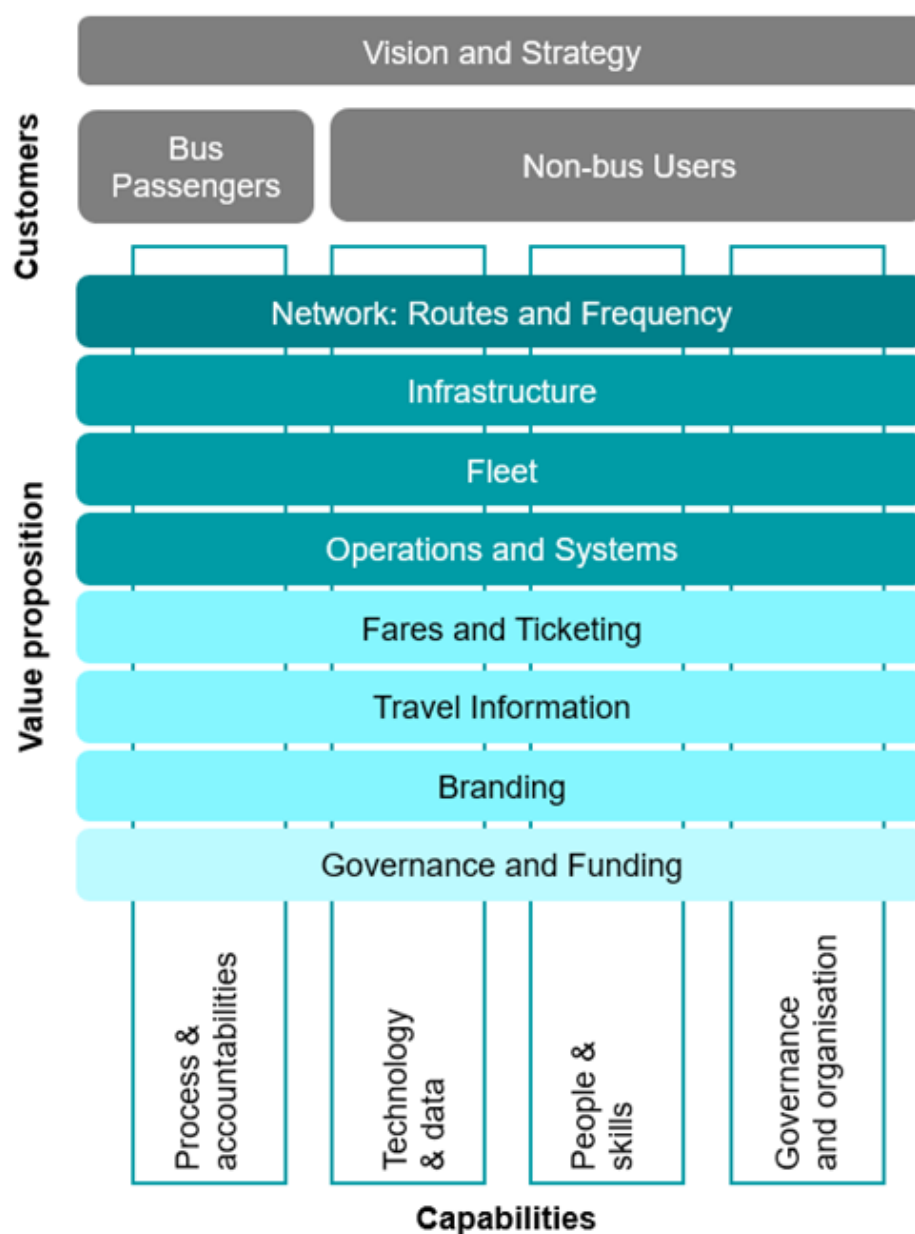


Figure 67: Bus Operating Model

5.5 ENHANCED PARTNERSHIP OPERATING MODEL

This section outlines the operating model for the South Yorkshire EP, which is how buses in South Yorkshire are currently provided. The EP bus operating model is a collaborative approach to public transportation that aims to improve the quality, efficiency, and overall experience of bus services. It involves a close partnership between the local transport authority, which in South Yorkshire is the MCA, the MCA's constituent local authorities (Doncaster, Barnsley, Rotherham and Sheffield), and the operators, to deliver better services to the community.

The existing South Yorkshire EP and the MCA's BSIP outlines the methods of control the MCA currently has and its intention to work with partners, including operators, to improve bus travel in the region. This section covers the processes, accountabilities, people and skills, technology and data, and governance and organisation of the current operating model.

5.5.1.1 Process and Accountabilities – Enhanced Partnership

Table 113 Table 113 below depicts the list of activities required to deliver bus services and projects for each part of the value chain – Strategy & Policy, Planning & Delivery and Operate & Maintain. For each activity accountability for delivery has been indicated for each organisation – the MCA, a Local Authority in the region and/or an Operator.

Table 113: Process and Accountabilities

	Activity	The MCA	Local Authority	Operator
Strategy & Policy	Local governance arrangements	X	X	X
	Local transport planning	X	X	
	Commercial and procurement strategy	X		X
	Transport modelling	X		X
Planning & Delivery	Define customer requirements	X		X
	Network planning	X		X
	Network review and consultation	X		X
	Infrastructure design	X	X	
	Fleet & vehicle purchase			X
	Depot management			X
	Procurement & contract management	X	X	
	Payments to operators	X		
	Plan Demand Responsive Transport	X		
Operate & maintain	Home to school transport	X	X	
	Fixed-route bus services			X
	Fares and ticketing	X		X
	Concessionary passes	X		
	Marketing and branding	X	X	X
	Travel information	X		X
	Operate Demand Responsive Transport	X		
	Maintain bus infrastructure	X	X	
	Maintain fleet & vehicles			X
	Employ drivers			X
	Maintain depots			X

An EP involves joint accountability for various activities between the MCA and operators. An example is the planning of socially necessary routes, whereby the MCA tenders bus services not fulfilled by the existing commercial network and subsidises extensions of existing services when there is lower customer demand such as into the evening or on Sunday. This is reflected across activities such as network planning, marketing and travel information, transport modelling and customer requirements.

Process and Accountabilities – Enhanced Partnership: the MCA

This section outlines the processes and accountabilities that fall under the MCA's remit under the current EP.

Strategy and Policy

Local transport planning – the MCA undertakes local transport planning, by producing the MCA Transport Strategy alongside a local development plan produced by each Local Authority to create a cohesive spatial strategy linked to the wider economy, and integration across various transport modes.

Commercial and procurement strategy – there are different accountabilities based on the network being considered. The MCA develops strategies for tendered services on socially necessary routes and operators develop strategies where there is a commercial driver and the ability to generate a profit.

Planning and Delivery

Network planning – network planning is provided for socially necessary routes that are not commercially viable, such as in rural areas. In addition, the MCA commissions additional services from operators at times when demand is lower, such as evenings and Sundays. The MCA plan, review and define this part of the network. Also, when operators stop operating routes that become commercially unviable, the MCA consider if they can tender out or subsidise the service, to reduce the impact on the community.

Procurement & contract management – the MCA does not operate commercial services but tenders out socially necessary routes to operators as Tendered Services. The MCA can ensure contractual obligations for the tendered routes are fulfilled by operators by accessing customer satisfaction surveys and bus performance data. However, it does not generally in practice fine or sanction operators if obligations are not fulfilled for tendered services. For commercial services under EP, the MCA's legal powers are more limited. Both parties have discussions on any issues, but ultimately only the Traffic Commissioner (the registration authority) can legally sanction operators currently. In practice, potential sanctions are likely to be limited due to the impact on passengers.

Fleet and vehicle purchase – although the MCA does not purchase buses for the bulk of the bus network, it has involvement in bidding for ZEBRA funding, for example buying buses directly such as for the Sheffield City Centre Shuttle or providing grants to operators as in case of specific Rotherham services.

Plan Demand Responsive Transport – the MCA provides funding to four local community transport charities to plan and provide Demand Responsive Transport services.

Operate and Maintain

Fares and ticketing – the MCA has the ability to set the fares on the subsidised and tendered socially necessary routes. However, for passenger ease and consistency, fares are set in accordance with the commercially run routes. The MCA operates and manages concessionary passes for senior citizens and disabled groups (through the ENCTS), as well as discount schemes for targeted groups, notably the “Zoom Card” scheme for those aged under 22. It also manages the reimbursement process to operators in relation to the DfT funded two-pound fare cap.

Fixed route bus services – the MCA does not directly run any bus services across the bus network. While the MCA specifies socially necessary routes, these are tendered out to the operators to run.

Travel information – the MCA provides travel information via its website and customer contact centre, which includes timetables, maps and information on disruptions to enable journey planning. In practice, passengers mainly use the multiple apps of the various operators and third parties such as City Mapper due to access to more accurate real-time information.

Maintain bus infrastructure – the MCA currently owns bus infrastructure such as shelters, stops, signage and bus stations and interchanges and are therefore responsible for the maintenance of these facilities. The MCA also owns Doncaster depot, which is leased to an Operator (First), with First responsible for

day-to-day and routine maintenance and the MCA as the freeholder could be responsible for any significant maintenance.

5.5.1.2 Process and Accountabilities – Enhanced Partnership: Local Authorities

This section outlines the processes and accountabilities that fall under the local authorities' remit under the current EP. These are relatively limited in scope compared to the operators and the MCA.

Strategy and Policy

Local governance arrangements – regarding the governance for delivering buses, the MCA must seek the consent of the four local authorities, with major decisions going through the MCA Board. The local authorities also create their own Local Development Plans, which the MCA uses to align with their Transport Strategy.

Local transport planning – while the local authorities are not directly accountable for local transport planning, they do have influence over it through their local development plans which the MCA's transport planning must take account of.

Planning and Delivery

Infrastructure design – local authorities are accountable for infrastructure design in their district and infrastructure enhancements such as the design of bus lanes, bus stations and bus stop locations. The MCA instigates public transport infrastructure projects, but typically local authorities will be commissioned to carry them out. However, this may vary depending on the funding source. Additionally, operators are consulted and informed around infrastructure design, but are not accountable for this.

Procurement and contract management – local authorities inform decision making on tendered services and contribute to the tendered services budget of the MCA. They procure and manage contracts related to bus infrastructure improvements where they are responsible for these improvements.

Operate and Maintain

Maintain infrastructure – Local authorities are the Highways Authority and have accountability for maintaining infrastructure such as roads and bus priority measures.

5.5.1.3 Process and Accountabilities – Enhanced Partnership: operators

This section outlines the processes and accountabilities that fall under the operators' remit under the current EP.

Strategy and Policy

Commercial and procurement strategies – operators develop their own strategies based on which services they want to operate to maximise their return on investment. As mentioned above, the MCA subsequently develops strategies in tandem to maximise the extent to which bus services meet the needs of local communities within the funding envelope available.

Planning and Delivery

Network planning – currently, the commercial bus networks, which comprise the majority of mileage operated in South Yorkshire, are planned by the operators. The operators' predominant consideration when planning these services is the commercial performance of the routes. Subsequently, the MCA augments these networks by procuring tendered bus services, to meet the needs of the community that are not being met commercially. The different operators plan their distinct bus networks independently from one another, and thus are unlikely to consider all routes and services in tandem or optimise the delivery of services across the bus network as a whole.

Fleet and vehicle purchase – operators are usually fully accountable for specifying the standards and procuring bus vehicles. The exception to this is when buses are procured with the aid of public funding, as in the recent ZEBRA scheme, as such schemes may specify aspects of the vehicles to be procured.

Depot management – under an EP, operators are currently wholly accountable for depot management which includes the acquisition of depots, setting standards for operations and maintenance, and installing charging infrastructure. One depot in Doncaster is leased by an operator from the MCA which owns this depot. Often, depots are located in strategic locations, where operators may run a major portion of the network.

Operate and Maintain

Fixed-route bus services – under an EP, operators are accountable and responsible for running much of the network. The operators provide the operation and maintenance of fixed-route timetables bus services, and depots.

Maintain fleet and depots – operators are accountable for the day-to-day maintenance of bus fleet and vehicles, and the depots.

Fares and ticketing – fare structures, payment options, ticket types and revenue protection are set up by operators and the various operators cannot collude with each other around these, under competition law. However, through a block exemption under the Competition Act 1998 (Public Transport Ticketing Schemes Block Exemption) Order 2001, that was brokered by the South Yorkshire Passenger Transport Executive (now part of the MCA), within the pre-EP deregulated framework, a South Yorkshire ticketing company called TravelMaster provides a suite of multi-operator and multi-modal ticket across all operators and tram and rail providers. Subsequent to this block exemption, some, but not all, of the competition law restrictions have been relaxed under the current EP arrangements. TravelMaster collects the revenue from tickets sales, then reimburses operators accordingly depending on who provides the service versus who takes the fare, using their back-office reconciliation mechanism. Operators may also make arrangements to accept other tickets issued by another operator or mode (e.g., tram) during times of disruption, although there is no formal reimbursement mechanism in these cases.

Travel information – operators provide travel information, each large operator offering their own website and mobile application for real-time information on their services. Furthermore, many operators, including all large operators, each have their own journey planner with real-time data. Third party providers such as Google and City Mapper also provide travel information services for customers.

5.5.1.4 People and Skills – Enhanced Partnership

This section discusses the capabilities in terms of people and skills currently employed by the MCA that are relevant to operating a bus system under an EP operating model. Table 114 provides an overview of the functions and capabilities required to operate a bus system and the extent to which the MCA currently possesses these capabilities under the existing EP.

Table 114: Capabilities for bus operating model for EP

Function	Capabilities	Description
Executive management	<ul style="list-style-type: none"> Boards and governance Assurance and audit 	The Executive Director of Transport has responsibility within the MCA for the delivery of bus infrastructure improvements and reports into the Corporate Leadership team and the Mayor. An Enhanced Partnership Board consisting of public sector and operator representatives provides strategic guidance for the delivery of the EP (see Governance section below in 5.6.6.1).
Financial planning & reporting	<ul style="list-style-type: none"> Planning and budgeting Accounting and reporting Payments and reconciliation Revenue forecasting Finance management 	The MCA currently has a finance team as part of a corporate function that provides support to the current delivery of an EP model.
Stakeholder relationships	<ul style="list-style-type: none"> Communications & messaging Stakeholder engagement 	The MCA has an existing corporate Marketing and Communications team, which can provide support to transport-related communications.
PR & Marketing	<ul style="list-style-type: none"> PR strategy Marketing and branding Management of advertising 	
Commercial management	<ul style="list-style-type: none"> Market engagement Supply-chain structuring and performance Procurement (tendering, evaluation, selection, contracting) Contract management Disputes resolution 	The MCA has an existing Bus Services Team that tender, evaluate and issue contracts for the socially necessary routes supported by a corporate Procurement function. The performance and contract management of these contracts is performed by the same Bus Services Team.
Transport planning	<ul style="list-style-type: none"> Network design, planning and updates 	Bus network planning is performed by the same Bus Services Team that procures and contract manages the tendered services, specifically planning the tendered routes around the commercial services run by operators. However, the MCA does not currently have the capacity or capability to perform integrated planning across an entire bus network.
Land & Property	<ul style="list-style-type: none"> Land and lease management Compulsory purchase order Infrastructure planning and development Maintenance of assets and infrastructure 	There is a corporate team within the MCA that provides knowledge and skills in relation to land and property as part of an asset management function. Knowledge in relation to Compulsory Purchase Orders is currently retained in the MCA's Legal function (see below).
Fleet management	<ul style="list-style-type: none"> Specifying fleet standards Management and maintenance of fleet 	The MCA is not accountable for the management and maintenance of the bus fleet and this capability does not currently exist within the MCA. However, the MCA has developed some capabilities related to fleet specification and procurement through the procurement of electric buses in the region utilising the DfT's ZEBRA funding.
Legal	<ul style="list-style-type: none"> Compliance and Regulatory law Contract procurement Compulsory Purchase 	There is a legal team within the MCA, which includes two solicitors and a legal executive, as well as administrative staff. This is managed by the MCA's Director of Legal and Governance.

Function	Capabilities	Description
	<ul style="list-style-type: none"> Land law 	Legal support is currently provided in relation to the operation of the EP and its legal requirements.
Programme management	<ul style="list-style-type: none"> Planning & work definition Knowledge management Performance measurement/monitoring Risk management Document management & control Change management Reporting Benefits management 	The existing programme management function within the MCA is focused on contract management, expenditure control and the development of assets.
Customer	<ul style="list-style-type: none"> Fares and ticketing Customer feedback Customer contact centre Concessionary pass management Social media Consultation Transport information 	The MCA has capability around communication for day-to-day customer feedback and journey planning advice with their contact centre receiving approximately 15,000-20,000 calls a month.
People & Organisation	<ul style="list-style-type: none"> Recruitment Organisational development Business change 	Capabilities in terms of HR and recruitment exist in the MCA within a corporate function.
Technical & Engineering	<ul style="list-style-type: none"> Manufacture choices Energy management Smart charging 	The MCA currently does not perform any functions manufacturing and maintenance of infrastructure and assets associated with buses, as this is the responsibility of operators under EP. However, the MCA has recently been successful with a ZEBRA scheme application and will develop some skills in vehicle specification and charging through that process.
IT & Systems	<ul style="list-style-type: none"> Technology architecture Selection management Technology change 	There is an existing corporate IT Team within the MCA that supports the delivery of services in relation to an EP.
Data & Analytics	<ul style="list-style-type: none"> Data architecture Analysis and insight 	The MCA has the capability for database management and using spatial analytical systems such as Geographic Information Systems (GIS).

5.5.1.5 Technology and Data – Enhanced Partnership

The following provides a list of the capabilities required to operate the bus system in an EP and the key IT systems used by the MCA to support this capability.

- **Financial planning and reporting:** the corporate MCA finance system provided by Epicor is used to support financial planning and reporting capabilities to support the delivery of an EP.
- **Commercial management:** the corporate MCA procurement system provided by Proactis (Pro Contract) is used for the tender and award of contracts to operators on socially necessary tendered services. The ongoing performance and contract management is undertaken using spreadsheets and documents specific to the bus team.
- **Transport planning:** There is no current capability for large-scale bus network planning within the MCA. As bus network planning is predominantly done by the operators, the respective network planning and operations systems are owned by them.
- **Land and property:** the corporate Customer Relationship Management system (MS Dynamics 365) is used to manage and maintain data in relation to bus infrastructure such as bus stops and shelters. Additionally, GIS is used as a mapping tool to spatially locate land and property assets.
- **Fleet management:** the operators currently have systems for fleet management, which includes real time tracking devices within bus ticketing machines to enable provision of accurate live travel information for customers.
- **Customer:** The corporate Customer Relationship Management system (MS Dynamics 365) is used to record customer feedback and consultation information. Electronic Ticket Machines (ETM) are owned and operated by Operators. These ETMs include bus telematics that spatially track the movement of vehicles across the bus network. A data feed of this movement is provided to the MCA to enable real time tracking of buses. The MCA uses this information through a customer interface to enable journey planning and updates. This technology to enable live tracking is not currently provided across the entire network in South Yorkshire. TravelMaster, which is a separate legal entity to the MCA, has back-office functionality to reconcile payments from operators.

5.5.1.6 Governance and Organisation – Enhanced Partnership

Governance – Enhanced Partnership

The following boards and committee form the governance of the operating model under the current EP:

- **Enhanced Partnership Board** – attendees include the Mayor of South Yorkshire, the MCA executive team, representatives from operators and a bus partnership forum representative. Its duties include reviewing the work programme and delivery of all current EP schemes each year and providing the relevant formal governance boards with recommendations for the elements of the programme that fall within its remit. This board currently has no delegated authority for decision making and acts in an advisory capacity only. The EP Board's purpose is defined in its terms of reference.
- **MCA Board** – attendees for this wider board include representatives from the MCA executive team, the four local councils (Barnsley, Sheffield, Doncaster and Rotherham) and the Mayor of South Yorkshire. This Board receives advice and recommendations from the EP Board (see above) in relation to the EP. The MCA Board is the overarching accountable body in relation to the EP.
- **Business Advisory Board** – this board ensures the business voice is heard and considered by the MCA to inform its decisions; it has representation from across the private sector including members from small and medium sized businesses.
- **Audit, Standards and Risk Committee** – this committee provides a high-level focus on assurance and the MCA's arrangements for governance, managing risk, maintaining an effective control environment, and reporting on financial and non-financial performance.

- **Overview and Scrutiny Committee** – this committee is responsible for checking that the MCA is delivering its objectives and that the decisions made in policies, strategies and plans have been made in the best interests of the residents and workers of South Yorkshire. Membership includes representatives from councillors from the four local councils (Sheffield, Rotherham, Barnsley and Doncaster).

The figure below reflects the current governance set up within the MCA.

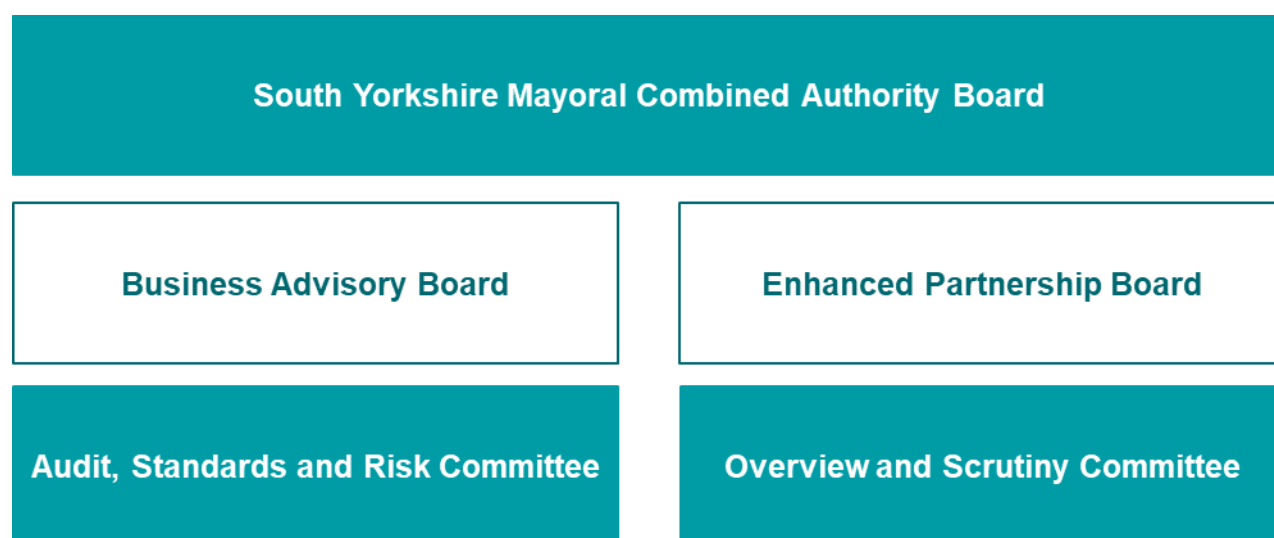


Figure 68: South Yorkshire Enhanced Partnership Governance

Organisation – Enhanced Partnership

Table 115 shows the organisational roles and teams within the MCA that are currently involved in managing bus services under the South Yorkshire EP, while an organisational chart is shown in Figure 69 that includes both bus-specific responsibilities and more general concession and ticketing roles. This excludes corporate functions such as Finance and IT teams that enable delivery. Roles and teams in relation to customer service are involved at varying levels of commitment and time. For example, customer service representatives would take enquires in relation to other transport modes and services in addition to bus.

In addition, there are two roles funded on an interim basis by the DfT leading the development of the EP. This table also excludes the four full time equivalents (FTE) in TravelMaster (SCR Ticketing Company Limited), as this is an independent private company set up by the operators in the region to facilitate simplified ways to pay for public transport. Figure 3 below shows the 7 FTE in the Concessions and Ticketing Team and the 9 FTE in the Bus Services Team within the MCA.

Table 115: South Yorkshire MCA Enhanced Partnership Organisation Roles and Teams

Team/Role name	No. of FTE	Comments
Director of Public Transport Operations	1	Oversees Bus, Tram, Rail, Customer Service, Concessions & Ticketing
Head of Public Transport Operations	1	Oversees Bus, Tram and Rail
Bus Services Team	9	Includes Bus Partnership Development, as seen in Figure 3 below
Enhanced Partnerships (interim)	2	Funded roles from DfT on an interim basis
Head of Customer Operations	1	

Customer Contact Centre	22	Operates across the Combined Authority dealing with all customer enquiries across various transport modes
Customer Service Area Team	10	
Service Information Team	11	
Concessions and Ticketing	7	Commercial development and ticketing as shown in Figure 3 below
TOTAL	64	

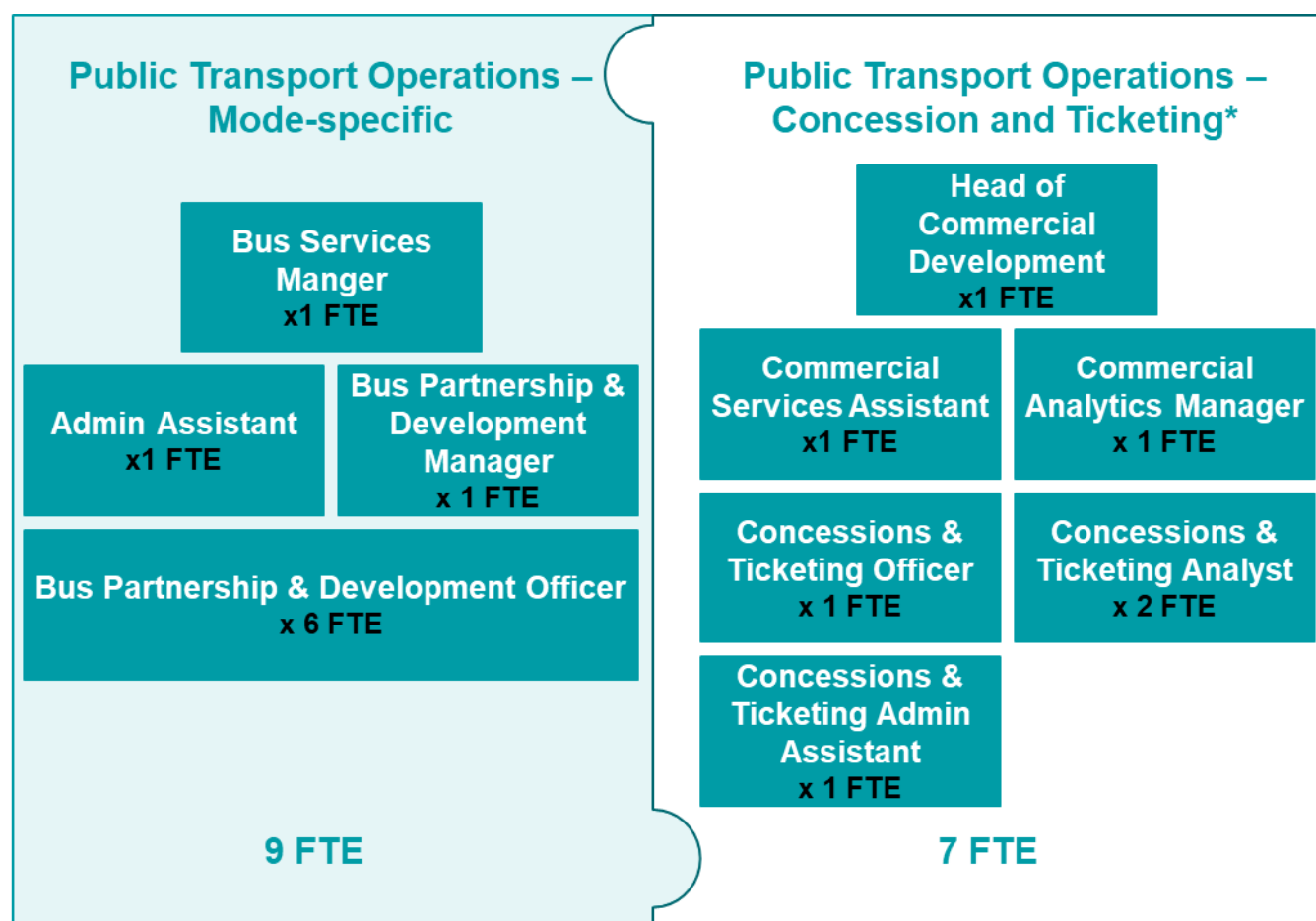


Figure 69 South Yorkshire Enhanced Partnership Organisational Chart

5.5.1.7 Bus Centre of Excellence

The National Bus Strategy (see section 1.3.4 of the Strategic Case) contained a commitment by the DfT to set up England's first Bus Centre of Excellence. This was launched in March 2023 and is being managed by the Chartered Institute of Highways and Transportation (CIHT) in partnership with the DfT. It aims to publicise best practice and share skills and knowledge within the bus sector, through a long-term programme of activities and support. The Bus Centre of Excellence would also provide resources for each of the activities defined in the bus operating model, including reports, case studies, papers and toolkits. These resources include items ranging from smart ticketing, strategies for improving sustainability in terms of zero emissions to bus stop design.

The Bus Centre of Excellence, and the resources it provides, can be utilised to build both the MCA's and operators' capabilities for delivering ongoing improvements to the bus system in the current EP. It could also be drawn upon by the MCA in areas where the MCA would have increased responsibility for the network under a Franchising Scheme, if the MCA opts for this approach.

5.6 ENHANCED PARTNERSHIP PLUS OPERATING MODEL

This section outlines a target operating model for an EP Plus within South Yorkshire. The EP Plus bus operating model is a more collaborative approach to public transportation that aims to further improve the quality, efficiency, and overall experience of bus services, including additional interventions and investment compared to EP. It involves a closer partnership between the MCA, the MCA's constituent local authorities (Doncaster, Barnsley, Rotherham, and Sheffield), and the operators to deliver better bus services to the community. Although the MCA's legal role and requirements would remain the same as under the current EP overall, the MCA could choose to have further involvement in some areas by providing further funding. However, this would be subject to close collaboration and agreement with the bus operators.

This section covers the processes, accountabilities, people and skills, technology and data, and governance and organisation of the EP Plus operating model.

5.6.1.1 Process and Accountabilities – Enhanced Partnership Plus

Table 116 depicts the list of activities required to deliver bus services and projects for each part of the value chain – Strategy & Policy, Planning & Delivery and Operate & Maintain. For each activity accountability for delivery has been indicated for each organisation – the MCA, a Local Authority in the region and/or an Operator. Under EP Plus, the accountabilities would not change from the current state, as it would still be a form of EP. However, the MCA could have greater engagement in various areas, as detailed in Section 1.5 of the Strategic Case (The MCA's Objectives for the Bus Network), such as fares and ticketing and branding.

Table 116 Process and Accountabilities

	Activity	The MCA	Local Authority	Operator
Strategy & Policy	Local governance arrangements	X	X	X
	Local transport planning	X	X	
	Commercial and procurement strategy	X		X
	Transport modelling	X		X
Planning & Delivery	Define customer requirements	X		X
	Network planning	X		X
	Network review and consultation	X		X
	Infrastructure design	X	X	
	Fleet & vehicle purchase			X
	Depot management			X
	Procurement & contract management	X	X	
	Payments to operators	X		
	Plan Demand Responsive Transport	X		
Operate & maintain	Home to school transport	X	X	
	Fixed-route bus services			X
	Fares and ticketing	X		X
	Concessionary passes	X		
	Marketing and branding	X	X	X

Activity		The MCA	Local Authority	Operator
	Travel information	X		X
	Operate Demand Responsive Transport	X		
	Maintain bus infrastructure	X	X	
	Maintain fleet & vehicles			X
	Employ drivers			X
	Maintain depots			X

As with an EP, an EP Plus option would involve joint accountability for various activities between the MCA and operators. An example is the planning of socially necessary routes, whereby the MCA procures bus routes not fulfilled by the existing commercial network and subsidises extensions of existing services when there is lower customer demand. This is reflected across activities such as network planning, marketing and travel information, transport modelling and customer requirements.

Process and Accountabilities – Enhanced Partnership Plus: the MCA

This section outlines the processes and accountabilities that would fall under the MCA's remit under an EP Plus. There is not any change in accountability, however multiple processes and activities see much greater involvement from the MCA under EP Plus, where the MCA could be able to influence delivery through greater collaboration with the bus operators.

Strategy and Policy

Local transport planning – the MCA would continue to undertake local transport planning by producing the MCA Transport Strategy alongside a local development plan produced by each Local Authority to create a cohesive spatial strategy linked to the wider economy.

Commercial and procurement strategy – there are different accountabilities based on the network being considered. The MCA would still develop strategies for tendered services on socially necessary routes and operators develop strategies where there is a commercial driver and the ability to generate a profit. Under EP Plus, these strategies could differ for tendered services as the size and shape of the network could be different. Therefore, the MCA could potentially have a larger involvement across the entire network and thus the procurement strategy would reflect this accordingly.

Planning and Delivery

Network planning – network planning would continue to be provided for socially necessary routes that are not commercially viable, such as in rural areas. In addition, the MCA would still commission additional services from operators at times when demand is lower, such as on evenings and Sundays. Under EP Plus, the MCA would continue to plan, review and define this part of the network. Also, when operators stop operating routes that become commercially unviable, the MCA would carry on considering if they can tender out or subsidise the service to reduce the impact on the community. Moreover, with EP Plus, the MCA would generally work in closer collaboration with the bus operators around the network to meet customer requirements more completely and would tender out more routes than it does currently to achieve the October 2023 network. 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, such as tram.

Procurement & contract management – under EP Plus, as with EP, the MCA would not operate commercial services but would tender out socially necessary routes to operators. Under EP Plus, the MCA would continue to ensure contractual obligations for the tendered routes are fulfilled by operators by accessing and analysing customer satisfaction surveys and bus performance data. Whereas under EP currently, the MCA does not generally sanction operators if obligations are not fulfilled for tendered services, under EP Plus the MCA could do more in this area. For example, it may perform more stringent performance and contract management around tendered routes. For commercial services, the MCA's legal powers will still be limited as under EP. Both parties would have discussions on any issues, but ultimately only the Traffic Commissioner (the registration authority) can legally sanction operators currently.

Fleet and vehicle purchase – although the MCA would not purchase buses for the bulk of the bus network, it would maintain involvement in bidding for ZEBRA funding, either buying buses directly such as for the Sheffield City Centre Shuttle or providing grants to operators as in case of specific Rotherham services. Additionally, under EP Plus the MCA will support the transition to zero-emission buses and will therefore specify and enforce fleet standards for operators around emissions. As the fleet standards being proposed under the Franchising Scheme are the same as those being proposed under EP Plus, the MCA will also enforce wider fleet standards outside of emissions.

Plan Demand Responsive Transport – for Demand Responsive Transport, the MCA would still provide funding to four local community transport charities to plan and provide these services.

Operate and Maintain

Fares and ticketing – the MCA would sustain the ability to set the fares on the subsidised and tendered socially necessary routes. Although currently fares are set in line with commercially run routes, under EP Plus the MCA may work in closer collaboration with operators to provide customers with a simplified fare structure. The MCA would still operate and manage concessionary passes for senior citizens and disabled groups through the ENCTS as well as discount schemes for targeted groups, notably the “Zoom Card” scheme for those aged under 22. It would also carry on managing the reimbursement process to operators in relation to the DfT funded two-pound fare cap. Under EP Plus, through Project Coral, the MCA would also be able to deliver Tap and Cap ticketing to passengers.

Fixed route bus services – the MCA would not run any bus services across the bus network. Whilst the MCA specifies socially necessary routes, these would remain tendered out to the operators.

Travel information – the MCA would continue to provide travel information via its website and customer contact centre, which includes timetables, maps and information on disruption to enable journey planning. In practice, passengers mainly use the multiple apps of the various operators and third parties, such as City Mapper, due to access to more accurate real-time information. Under EP Plus, the MCA would also continue to develop its app to provide access to a single place for journey planning and real-time and disruption information.

Marketing and Branding – the MCA would do more around marketing and branding under an EP Plus than with EP. This would include customer experience interventions, such as providing a single customer complaints and queries contact centre for passengers. Additionally, the MCA may fund the cost of branding the existing fleet and work closely with bus operators to develop a more unified South Yorkshire brand for buses.

Maintain bus infrastructure – the MCA currently owns bus infrastructure, such as shelters, stops, signage and bus stations and interchanges, and therefore would remain responsible for the maintenance of these facilities under EP Plus. The MCA also owns Doncaster depot, which is leased to an Operator (First), with First responsible for day-to-day and routine maintenance and the MCA for any significant maintenance.

5.6.1.2 Process and Accountabilities – Enhanced Partnership Plus: Local Authorities

This section outlines the processes and accountabilities that fall under the local authorities' remit under EP Plus. There is no change from the current EP set up, and overall, the role of local authorities would remain relatively limited in scope compared to the operators and the MCA.

Strategy and Policy

Local governance arrangements – regarding the governance for delivering buses, the MCA must seek the consent of the four local authorities, with major decisions going through the MCA Board. The local authorities would still create their own Local Development Plans, which the MCA uses to align with its Transport Strategy.

Local transport planning – while the local authorities would not be directly accountable for local transport planning, they would still have influence over it through their local development plans which the MCA's transport planning must take account of.

Planning and Delivery

Infrastructure design – local authorities would remain accountable for infrastructure design in their district and infrastructure enhancements such as design of bus lanes, bus stations and bus stop locations. The MCA would continue to instigate public transport infrastructure projects, but typically local authorities would be commissioned to carry them out. However, this may vary depending on the funding source. Additionally, operators would still be consulted and informed around infrastructure design but are not accountable for this. The consultation between players around infrastructure guidance would potentially increase under EP Plus (for example, around bus priority measures).

Procurement and contract management – local authorities would continue to inform decision making on tendered services and contribute to the tendered services budget of the MCA. They will still procure and manage contracts related to bus infrastructure improvements where they are responsible for these improvements.

Operate and Maintain

Maintain infrastructure – local authorities will remain the Highways Authority and would still have accountability for maintaining infrastructure such as roads and bus priority measures under EP Plus.

5.6.1.3 Process and Accountabilities – Enhanced Partnership Plus: Operators

This section outlines the processes and accountabilities that would fall under the operators' remit under the EP Plus.

Strategy and Policy

Commercial and procurement strategies – operators would continue to develop their own strategies based on which services they want to operate to maximise their return on investment. As mentioned above, the MCA would continue to develop strategies in tandem to maximise the extent to which bus services meet the needs of local communities within the funding envelope available.

Planning and Delivery

Network planning – under EP Plus, the commercial bus networks, which comprise the majority of mileage operated in South Yorkshire, would continue to be planned by the operators. The operators' predominant consideration when planning these services is and would remain the commercial performance of the routes. Subsequently, the MCA would persist in augmenting these networks by procuring tendered bus services to meet the needs of the community that are not being met commercially. The different operators would still plan their distinct bus networks independently from one

another and thus are unlikely to consider all routes and services in tandem or optimise the delivery of services across the bus network as a whole. However, under EP Plus there may be greater collaboration between operators and the MCA to rationalise and improve the network as a whole, for example to reduce “over bussing.”

Fleet and vehicle purchase – operators would continue to be fully accountable for specifying the standards and procuring most bus vehicles. The exception to this would be when buses are procured with the aid of public funding, as in the recent ZEBRA scheme and potential second ZEBRA scheme, as such schemes may specify aspects of the vehicles to be procured, such as the zero-emission features.

Depot management – under EP Plus, operators would remain wholly accountable for depot management which includes the acquisition of depots, setting standards for operations and maintenance, and installing charging infrastructure. One depot in Doncaster would continue to be owned by the MCA and leased to an operator. Often, depots are located in strategic locations where operators may run a major portion of the network.

Operate and Maintain

Fixed-route bus services – under an EP Plus, operators would remain accountable and responsible for running much of the network. The operators would still provide the operation and maintenance of fixed-route timetables bus services.

Maintain fleet and depots – operators will still be accountable for the day-to-day maintenance of bus fleet and vehicles, and the depots under EP Plus.

Fares and ticketing – fare structures, payment options, ticket types, revenue protection and revenue collection will still be set up by operators and the various operators cannot collude with each other around these, under competition law. Additionally, through the block exemption under the Competition Act 1998 (Public Transport Ticketing Schemes Block Exemption) Order 2001, TravelMaster would continue to provide a suite of multi-operator and multi-modal ticket across all Operators and tram and rail providers. Under EP Plus, TravelMaster would continue collecting the revenue from their tickets, then reimburse operators accordingly depending on who provides the service versus who takes the fare, using their back-office reconciliation mechanism. With EP Plus the MCA would also implement unified ticketing across all operators and services, whereby operators would sign up and halt provision of their own ticketing. Operators would be held harmless commercially for this arrangement.

Travel information – operators would continue to provide travel information, with each large operator offering their own website and mobile application for real-time information on their services. Furthermore, many operators, including all large operators, have their own journey planner with real-time data. Third party providers such as Google and City Mapper would also continue to provide travel information services for customers under EP Plus.

5.6.1.4 People and Skills – Enhanced Partnership Plus

This section discusses the capabilities in terms of people and skills required by the MCA that are relevant to operating a bus system under an EP Plus operating model. Table 1146 provides an overview of the functions and capabilities required to operate a bus system and a description of how the MCA would develop the people and skills to deliver these functions for EP Plus, such as Commercial Management and Transport Planning.

Table 117 Capabilities for bus operating model in an Enhanced Partnership Plus

Function	Capabilities	Description
Executive management	<ul style="list-style-type: none"> Boards and governance Assurance and audit 	The Executive Director of Transport would retain responsibility within the MCA for the delivery of bus infrastructure improvements and reports into the Corporate Leadership team and the Mayor. The Enhanced Partnership Board, consisting of public sector and operator representatives, would continue to provide strategic guidance for the delivery of the EP Plus.
Financial planning & reporting	<ul style="list-style-type: none"> Planning and budgeting Accounting and reporting Payments and reconciliation Revenue forecasting Finance management 	The existing finance team within the MCA that sits as part of a corporate function will continue to provide support to the delivery of an EP Plus model. As the MCA will be committing more funding into the bus system under EP Plus compared to the current EP, there may be some additional capacity required around planning and budgeting and financial management. This is to ensure funding is going to the planned measures and properly accounted for.
Stakeholder relationships	<ul style="list-style-type: none"> Communications & messaging Stakeholder engagement 	The MCA has an existing corporate Marketing and Communications team, which could provide support to transport-related communications for EP Plus and would need to be bolstered to do so. Additional capacity may be required around branding to achieve a more consistent South Yorkshire brand across buses and associated customer experience components. There will be a significant increase required around stakeholder engagement for EP Plus to engage, negotiate and influence stakeholders such as bus operators around delivery of the EP Plus interventions such as network upgrades.
PR & Marketing	<ul style="list-style-type: none"> PR strategy Marketing and branding Management of advertising 	
Commercial management	<ul style="list-style-type: none"> Market engagement Supply-chain structuring and performance Procurement (tendering, evaluation, selection, contracting) Contract management Disputes resolution 	The MCA has an existing Bus Services Team that tenders, evaluates and issues contracts for the socially necessary routes supported by a corporate Procurement function. The performance and contract management of these contracts is performed by the same Bus Services Team. Under EP Plus this team would require reinforcement to deliver more stringent processes around operator performance for tendered bus routes. Over time the MCA may tender out more socially necessary routes, which would require additional capacity within the team to procure and manage these.
Transport planning	<ul style="list-style-type: none"> Network design, planning and updates 	Bus network planning is currently performed by the same Bus Services Team that procures and contract manages the tendered services, specifically planning the tendered routes around the commercial services run by operators. However, for EP Plus the MCA would require dedicated network planning capability and capacity to perform integrated planning across the entire bus network. Even though the routes will be serviced by the operators, the MCA would play a greater role regarding influencing the holistic network by working more collaboratively with operators, and so would require network planning capabilities to inform this process. This is because the same network is being proposed under EP Plus and the Franchising Scheme, therefore network planning capability will be required by the MCA under EP Plus.

Function	Capabilities	Description
Land & Property	<ul style="list-style-type: none"> Land and lease management Compulsory purchase order Infrastructure planning and development Maintenance of assets and infrastructure 	There is a corporate team within the MCA that provides knowledge and skills in relation to land and property as part of an asset management function. Knowledge in relation to Compulsory Purchase Orders is currently retained in the MCA's Legal function (see below). For EP Plus there will not be any additional requirements in this area. However, for bus priority interventions, this team should ensure that the Local Authorities have complimentary policies in place to allow the MCA to increase road space allocation for bus priority measures.
Fleet management	<ul style="list-style-type: none"> Specifying fleet standards Management and maintenance of fleet 	The MCA is not accountable for the management and maintenance of the bus fleet and this capability does not currently exist within the MCA. However, the MCA has developed some capabilities related to fleet specification and procurement through the procurement of electric buses in the region utilising the DfT's ZEBRA funding. For EP Plus the fleet specification capabilities would be required once again to procure additional ZEBs. Fleet specification includes not only the emission standards but also features such as accessibility space, and so these wider capabilities around fleet specification would be required by the MCA to deliver the same standards being proposed under the Franchising Scheme for EP Plus.
Legal	<ul style="list-style-type: none"> Compliance and Regulatory law Contract procurement Compulsory Purchase Land law 	There is a legal team within the MCA, which includes two solicitors and a legal executive, as well as administrative staff. This is managed by the MCA's Director of Legal and Governance. Legal support is currently provided in relation to the operation of the Enhanced Partnership and its legal requirements, and under EP Plus this support would increase to ensure the additional delivery interventions are considered through the legislation on an ongoing basis.
Programme management	<ul style="list-style-type: none"> Planning & work definition Knowledge management Performance measurement/monitoring Risk management Document management & control Change management Reporting Benefits management 	The existing programme management function within the MCA is focused on contract management, expenditure control and the development of assets. Therefore, this team would require additional capacity and capability to deliver the programme of change that EP Plus would bring, for both the Design phase and Implementation phase. This additional temporary capability would most likely be sourced externally from the supply chain.
Customer	<ul style="list-style-type: none"> Fares and ticketing Customer feedback Customer contact centre Concessionary pass management Social media Consultation Transport information 	The MCA has capability around communication for day-to-day customer feedback and journey planning advice with their contact centre receiving approximately 15,000-20,000 calls a month. However, under EP Plus there may potentially be greater reliance on MCA funding for more non-commercial routes, creating an increased demand for the MCA to meet stakeholder requirements and hence additional customer feedback and consultation capabilities may be necessary. For fares and ticketing, there will be some additional capability needed under EP Plus to deliver the interventions around more integrated ticketing and Tap and Cap.
People & Organisation	<ul style="list-style-type: none"> Recruitment Organisational development Business change 	Capabilities in terms of HR and recruitment exist in the MCA within a corporate function. This team may require some temporary bolstering for the recruitment activities for roles related to EP Plus transitional delivery and long-term operation.
Technical & Engineering	<ul style="list-style-type: none"> Manufacture choices Energy management Smart charging 	The MCA currently does not perform any functions manufacturing and maintenance of infrastructure and assets associated with buses, as this is the responsibility of operators under EP. However, the MCA has recently been successful with a ZEBRA scheme application and will develop some skills in vehicle specification and charging

Function	Capabilities	Description
		through that process. These skills could be utilised during EP Plus around zero-emission buses and the associated charging infrastructure.
IT & Systems	<ul style="list-style-type: none"> Technology architecture Selection management Technology change 	There is an existing corporate IT Team within the MCA that supports the delivery of services in relation to an EP. This team will need to be involved with EP Plus delivery, potentially around IT systems for contract and performance management and network planning functions. However, it is unlikely this team will require additional capabilities for EP Plus support.
Data & Analytics	<ul style="list-style-type: none"> Data architecture Analysis and insight 	The MCA has the capability for database management and spatial analytical systems such as Geographic Information Systems (GIS). However, under EP Plus this team may need bolstering around data analysis, for data around demand, patronage and customer insights to better understand bus network usage in South Yorkshire, to potentially garner greater passenger benefits.

5.6.1.5 Technology and Data – Enhanced Partnership Plus

In terms of the technological capabilities, the current MCA technical and data landscape would be mostly sufficient for EP Plus. However, for the areas where the MCA wishes to have greater commitment to deliver more value to passengers such as the network, there could be additional reinforcement around IT systems. Generally, for EP Plus the wider corporate functions would be able to continue to rely on the existing corporate systems within the MCA. These are executive management, financial management, stakeholder management, marketing, IT & systems, data & analytics, legal and programme management, and recruitment. The functions detailed below are those that would be either new to the MCA in terms of level of involvement or would require additional new technical functionality to be developed.

- **Commercial management:** the corporate MCA procurement system provided by Proactis (Pro Contract) is presently used for the tender and award of contracts to operators on socially necessary tendered services. Pro Contract would continue to be used under EP Plus. However, the ongoing performance and contract management is currently undertaken using spreadsheets and documents specific to the bus team. To achieve the MCA's objectives under EP Plus, there is an additional requirement for performance management in terms of data, insights, performance metrics and KPIs. This is to enable performance and contract management of bus operators on the tendered routes. Therefore, there is a need for further technical functionality around this, which could be delivered through additional development of Pro Contract or through purchasing a new IT system.
- **Transport planning:** There is no current capability for large-scale bus network planning within the MCA, as bus network planning is predominantly done by the operators. Under EP Plus bus network planning functionality could be procured to enable the MCA to deliver more holistic and wider scale network planning. New network planning technology would include the ability to model routes, services, and timetables to support the design of a more integrated and efficient bus network that could be delivered through better collaboration between the bus operators and the MCA under EP Plus. Additionally, the bus network planning could therefore be considered alongside tram as part of an integrated multi-modal network.
- **Data and analytics:** currently under EP, Electronic Ticket Machines (ETM) are owned and operated by Operators, which include bus telematics that spatially track the movement of buses across the network. In parallel, a data feed of this movement is provided to the MCA to enable real time tracking of buses. The MCA uses this information through a customer interface to enable journey planning and updates. Under EP Plus, ETMs would continue to provide bus telematics data to live track the bus fleet across South Yorkshire. However, the technology to enable live tracking is not currently provided across the entire network in South Yorkshire, so under EP Plus, the MCA could deliver this with further investment, to offer better complete real-time journey planning information to passengers.
- **Ticketing:** the MCA owns a back-office ticketing company called Yorcard to enable multi-operator ticketing. Currently under EP, multi-operator and multi-modal ticketing functionality exists within and is performed by TravelMaster which is a separate legal entity to the MCA. TravelMaster also has back-office functionality to reconcile payments from operators. This would continue to be the case under EP Plus. However, the MCA could continue to develop Yorcard to deliver additional multi-operator products. Therefore, this technology would require investment and development to ensure the MCA has back-office reconciliation functionality.
- **Customer:** the MCA's Customer Relationship Management system (MS Dynamics 365) is at present used to record customer feedback and consultation information. Under EP Plus the existing customer functionality of the MCA's CRM could be utilised for any additional requirements around customer feedback, customer consultation and service information. Additionally, the MCA provide customers with service information through their travel information app (Travel South Yorkshire), using the data feed provided through ETMs on vehicle real-time tracking. Under EP Plus, the MCA could enhance this app to provide passengers access to a single location for journey planning and real-time and disruption information, across the various bus operators' services.

5.6.1.6 Governance and Organisation – Enhanced Partnership Plus

Governance – Enhanced Partnership Plus

Under EP Plus, the following boards and committees would form the governance of the operating model, as takes place under an EP, because the legal framework largely remains the same.

- **EP Board** – under EP Plus, the attendees and duties of this board would remain the same as current. This board would continue reviewing the work programme for delivery of South Yorkshire EP Plus schemes. It would continue to have no delegated authority for decision making and act only in an advisory capacity to the MCA Board and other parties. Under EP Plus there may be some amendments to the board's purpose and thus terms of reference, to ensure it is most appropriate for EP Plus delivery.
- **MCA Board** – the MCA Board is currently the overarching accountable body in relation to the EP, and therefore would remain so for EP Plus. The attendees would remain the same as under EP (representatives from the MCA executive team, the four local councils (Barnsley, Sheffield, Doncaster and Rotherham) and the Mayor of South Yorkshire). This board would still receive advice and recommendations from the EP Board.
- **Audit, Standards and Risk Committee** – this committee would continue to provide a high-level focus on assurance, managing risk, and reporting on financial and non-financial performance. Under EP Plus this committee would perform further scrutiny around EP Plus as a significant portion of the MCA's budget would be invested, which potentially poses some additional risk to the MCA. Therefore, this committee would provide assurance on this risk and financial investment.

Organisation – Enhanced Partnership Plus

Under EP Plus, there would be a requirement to enhance the existing bus team within the MCA around missing capabilities, or those that would require better definition. Also, an EP Plus operating model would require some enhancement of existing capabilities, to increase capacity for delivery around the responsibilities that the MCA would have greater involvement around, such as performance management. Moreover, a future organisational model would include dedicated roles for the various parts of the value chain as opposed to individuals that are simultaneously responsible for all of these processes.

Figure 70 below depicts a potential organisational chart for the MCA for EP Plus. Within the bus team there will be a requirement to have more greatly specified roles and with defined roles and responsibilities to deliver and maintain EP Plus. This is different from the current EP set up where the existing team consists of wide-ranging bus responsibilities and general concession and ticketing roles. Additionally, there will be support required from organisation wide functions such as Finance and IT as is done under EP, but this existing support is excluded from the figure below. The figure below also excludes the four full time equivalents (FTE) in TravelMaster, as this is an independent private company set up by the operators in the region. Under EP Plus TravelMaster would remain in place and continue to deliver multi-operator and multi-modal passenger tickets.

In summary, the EP Plus Option would require an overall total of 33 FTE (for business-as-usual Bus functions and Organisation-wide functions), compared to the current 16 FTE in the current Bus team and Concessions Ticketing team under EP. Also, some of the roles that currently work on bus in the MCA are for general public transport, not just bus. So, under EP Plus there would be more dedicated bus roles in the MCA overall, therefore amending the team structure for bus.

There would be an increase from 16 to 33 FTE working on the EP Plus Option compared to the current EP because under the current EP the MCA have a minimal role in terms of the bus network. However, under the EP Plus Option there are proposed interventions across many areas including fares and ticketing, network planning, marketing and branding and the bus fleet. The benefits being proposed on the Economic Case for EP Plus are considerable, and the same as the proposed Franchising Scheme in some elements, such as the network and ticketing. This would require a significant increase in resource and capability compared to the current MCA set up for EP. Additionally, as under an EP Plus option the MCA would not have the legal authority or autonomy that is granted under a Franchising Scheme, to implement the proposed EP Plus Option interventions, so supplementary resource will be required to reach agreement with operators and manage commitments thereafter. This includes significant stakeholder management resource, to negotiate and influence bus operators around elements of the bus system, such as fares and ticketing, the network and the bus fleet to deliver the benefits proposed by the MCA. Moreover, under the EP Plus Option the MCA would have very few contractual or commercial levers to manage bus operators, compared to a Franchising Scheme, and therefore would need substantial resource to manage operator performance.

Currently, roles and teams in relation to customer service are involved at varying levels of commitment and time, as is done with marketing and branding. These resources would offer services and provide support to other modes and services in addition to bus. However, under EP Plus there would be an increased requirement for these roles, and others, to support to operation of the additional MCA interventions.

Table 118 MCA Team and Roles for EP Plus (BAU)

Team/Role name	No. of FTE	Comments
Head of Bus	1	These roles would make up the Bus function within the MCA, whereby they would be dedicated to processes around bus delivery instead of working across various functions. There would be 20 FTE in total.
Network Planning	2	
Procurement	2	
Data Monitoring	2	
Performance Management	4	
Stakeholder Engagement	4	
Fares and Ticketing	5	
Financial Management	3	Organisation-wide functions, to support the delivery of EP Plus. These roles would not sit directly within the Bus Team and may perhaps work across other delivery functions too. There would a total of 13 FTE required.
Legal	1	
Consultation Management	1	
Customer Experience	2	
Customer Service	4	
Marketing and Branding	2	
TOTAL (GROSS)	33	

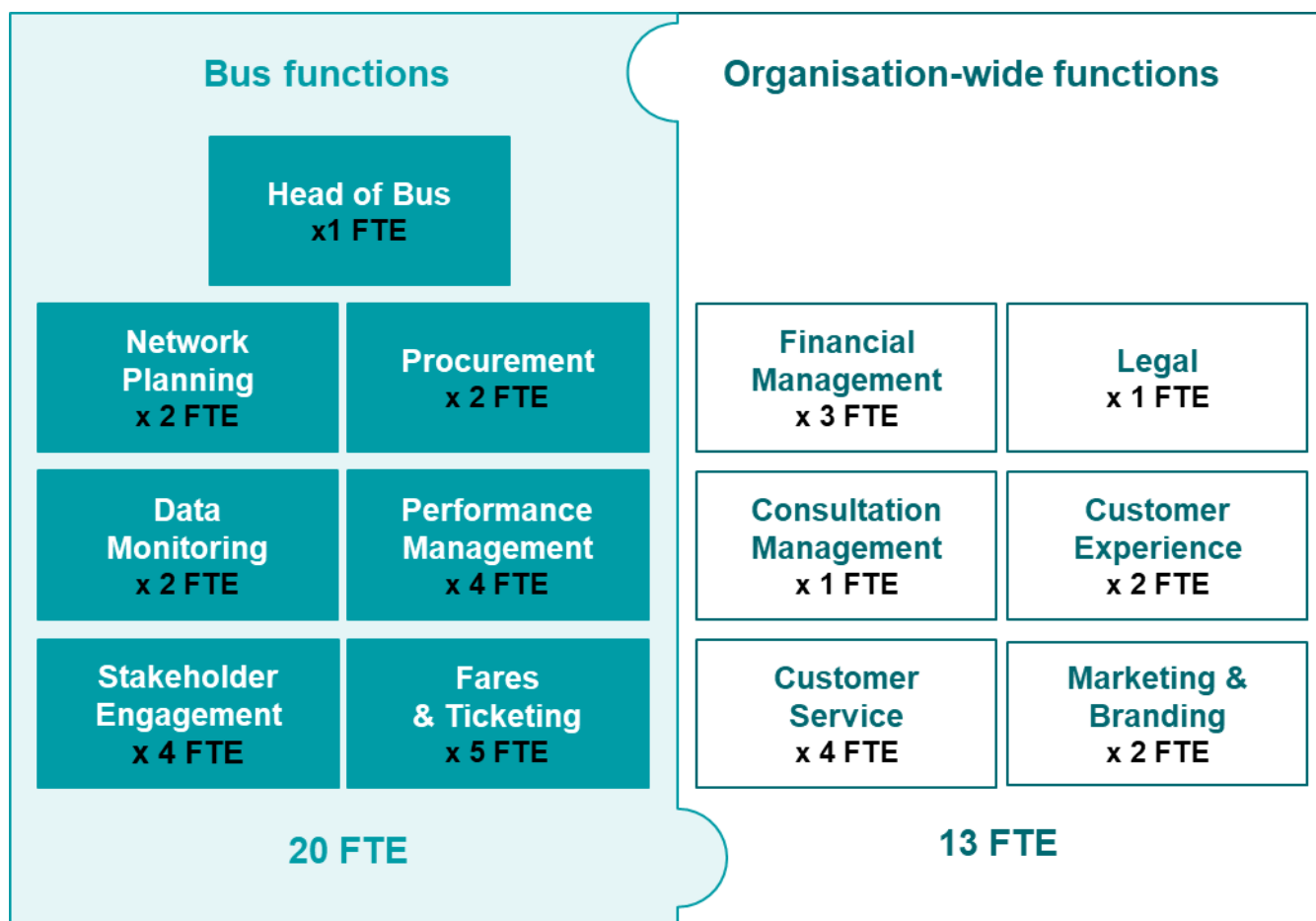


Figure 70 Enhanced Partnership Plus Organisational Chart (BAU)

As well as the 33 overall total FTE required to operate EP Plus within the business-as-usual, steady state, there would be additional resource required to deliver the programme of change to transition to an EP Plus model. This is further detailed in section 5.9.5 Programme Team – EP Plus. There would be up to an additional 17 FTE needed to deliver EP Plus as part of the programme team, primarily across the Design phase, which proceeds the Transition Phase. The detail around the programme for EP Plus can be found in section 5.8.6 Programme Plan – Enhanced Partnership Plus. The up to 17 FTE within the programme will not make up part of the MCA's long-term organisation.

5.7 FRANCHISING OPERATING MODEL

Implementing a Franchising Scheme would mean that the MCA assumes accountability for additional activities required to run a bus transport system, to ensure that the benefits of franchising, as set out in the Strategic Case and the Economic Case, are realised. This section explains the ways of working in terms of processes and accountabilities, people and skills, technology and data, and governance and organisation for a Franchising Scheme.

The preferred option under a Franchising Scheme is that the MCA would own the depots and fleets (Franchising Option B), and so the level of responsibility the MCA assumes within the operating model is reflected in this section. Further details on each of the Franchising Options (different depot and fleet ownership arrangements) are set out in the Strategic Case.

5.7.1.1 Process and Accountabilities – Franchising Scheme

Table 119 shows the accountabilities for each organisation in a bus franchising operating model. Each of the organisations is then described in terms of how their accountability changes from the current EP to a franchising operating model.

Table 119 Process and Accountabilities for a Franchising Scheme

	Activity	The MCA	Local Authority	Operator
Strategy & Policy	Local governance arrangements	X	X	
	Local transport planning	X	X	
	Commercial and procurement strategy	X		
	Transport modelling	X		
Planning & Delivery	Define customer requirements	X		
	Network planning	X		
	Network review and consultation	X		
	Infrastructure design	X	X	
	Fleet & vehicle purchase	X		
	Depot management	X		
	Procurement & contract management	X		
	Payments to operators	X		
	Plan Demand Responsive Transport	X		
Operate & maintain	Home to school transport	X	X	
	Fixed-route bus services			X
	Fares and ticketing	X		
	Concessionary passes	X		
	Marketing and branding	X	X	
	Travel information	X		
	Operate Demand Responsive Transport	X		
	Maintain bus infrastructure	X	X	
	Maintain fleet & vehicles	X		
	Employ drivers			X
	Maintain depots	X		

5.7.1.2 Process and Accountabilities – Franchising Scheme: the MCA

This section outlines the processes and accountabilities that would fall under the MCA's remit under Franchising.

Strategy and Policy

Commercial and procurement strategy – the MCA would become accountable for the commercial and procurement strategy for the entire bus system. Instead of only tendering out the socially necessary routes, the MCA would contract out the whole bus network, apart from routes that would fall under a Service Permit scheme, such as cross-boundary and tourist services that operated from and/or based at a depot outside of South Yorkshire. The MCA could develop its strategy to meet the needs of customers, communities and business in the region. The MCA would also have the opportunity to develop commercial strategies to allow a variety of operators to be awarded contracts, including Small and Medium Operators (SMOs), in line with its responsibilities to facilitate SMO participation in the region's bus market under the Franchising Guidance. Section 3.18.4 of the Commercial Case of this Assessment sets out analysis of factors that are relevant to competition for franchise contracts that are particularly

relevant to SMOs and describes a range of potential approaches to supporting competition for franchising contracts among SMOs.

Transport modelling - the MCA would become accountable for bus transport modelling across the entire region under Franchising including routes currently operated in the deregulated market. This includes setting transport objectives and collecting data to model and monitor these objectives.

Planning and Delivery

Defining customer requirements – Over time, the MCA would conduct research with passengers and non-passengers to understand their needs through mechanisms such as customer consultation, to design a network that holistically meets the needs of residents in South Yorkshire. This role would be developed in the long term and will be used to inform future rounds of Franchising following the MCA gaining control of the network. Currently, the MCA regularly engages with Better Buses for South Yorkshire, a local campaign group that seeks to improve the region's buses. Future engagement will seek to broaden the range of both passengers and non-passengers whose perspectives are taken into account.

Network planning – the MCA would become accountable for defining and reviewing the whole bus network in terms of routes, frequency of service and timing of service across the day. The process of bus network planning could be integrated with other transport modes such as active travel, rail and tram to provide benefits to customers to access a greater range of destinations. Therefore, the MCA would be able to holistically design the network to ensure that local communities, such as socially disadvantaged groups, that may have an above-average reliance on public transport, benefit from the network.

Network review and consultation – The MCA would be accountable for reviewing and updating the network on an ongoing basis. Using customer consultation exercises, feedback from Local Authority partners and modelling data, the network would be reviewed to ensure it meets the needs of local communities, as under a Franchising Scheme, the MCA would be accountable for the customer journey experience across all franchised services.

Procurement and contract management – for a Franchising Scheme, all routes apart from those that would be permanently covered by the Service Permit Regime (e.g., cross-boundary and tourist services) would be tendered out by the MCA once the lotting process is complete, so there would be a large increase in complexity and intensity of the procurement processes with the supply chain. This rise in complexity and intensity would even increase for the Transition phase of the franchising programme detailed in section 5.8.8, and the procurement of the initial lots. The MCA would be accountable for tendering, contracting and performance managing these tendered contracts. As discussed in section 5.7.1.7, the Service Permit Regime would also temporarily apply to services that are within the scope of the Franchising Scheme, but have not yet been franchised, if a Franchising Scheme were to come into force.

Fleet and vehicle purchase – under a Franchising Scheme, the MCA would have accountability for fleet standards such as size of vehicle, fuel type and facilities onboard such as Wi-Fi/charging. As the MCA would own the fleet under the chosen option, it would specify these fleet standards and procure these in a specification for a bus manufacturer to produce.

Depot management – Under the preferred Franchising Option B, the MCA would become accountable for depot management. This covers the acquisition of depots, setting operating and maintenance standards, and installing charging infrastructure. However, where the MCA owns depots, the MCA would lease out each depot to the bus operator(s) who are awarded the relevant contracts.

Operate and Maintain

Fares and ticketing - the MCA would be accountable for fares and ticketing, and therefore set the fare structure and pricing levels. A high-level assessment of potential fare mechanisms has been conducted, however detailed modelling and analysis of which fare options are affordable and viable will be defined within the fares and ticketing strategy activity within the programme plan, within the bus technical workstream. Additionally, the MCA would ultimately collect the revenue from fares and take on the revenue risk. This would enable the MCA to set fares for multi-modal tickets to allow passengers to transfer between modes of transportation, such as bus, tram and rail, with one ticket, and to create a fares system that supports the MCA's wider objectives and priorities for the bus network, as outlined in the Strategic Case. For example, under Franchising, the MCA will be able to implement both 'Tap on Tap off' and 'Tap and Cap' ticketing mechanisms, as well as a simplified and single fare structure for passengers.

Travel information – the MCA would provide travel information to passengers. This includes communicating timetables, maps, disruptions, and enabling journey planning with real-time information. Although the MCA does some of this now through their information hub, they would become wholly accountable for providing the latest and accurate information to the public on a wider scale.

Marketing – the MCA would develop and market a brand for public transport services to create a single, unified brand for all components of the South Yorkshire bus network.

Maintenance of depots – as the MCA would own the depots under the preferred Franchising Option B, they would become accountable for them. However, the responsibility for day-to-day management and maintenance of depots would be assigned to the contracted operators through depot leases as part of the Franchise contract.

Maintenance of fleet – as the MCA would own the fleet under Franchising Option B, it would become accountable for them, although the responsibility for the day-to-day maintenance of the fleet would be assigned to operators through leases as part of the Franchise contracts.

5.7.1.3 Process and Accountabilities – Franchising Scheme: Local Authorities

This section outlines the processes and accountabilities that would fall under the local authorities' remit under Franchising.

Strategy and Policy

Local governance arrangements - the local authorities would continue to play a role and remain accountable for local development planning, and the MCA would continue to align their transport plan with this, as is done for the current EP. Input to the future direction of the strategy and policy of bus services would be provided through the representatives of local authorities on the MCA Board.

Local transport planning – the local authorities would continue to have an influence over the MCA's transport plan through their local plans, which the MCA's transport planning must take account of.

Planning and Delivery

Infrastructure design - local authorities would continue to be accountable for infrastructure design in their district and infrastructure enhancements such as design of bus lanes, bus stations and bus stop locations. The MCA could still instigate public transport infrastructure projects, but typically local authorities would continue to be commissioned to carry them out. However, this may vary depending on the funding source.

Operate and Maintain

Maintain infrastructure - local authorities would continue to be the Highways Authority and have accountability for maintaining infrastructure such as roads and bus priority measures.

5.7.1.4 Process and Accountabilities – Franchising Scheme: Bus operators

This section outlines the processes and accountabilities that would fall under the operators' remit under the Franchising Scheme.

Strategy and Policy

Commercial & procurement strategy – under the Franchising Scheme, bus operators would no longer have a commercial model based on a deregulated market, where income fluctuates based on customer demand. They would transition to a new commercial model where they bid for contracts to provide services on a longer-term basis, without assuming the risk of fluctuating customer revenues. This model already exists in areas that have adopted or are adopting franchising, such as London and Manchester.

Operate and Maintain

Fixed-route bus services – under a Franchising Scheme, bus operators will continue to be accountable for the operation of fixed-route bus services. Operators will be responsible for collecting fares and issuing tickets to customers. They will continue to provide expertise in the recruitment, scheduling and rostering of skilled bus drivers.

Maintenance of depots - under the preferred Franchising Option B, the MCA would own the depots. However, the MCA would lease out the depots to the newly incumbent bus operators under a depot-leasing model. Therefore, the operators would become responsible, but not accountable, for depot maintenance, other than any accountabilities specified within the franchise contracts by the MCA.

Planning and Delivery

Network planning – bus operators would no longer be accountable for planning the bus network for their commercial operations. However, they may still be consulted by the MCA on network planning through market engagement and the network review process as they will maintain a close interface with customers.

Fleet management – As the MCA would own the fleet under the preferred Franchising Option B, it would become accountable to procure and maintain the bus fleet. However, whilst not accountable for fleet procurement, operators would be responsible for day-to-day maintenance, which will be set out within the Franchise contracts.

5.7.1.5 People and Skills – Franchising

The MCA would require an increase in capacity and capability of people and skills to deliver the bus system under a Franchising Scheme. Table 120 shows the list of capability requirements and a description of how the MCA would develop the people and skills required to deliver them. Following this, the Franchising Scheme programme plan, as detailed in section 5.8.8, shows the approach to how a Franchising Scheme would develop giving an indication of how people and skills would develop.

In developing an understanding of the people and skills requirements for a Franchising Scheme, the following aspects were considered:

- Bus specialisms – the capabilities that are more niche and technically specialist around buses, delivered locally within a transport team and mostly separate from the wider organisation.
- Corporate support – the capabilities that exist or typically reside within the wider corporate function and are delivered once centrally across the whole organisation.

- Project delivery expertise – the capabilities will enable the change and development franchising requires, and will support with the transition to franchising, such as the setting up of the new organisation.

Make vs. buy – an understanding of whether these capabilities should be developed within the MCA or whether they should be procured from the supply chain. Make vs. buy was considered across different activity types. For example, activities around implementation requiring supply chain resource, compared to those required for the steady state business as usual activities using internally developed MCA resource.

Table 120 The MCA Capabilities for the bus operating model under a Franchising Scheme

Function	Capabilities	Description of requirements
Executive management	<ul style="list-style-type: none"> Boards and governance Assurance and audit 	There would no longer be a requirement for an EP Board under a Franchising Scheme. There would be a need for the MCA to have oversight and assurance of the new model of working through an expansion in scope of existing boards. The level of executive oversight would be greater, and it would be recommended that a director level appointment is made to manage the increased risk to the MCA from a Franchising Scheme. Aside from this appointment, the governance mechanism for a Franchising Scheme would not hugely differ from the set up with the South Yorkshire EP, with changes continuing to be managed through the MCA Board but the risk that is being managed would change.
Financial planning & Reporting	<ul style="list-style-type: none"> Planning and budgeting Accounting and reporting Payments and reconciliation Revenue forecasting Finance management Service registration management 	<p>The wider corporate finance team within the MCA would be utilised to perform the planning, budgeting, accounting and reporting under a Franchising Scheme. There would be an additional element of payments, reconciliation, and revenue forecasting as the MCA would be taking fare box revenue. Therefore, there is a need to increase the capacity of current finance resource. Auditing expertise would be required to mitigate the risks from the model. Revenue protection resource would be needed to check that revenue is being collected correctly by operators in alignment with financial procedures. Revenue protection officers can also issue penalty fares to passengers who travel without a valid ticket or without the correct ticket.</p> <p>Under a Franchising Scheme enforcement of local service contracts and the standards imposed by those contracts would be the responsibility of the MCA. The MCA would be able to take action against operators that are not complying with the conditions of their service permit, by revoking or suspending such a permit. The Traffic Commissioner would act as the appeal body and deal with any issues in relation to safety or which could impact on the good reputation of an operator. This resource and skillset would need to exist in Franchising in a future model.</p>
Stakeholder relationships	<ul style="list-style-type: none"> Communications & messaging Stakeholder engagement 	The MCA's existing corporate teams would deliver the communications, marketing and branding for a Franchising Scheme, but there would be a need to increase the capacity required in these teams. This would be particularly in the TOM Design Phase as outlined in the Programme Plan in Section 5.8.8. Additionally, these corporate functions would work closely with the new bus specialist function, for example around stakeholder engagement as part of the Implementation phase. External communication skillsets would be used to provide updates around service changes in the long term.
PR & Marketing	<ul style="list-style-type: none"> PR strategy Marketing and branding Management of advertising 	
Commercial management	<ul style="list-style-type: none"> Market engagement Supply-chain structuring and performance Procurement (tendering, evaluation, selection, contracting) Contract management Disputes resolution 	For a Franchising Scheme, the MCA would require an increase in capacity and skills of bus services procurement specialists. The tendering, contracting and ongoing day to day performance management would be performed by individuals with a focus on bus. Bus commercial management specialists would develop stronger contractual relations with operators, due to the hands-on, collaborative day to day detailed oversight and management of the bus operators required under a Franchising Scheme. Negotiation and dispute resolution skills would be required to be developed to more pro-actively to manage the performance of operators. Bus procurement specialists would be supported by a corporate function that would provide advice on procurement regulations and utilise a common corporate tendering IT platform. The first tranche of a Franchising Scheme will require legal, regulatory and commercial expertise, which may be bought in temporarily to enable the transition.

Function	Capabilities	Description of requirements
		Commercial roles that are involved in generating revenue and managing costs from the existing operators would be transferred over under TUPE in cases where the relevant person is considered to be principally connected under the agreed allocation criteria. In terms of operators, although the MCA would be accountable for the overall performance of the bus network, operators would be responsible for running the routes. operators would continue to require commercial management capabilities to maintain and purchase the fleet alongside training and providing drivers.
Transport planning	<ul style="list-style-type: none"> • Network design, planning and updates 	The MCA would require bus network planning skillsets for a Franchising Scheme, within a bus specific team, sitting within a wider transport department. This is to enable the team to develop specialist expertise in bus network planning and modelling. The existing network would largely transition under the proposed a Franchising Scheme packaging and lotting approach, excluding cross-boundary services which would instead be covered by the new Service Permit regulations. Any future transformation of the network, which is out of scope of this Assessment, would require the MCA to significantly uplift their skills in bus network redesign or procure from the market.
Land & Property	<ul style="list-style-type: none"> • Land and lease management • Compulsory purchase order • Infrastructure planning and development • Fleet management • Maintenance of assets and infrastructure • Depot management and maintenance 	The current assets and infrastructure resource in the MCA is not transport specific and would need to be complemented by expertise in depot acquisition and oversight. It is assumed in the chosen model where the MCA purchase and own the depots, that the operators would be responsible for ongoing depot management, maintenance and renewal. The overall accountability for depots would lie with the MCA, therefore capabilities for inspections should be sought. These inspections would likely include building design including structural, mechanical and electrical engineering; civil engineering including drainage; and geotechnical engineering. Plus, for depot management, this may also include maintenance personnel and asset management as far as this aspect of depot management falls under the MCA's remit rather than the leasing operators.
Fleet management	<ul style="list-style-type: none"> • Specifying fleet standards • Management and maintenance of fleet 	Skillsets to determine the specification and standards of fleets would be required under a Franchising Scheme, which currently do not exist in the MCA. For the initial franchise phase, focusing on developing the design of the operating model and associated strategies, skills in specifying fleet standards would be procured from the supply chain.
Legal	<ul style="list-style-type: none"> • Regulatory law • Franchising 	The MCA would be required to have knowledge of regulatory law in relation to franchising, particularly during the Design phase and Implementation phase, although some expertise would need to be retained during the new business-as-usual state. While the MCA does have existing legal capabilities in the area of bus operations, additional ad-hoc support is likely to be required during the design and implementation of the Franchising Scheme.
Programme management	<ul style="list-style-type: none"> • Planning & work definition • Knowledge management • Performance measurement/monitoring • Risk management • Document management & control • Change management • Reporting 	For the Design phase and Implementation phase of the Franchising Scheme programme plan, the MCA would require an increase in project delivery capability to deliver the change. This includes planning, business analysis, risk management, change management, reporting and benefits management. These capabilities are additional skills to those that the MCA currently possess. For this significant programme of business change over a finite amount of time, it is likely that these resources would be procured from the supply chain.

Function	Capabilities	Description of requirements
	<ul style="list-style-type: none"> • Benefits management 	
Customer	<ul style="list-style-type: none"> • Fares and ticketing • Customer feedback • Customer contact centre • Concessionary pass management • Social media • Consultation • Transport information 	Under a Franchising Scheme, the MCA would be accountable for the customer journey experience across all franchised bus services requiring additional capability for customer communications. This encompasses communications and marketing around the change; complaints and feedback; and consultation on requirements. There should be a dedicated consultation function that is responsive to customer needs and complaints, subsequently feeding this into the bus network planning processes. A Franchising Scheme requires capabilities to define customer requirements and better understand their needs which would be provided as part of the Design Phase in the Programme Plan. The ownership of the ticket machines would depend on the option chosen. TravelMaster expertise in terms of multi-operator and multi-modal ticketing would be transferred over into the MCA.
People & Organisation	<ul style="list-style-type: none"> • Recruitment • Organisational development • Business change 	To deliver the business change for a Franchising Scheme, organisational development capabilities would be used in the design and implementation of the Franchising Scheme. This includes developing the new organisational structure, and new Franchising Scheme processes. The recruitment strategy to ensure the right resource is in place for the Franchising Scheme would follow the MCA's existing policies and processes.
Technical & Engineering	<ul style="list-style-type: none"> • Manufacture choices • Energy management • Smart charging 	Greater technical and engineering expertise would be required within the MCA under the chosen Franchising Option where it owns the depots. This is because the MCA would become accountable for changes to depots to enable the transition to zero-emission buses, such as the installation of electric charging points. Limited technical expertise would be required to manage the bus fleet. This is based on the assumption that the MCA does not manage the bus fleet on a day-to-day basis. However, some technical expertise on vehicle procurement would be required within the MCA under the chosen model where they own vehicles and lease these to operators.
IT & Systems	<ul style="list-style-type: none"> • Technology architecture • Selection management • Technology change 	The MCA would continue to rely on many of the wider IT corporate systems and skillsets. For IT this would include developing and managing additional bus functionality and ensuring these fits within the existing technology architecture. The scope of these would be determined at the Design phase.
Data & Analytics	<ul style="list-style-type: none"> • Data architecture • Analysis and insight 	This capability would be required to understand customer requirements following customer consultation, and analysing passenger demand and usage data, and thus feeding this into network planning and review. Additionally, this includes collecting and interpreting data to monitor Operator performance. Therefore, this skillset should sit within a bus specific department, to enable collaboration with the other bus specialists such as procurement and contract management. Detailed functionality and capability related to bus operations, such as diagramming staff and vehicles to meet the specified timetable, would likely stay with operators, as they have the skills and expertise to schedule services and manage staff.

5.7.1.6 Technology and Data – Franchising Scheme

When considering the capabilities required for a Franchising Scheme, the current MCA technical landscape would require strengthening. For some of the wider corporate functions, the existing corporate systems within the MCA would be relied upon. These are executive management, financial management, stakeholder management, marketing, IT & systems, data & analytics, legal and programme management, and recruitment. The functions detailed below are those that would be either new to the MCA under a Franchising Scheme or would require additional new functionality to be developed.

- **Executive management:** the MCA would continue to rely on existing wider corporate systems for this capability.
- **Financial planning and reporting:** the MCA would continue to use the existing financial management system Epicor.
- **Stakeholder relationships, PR and marketing:** the MCA would continue to rely on existing wider corporate systems for this capability.
- **Commercial management:** the existing Pro Contract system could be used in the future for the procurement and tendering of franchise lots. There is an additional business requirement in a Franchising Scheme for performance management in terms of data, insights, performance metrics and KPIs. This is because of the significantly larger size in contracts as the whole bus network would be tendered out to operators. This would need to be developed either through purchase of a new IT system or using additional functionality in Pro Contract.
- **Transport planning:** bus network planning functionality should be procured as the MCA does not currently have an IT system to support this capability. This includes the ability to model routes, services, and timetables to support the design of an integrated and efficient bus network that would be delivered under a Franchising Scheme. This transport planning should be considered alongside tram as part an integrated multi-modal network.
- **Land and property:** there are currently IT systems in development for asset management. These should be utilised to include data and information in relation to the new depots procured. As the MCA would be responsible for specifying standards of fleets, this maintenance and oversight may need to be built into the newly proposed asset management system.
- **Fleet management:** under the preferred Franchising Option B where the MCA owns the fleet, they would be ultimately accountable for fleet management. Hence this would require the MCA to monitor the fleet using its own relevant software. This could include telematics data relating to its vehicles to track the fleet through telematics; manage and service the vehicles; provide CCTV and oversee the day-to-day operation of ETMs. Although day-to-day maintenance would be outsourced to the operators, and they may also continue to use their IT systems to track the fleet too.
- **Depot management:** the preferred Franchising Option B where the MCA owns the depots (in addition to existing ownership of the Doncaster depot) would require additional software to be procured by the MCA to assist with depot management, including for reporting and monitoring maintenance incidents.
- **Customer:** customer functionality in the MCA's CRM would be utilised for the additional requirements of a Franchising Scheme operating model. This would include customer complaints and compliments; lost property; refund requests and service information.
- **People and organisation:** the MCA would continue to use existing HR applications and solutions for a Franchising Scheme and continue to make use of their existing legal resource.
- **Technical and engineering:** the MCA would continue to use asset management and GIS systems to manage any technical and engineering capabilities.
- **Data and analytics:** ETMs would continue to provide bus telematics data to live track the bus fleet across South Yorkshire. Under a Franchising Scheme operating model, this would be universally provided across the entire fleet and the requirement would be specified in contracts. Data would continue to be provided to the MCA on a larger scale which would require additional capacity within existing systems.

Ticketing: for the preferred Franchising Option B where the MCA owns and procures the fleet, this would additionally involve the ownership of ticket machines on board the vehicles. Also, the MCA own a back-office ticketing company called Yorcard, with back-office functionality to perform reconciliation to enable multi-operator ticketing under a Franchising Scheme to reconcile the payments collected by operators within the revenue flow. The increase in payments coming to the MCA under a Franchising Scheme means that the current set up would need supplementing for larger volumes.

- In terms of multi-operator and multi-modal tickets, this functionality exists within TravelMaster, so there may be scope of integrating this within the MCA's technology architecture. For future aspirations, 'tap and cap' technology is to be developed, and the MCA needs to be better equipped for this by ensuring ETMs can adopt this technology. Additionally, provisions for more personalised customer information for customers around journeys and destinations is an aspiration that would need to be developed in the future technology landscape. Within the IT systems review allocated in the programme plan (Section 5.8.8), detailed analysis will be performed to understand the overall process for payments, including collection and reconciliation. This will further clarify the roles and responsibilities of each party and outline the overall process for ticketing, to understand how multi-operator, multi-modal and 'tap and cap' will work in the future.

Overall, it is recommended that the MCA undertake a more detailed technology assessment to better understand the new technology architecture required under a Franchising Scheme, and how this would best integrate with the existing set up. This IT and Data review is included as an activity with the Programme Plan. A £5 million cost has been allocated within the Financial Case, to account for additional potential IT systems. This figure has been derived following comparative analysis between similar and neighbouring local transport authorities Franchising Assessments.

5.7.1.7 Governance and Organisation – Franchising Scheme

Governance

It is expected that the newly formed governance structure of the MCA (as described below) would be able to manage the Franchising Scheme on an ongoing basis without the need for changes to governance such as the creation of new boards. The existing EP Board would be dissolved once the Franchising Scheme is implemented, and Franchising Scheme governance would be reported into the MCA Board. The Terms of Reference of the MCA Board may need to be updated to reflect this.



Figure 71 Franchising Governance Arrangements

Under this new governance structure, in force as of Autumn 2023, the MCA follows a cabinet-style leadership model, with portfolio responsibilities for different policy areas divided between the Mayor and the four Local Authority Leaders. The Mayor and these Leaders then form the MCA Board, which is responsible for decision-making on policy direction, objectives and priorities. This meets at least once every two months. This replaces the previous thematic boards. The Audit, Standards and Risk Committee and Overview and Scrutiny Committee would remain in place, with the same functions as under the previous governance structure.

For the preferred Franchising Option B, whereby the MCA would own the depots (in addition to the existing ownership of the Doncaster depot), this would require additional land to transfer to the MCA, with the associated legal responsibilities of this. During the transition, legal advice would need to be sought either to acquire existing depots through negotiation with the incumbent operators or, if this proves not to be possible, through Compulsory Purchase Orders. Alternatively, or in addition to this, there may be a need to purchase land to construct new depots on, which would also require legal advice.

Also, for the preferred Franchising Option B under which the MCA would own the bus fleet and lease this to operators, the MCA would be required to assume additional responsibilities related to energy management at depots and, in particular, the installation of electric charging and hydrogen refuelling infrastructure as appropriate to facilitate the transition to zero-emission buses.

Franchising would require the MCA to assume new and different risks compared to the EP and EP Plus options, but it is expected that these are of the level that can be managed by the MCA Board, with inputs from the above committees as appropriate, without the need for the creation of any additional boards or governance structures.

Organisation

There is a need to enhance a bus specialist team for the capabilities that do not exist currently within the MCA. Overall, the Franchising operating model would mostly require an enhancement of existing capabilities, to increase capacity for delivery around the growing accountabilities under a Franchising Scheme. A future organisational model would include dedicated roles for the different parts of the value chain as opposed to individuals that are simultaneously responsible for all of these processes.

Figure 72 shows how the required capabilities have been grouped to inform the organisational design. This sets out three categories of Transport Specialisms that would need to belong in a bus specific function; Corporate Support that would exist in other parts of the MCA and utilised to deliver a Franchising Scheme and Project Expertise which would be procured from the supply chain for the purposes of implementing the new ways of working.

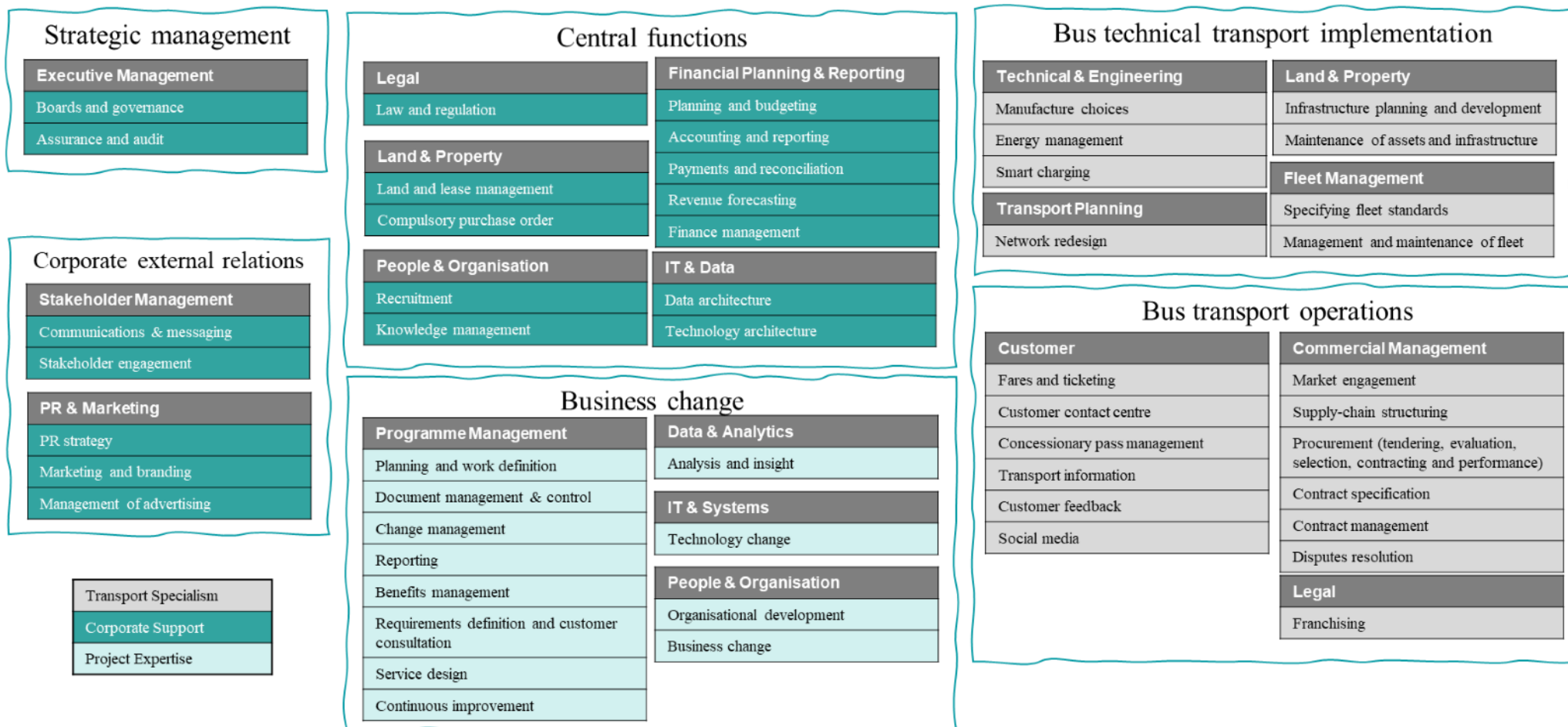


Figure 72 Franchising Grouping of Capabilities

The table below depicts the potential organisation chart for a franchising bus operating model. The costs of this organisational model in terms of salary costs are set out in the financial case of this Assessment. This organisational model has been developed based with input from the existing MCA bus team and experience of similar Franchising Scheme models elsewhere such as Transport for London's. There would be a total overall 34 full time equivalent roles required to operate the Franchising Scheme on a business-as-usual basis.

Table 121 MCA Team and Roles for Franchising (BAU)

Team/Role name	No. of FTE	Comments
Director of Bus	1	New executive role for bus under Franchising
Network Planning	2	These roles would make up the Bus function within the MCA, whereby they would be dedicated to processes around bus delivery instead of working across various functions. There would be 22 FTE in total, including Director of Bus.
Procurement	2	
Data Monitoring	2	
Performance Management	6	
Revenue Protection	3	
Fares and Ticketing	6	
Financial Management	4	Organisation-wide functions, to support the delivery of Franchising. These roles would not sit directly within the Bus Team and may perhaps work across other delivery functions too. There would a total of 12 FTE required.
Depot Management	2	
Consultation Management	1	
Revenue Management	2	
Customer Service	2	
Audit	1	
TOTAL (GROSS)	34	

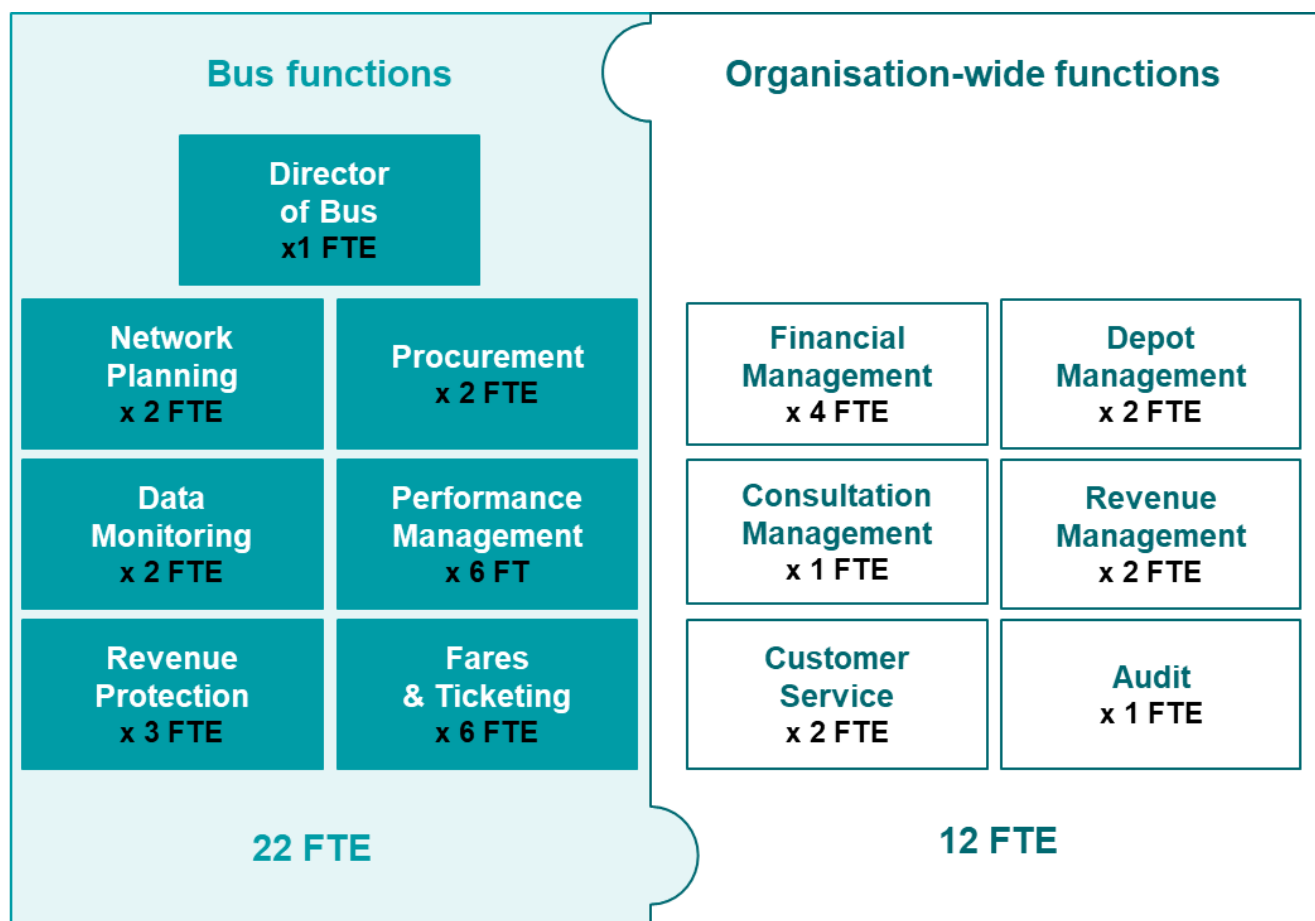


Figure 73 Franchising Organisational Chart

In addition to the 34 overall total FTE required to operate the Franchising Scheme within the business-as-usual, steady state, there would be additional resource required to implement the Franchising Scheme programme for the MCA to transition to Franchising from an EP. This is further detailed in section 5.8.7 Programme Team – Franchising. There will be up to an additional 28 FTE needed to deliver the Franchising Scheme programme. This is primarily across the Design Phase, but also for the succeeding Transition Phase with fleet and depot resource as an example. The detail around the programme for Franchising can be found in section 5.8.8 Programme Plan – Franchising, and Figure 73.

The following subsections outline the governance frameworks for varying and revoking the Franchising Scheme once it has been implemented, if the MCA were to make such a decision, and for the ongoing management of the service permit scheme.

Variations to the Franchising Scheme

At any point after the Franchising Scheme has been made, the Mayor, acting on behalf of the MCA, may seek to vary it. If the Mayor wished to amend the requirements of the Franchising Scheme, such as the area to which the scheme related or the description of the local services intended to be provided, they would be required to follow the formal variation process set out in Section 123M (6) of the Act, as amended by the Bus Services Act. Any minor variations, such as day-to-day service requirements, would be implemented without use of this statutory process through the MCA Board.

For example, if the MCA wished to introduce new services operating on the existing network (as specified in the Franchising Scheme), it would be entitled to do so contractually, subject to the terms of the service contract, without this constituting a formal variation to the scheme and having to follow the statutory process. This means that the MCA could, for example, vary the service timetable or introduce an express service on an existing route.

If the Mayor, acting on behalf of the MCA, wishes to amend the requirements of, or vary the services under, the Scheme, the MCA must publish a notice stating the date on which the variations would have effect, and give notice of its decision to a Traffic Commissioner within 14 days of publishing the notice. The MCA would also be required to consult on its proposals and ensure that all local stakeholders (including all operators; user groups such as the South Yorkshire Transport User Group, the South Yorkshire Youth User Group, Better Buses for South Yorkshire, and Transport4All); and the Competition and Markets Authority (CMA) and local communities were consulted on the nature of the service change. Following completion of the consultation, the Mayor would take the final decision as to whether to vary the scheme. The consultation exercise would ensure that the impacts, benefits and risks associated with the proposed changes are fully explored and assessed before being implemented.

In the event that the Mayor, acting on behalf of the MCA, intended to vary the Franchising Scheme to add routes or services from a new area or areas (for example, bringing new routes within the scope of the franchised bus network), this would also require consultation with relevant stakeholders.

Revocation of the Franchising Scheme

At any point after the Franchising Scheme has been made, the MCA may consider that the scheme is not viable in its current form. In this circumstance the MCA would have the ability to reduce the risk taken, for example by changing the form of Franchising Scheme agreement, such as moving from a gross cost contract to a net cost contract, or by changing the performance standards, amending the area that was covered by the Franchising Scheme, or moving to an entirely permitted regime. However, the Mayor, acting on behalf of the MCA, could in the future consider that the Franchising Scheme should be revoked. The Mayor can only make this decision if they are satisfied that:

- local services in the area to which the scheme relates are likely to be better if the scheme did not apply;
- the continued operation of the scheme is likely to cause financial difficulties for the authority; or
- the burdens of continuing with the scheme are likely to outweigh the benefits of doing so.

The revocation of a Franchising Scheme is subject to the same procedure as the making of a Franchising Scheme, except that Section 123G(3) Transport Act does not apply.

The Mayor must make any decision to revoke the Franchising Scheme.

Governance and Organisation – Service Permit Regime

As referred to in section 5.8.2.2, the Franchising Scheme would necessitate the establishment of a Service Permit Regime, which would form two principal functions under Franchising. Firstly, it would allow for existing, non-franchised services to continue to operate within the franchised area during the transition period, when a franchising scheme would have been established across South Yorkshire, but the franchising process has not yet been completed for all lots (see the programme plan in Figure 12, section 5.8.8 for more details of the timescales of these). Secondly, all non-franchised bus routes that operate wholly or partially within the franchising area would permanently require a Service Permit to operate once the Franchising Scheme has been established. These would be expected to primarily consist of cross-boundary services whose route mileage is only partially within South Yorkshire but may also include types of service other than regular public bus services, such as tourist services. They would also temporarily include services subject to Franchising, but not yet franchised, during the Transition phase when the franchising scheme has been implemented but not all routes have yet been tendered under the Franchising Scheme. The Service Permit for each bus service would detail matters such as the route and bus stops served, the timetable the service must adhere to (or for frequent services, the service frequency), the fares and tickets that the service must issue and accept, and potentially vehicle quality and accessibility standards above the minimum required in UK law.

During the Transition phase, there is a potential uncertainty regarding the continuity of the provision of Bus Service Operator Grant (BSOG) for bus services in South Yorkshire, in that the MCA does not have the authority to make BSOG payments to operators using a service permit but would be responsible for this upon commencement of the Franchising Scheme. This may require legislative change to address.

Governance – Service Permit Regime

The establishment of the Service Permit Regime under the Franchising Scheme would be governed by the MCA Board under the new governance structure, who would also maintain oversight of the scheme when it is operational. Prior to the implementation of this, the MCA would consult with the neighbouring authorities, local operators, and other relevant groups, in accordance with its obligations under the Bus Services Act. It is also expected that those working on behalf of the MCA to issue service permits would liaise with the relevant Operators prior to the decision on any service permit concerning routes operated by them, along with any local transport authorities outside of South Yorkshire that these routes would serve. However, any final decision on whether to grant a service permit request within the area of the Franchising Scheme would always rest with the MCA. However, issuing a service permit that did not reflect the relevant consultation responses would create risks in that operators could decide to withdraw the service under consideration, negatively impacting bus passengers in South Yorkshire and the surrounding areas.

Organisation – Service Permit Regime

The day-to-day administration of the Service Permit Regime would be included among the duties of the financial management officers. However, they would liaise closely with the bus technical team when deciding whether to grant a Service Permit application and any conditions attached to this, for any routes that would operate permanently within the franchising area, such as cross-boundary services, that have not also previously received a Service Permit or where the Service Permit application differs significantly from the route and/or timetable previously operated. This would not generally apply to routes operating within the area of the Franchising Scheme, but not yet subject to franchising until the commencement of the relevant lot. This is because there would be a presumption in favour of allowing these services to continue to operate during the transition period for as long as they are not subject to Franchising or in competition with a franchised service.

5.8 PROGRAMME MANAGEMENT METHODOLOGY AND STRATEGY

Moving from the current EP operating model to a Franchising operating model would be a significant business change. Effective management and governance of Franchising is critical and will be required to ensure the realisation of associated benefits and the engagement and support of the stakeholders

involved. This section details out the approach taken to the management of this change programme for the Franchising Scheme and the EP Plus programme too.

Both the Franchising Scheme and EP Plus programmes of change would require the MCA organisation to create and develop capabilities across disciplines. Franchising would also require an effective transition to, and operation of a Franchising Scheme with operators across the Franchise Scheme area.

5.8.1 Programme Management Arrangements

The programme would utilise the MCA's existing programme management standards and arrangements used on other projects and programmes. The programme would adopt a Project Management Office (PMO) and utilise processes put in place by the existing Programme Controls teams within the MCA. The PMO in the MCA Executive Team would be responsible for oversight including opportunity appraisal and further business case development activities.

When established, the programme of activity should be subject to the programme controls and standards associated with the MCA Programme Board, as follows:

- Project methodology, governance, and reporting chain
- Gateway reviews and sponsorship
- Assurance panel approvals
- Collaboration with key stakeholders
- Evaluation activities, including risk and benefits.

A Senior Responsible Owner (or Sponsor) would hold the ultimate accountability for project delivery and achieving the objectives of the change. It is recommended that the Sponsor would be the Executive Director of Transport.

5.8.2 Benefits Realisation Arrangements

Benefits realisation and management would need to be established as a core component of programme management, ensuring that the MCA achieves the benefits and outcomes it has set out to achieve and that these are maximised and aligned to strategic model objectives set out in the Strategic Case. As the realisation of these strategic benefits would be the reason for transitioning delivery model, it is important that these are proactively managed throughout.

Benefits would be managed and monitored throughout the project delivery phases and after project closure via a formal Monitoring and Evaluation process. This would also consider other aspects of the project such as management processes and project efficiency as well as impact. This would be undertaken by the MCA through periodic monitoring as part of a consistent approach to actively manage opportunities and dependencies.

The proposed benefits management approach has four steps followed by monitoring and review:

Step 1 - Benefits Identification and Mapping

The identification and mapping of benefits to the Franchising Scheme programme outputs and new capabilities and strategic objectives. High level identification and mapping have been completed for the Franchising Scheme assessment in the Strategic and Economic Case including user benefits such as time savings and simplified ticketing, and non-user benefits such as modal shift from car leading to benefits like improved air quality and greenhouse gas emissions. The Economic Case also includes level 2 benefits (see Economic Case section 2.9.2) around agglomeration and thus productivity benefits which allow markets to function more effectively, and employment benefits due to the increased labour supply due to reduced costs in accessing employments. However, detailed mapping should be completed and updated during the Design phase and updated throughout the lifecycle of the programme, including intermediate benefits. Disbenefits should also be identified and tracked.

Step 2 - Benefits Profiling

The development, agreement and maintenance of detailed benefit profiles including key information about each benefit, such as: rationale, ownership, baseline, outputs driving the benefit, measures and measurement frequency, and risks and dependencies for realisation. For example, for the Franchising Scheme strategic objective of environmental sustainability, a key metric to be tracked includes modal transport switch from cars to buses. Benefits that can be tracked from this include health, congestion, accident numbers, local air quality and noise pollution. Each of these benefits should be profiled with the baseline metric and benefit owners. Also, the benefit of social impact due to the provision of bus services enabling certain trips and thus allowing people to undertake a wider range of activities be tracked through public surveys, employment data and the footfall within public leisure and cultural events and activities.

Step 3 - Benefits Planning

The development of benefits realisation plans, including key milestones for benefits tracking and realisation; activities and dependencies required for realisation of benefits (i.e., process re-design, behavioural change, training); activities and dependencies required for measurement; and roles and responsibilities for benefits realisation and monitoring and review. Within the benefits planning stage, it should be outlined which benefits will be received when, and when the overall target of each benefit will be realised. For example, time savings and simplified ticketing benefits may be achieved sooner than the modal shift to cars, as the latter would require a longer-term cultural shift also.

Step 4 - Benefits Realisation

The process of realising benefits, such as simplified ticketing, reducing air pollution and improving passenger journey time through an enhanced network, throughout programme delivery and the business change delivered through a Franchising Scheme. Monitoring benefits can be achieved in variety of ways. For example, improved passenger journey can be tracked through data analytics tools, on-time performance and average journey time. Additionally, air quality benefits can be measured through bioindicators, remote sensing and electrochemical sensors, whilst greenhouse gas emissions can be tracked through carbon footprint calculations and direct emission measurement.

The key benefits realisation roles and responsibilities would be:

- **SRO (or Sponsor):** Holds the ultimate accountability for project delivery and achieving objectives. The Sponsor would help to identify and engage with Benefits Owners within the MCA.
- **Benefits Owners** are responsible for the realisation of individual benefits. They agree benefits profiles and plans and track benefits after project closure. They are likely to sit outside of the project team and work in bus operational roles within the MCA.
- **Programme Manager:** Responsible for project delivery and incorporating benefits in project plans and risk management. The Programme Manager would also engage with Benefits Owners and ensure project benefits are tracked and reported through the PMO.
- **Benefits Manager:** Responsible for benefits management approach and processes (creation and maintenance of governance, maps, profiles, plans etc.). The Benefits Manager also tracks benefits during the project.
- **Project Management Office (PMO):** Provide support for benefits management processes, particularly tracking and reporting.

5.8.3 Stakeholder Engagement Strategy

Stakeholder identification, mapping and approach to ongoing engagement is going to be essential for the magnitude of change to the industry proposed through a Franchise regulatory model. Stakeholders need to be engaged to ensure sufficient alignment, integration, and collaboration to best achieve the strategic objectives of the programme. It is critical that all potential stakeholders are considered and engaged, with responsibility for ongoing stakeholder management representing a critical part of PMO methodology.

The MCA has five main categories of stakeholders for the purposes of Franchising: internal MCA stakeholders, operators, constituent local authorities, neighbouring local authorities, and other external stakeholders, that are listed below.

- **Internal MCA stakeholders** - The SRO / Executive Director, as well as key corporate teams such as Finance and Legal would need active engagement. Key teams including Evaluation and Assurance, Public Transport Operations and current MCA members of the Enhanced Partnership Board would provide essential contributions to the phases of the programme. The Public Transport Operations team would assume increased responsibilities following a decision to pursue a Franchising Scheme and would need pro-active and supportive engagement. The Mayor would need to be actively engaged throughout the project as well as when key milestones in the programme are achieved.
- **Operators** - The MCA has a good relationship with operators already and given that the existing bus market across UK post-Covid has been struggling to recover, operators may embrace a change in the business model for buses. Regular periodic engagement would ensure that key data from operators can be obtained and that they are kept informed throughout the transition so that they are ready to engage in a tender process when this begins. Engagement with operators not currently operating in South Yorkshire is also essential as they may also be interested in bidding for the franchises, increasing the competitiveness of the bus franchising market in South Yorkshire.
- **Constituent local authorities** – The constituent local authority leaders (members) and the MCA Board need to agree key decisions. The relevant Boards and portfolio holders for each of these authorities would also be engaged in advance of key project milestones, as can other groups of senior officers across local authorities on a one-to-one basis or through existing groups like the Strategic Transport Group or already planned meetings with the local authority Chief Executives.
- **Neighbouring local authorities** – The Franchising Guidance for the implementation of a Franchising Scheme includes a requirement to consult with neighbouring authorities on this.
- **Other External Stakeholders** - Engagement with customers, businesses, and other public and private bodies that this change is proposing to benefit would be critical to engage with effectively throughout the different stages of the programme. The external stakeholders that would be consulted include user groups (such as the South Yorkshire Transport User Group and the relevant user group for each South Yorkshire district, the South Yorkshire Youth User Group, Transport4All and Better Buses for South Yorkshire), community and parish councils, the Traffic Commissioner, the police, the DfT, the NHS, the CMA, employee representatives, suppliers, local businesses and organisations representing these, as well as local residents and community groups.

Development of the stakeholder management plan is another critical activity to be included on the methodology with proactive and strategic engagement planned into this business change programme.

5.8.3.1 Existing Engagement with Stakeholders

Currently, the MCA undertakes regular engagement with bus operators through the Bus Operator Forum, which is held every six weeks and allows participants to discuss general current issues relating to the bus network. This is open to every operator in South Yorkshire, although in practice attendance varies by operator with smaller operators less likely to attend due to resource constraints. The MCA also regularly engage with Better Buses for South Yorkshire, a local campaign group. This engagement is not specific to the Franchising Scheme or the current EP.

At the time of writing, the MCA is also undertaking a programme of engagement with neighbouring local authorities to gather their views on the proposed Franchise Scheme and the interaction between this and their transport policies. This is additional to the requirement for the MCA to engage with neighbouring authorities after the completion of the audit period if the MCA decides to pursue a Franchising Option.

The Strategic Case contains more details of the neighbouring local authorities and their relevant transport policies.

5.8.4 Risk Management Arrangements

Management of risk is a planned and systematic approach to the identification, evaluation, prioritisation and control of risks and opportunities for an organisation. Effective management of risk is an integral part of good corporate governance and internal control arrangements and should be a part of regular management processes. The requirement for management of risk in combined authorities is set out in the Accounts and Audit Regulations 2015. These regulations are applicable to the MCA and contain provisions on financial management, annual accounts, internal control and audit procedures, which require a comprehensive system of internal control to be maintained.

The MCA is committed to ensuring that robust arrangements for the management of risk are in place and operating effectively across the organisation. The continued management of risk would be an important continuity arrangement. The Executive Leadership Board (ELB), and individual directors, would champion the management of risk and ensure that appropriate arrangements are in place, maintained and reported upon on a regular and on-going basis. This is explained in the MCA's Management of Risk Framework¹²⁹, which sets out the approach to the management of risk, the roles and responsibilities and provides a proportionate process, which would provide a foundation for embedding Enterprise Risk Management.

The management of risk process is a continuous cycle of review and revisiting the steps as time and events develop and impact on the delivery and achievement of objectives depicted in the diagram below. The process has been influenced by the Risk Management Standard ISO 31000, The Orange Book, benchmarking of comparable organisations and previous processes along with experiential knowledge of good practice. The appointed Programme Manager and Programme Management Office support would be accountable for the Risk Assessment process set out in Figure 74.

¹²⁹ Management of Risk Framework, the MCA, 2023

Risk Assessment

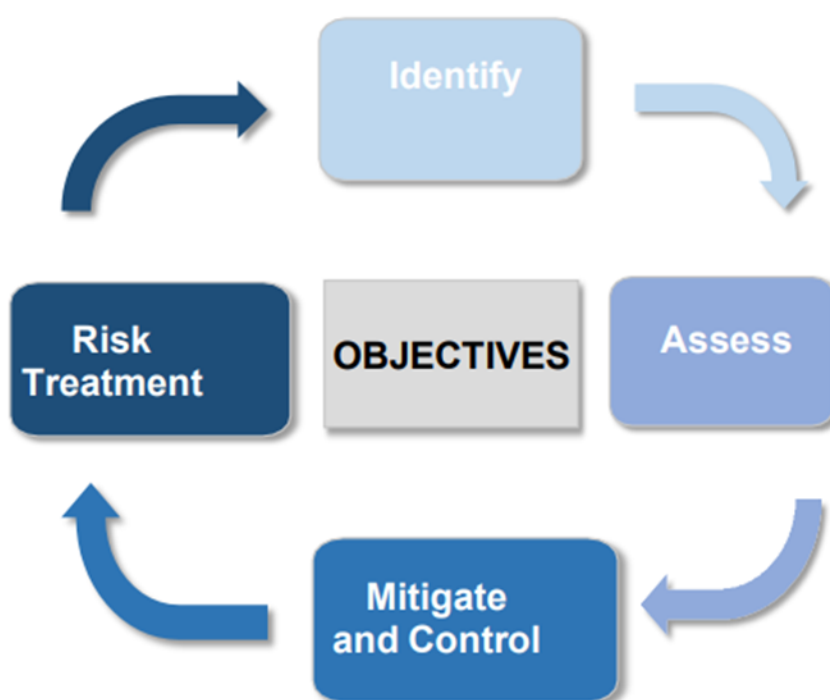


Figure 74 Risk Management Process

5.8.4.1 Identify

The Programme Manager would be responsible for the risk identification step which aims to identify and describe risks that may help or prevent the achievement of objectives e.g., what might happen that could affect progress, which could be negative or positive i.e., an opportunity. Each risk would be identified and recorded within the MCA's 4Risk system. Certain Corporate risks associated with the Franchising Scheme would need to be owned and updated by the Executive Director of Transport as part of their role within the ELB and reported into the ELB and Audit and Risk Committee quarterly.

5.8.4.2 Assess

Once a risk has been identified, the risk owner would be defined and captured within the risk register by the Programme Manager. The risk owner is the person that takes responsibility for the management of the risk. Assessment and evaluation of each risk is undertaken using a five-by-five probability impact grid. Each risk would be assessed inherently, prior to any controls or actions being established, for probability and impact and an overall risk score created by considering the probability of the risk occurring and also the impact if it did occur.

5.8.4.3 Mitigate and control

Each risk would be assessed inherently by the Programme Manager, prior to any existing controls being applied, and again after the application of existing controls, captured in the risk system, to reach a current or residual risk score. The current or residual risk score would provide an opportunity to rank risks and a means of prioritising to highlight risks posing the greatest threat or opportunity to the organisation. The residual risk score is the basis for escalation and reporting.

The Programme Manager, Risk owner, Executive Director of Transport and ELB would monitor and review risks, controls and track the actions through to completion. It would be important that

the actions are tracked to ensure that risks are treated in the correct manner and at the right time.

5.8.4.4 Risk treatment

Once the risk has been recorded, existing controls have been established and a current or residual risk score defined then a decision would be made by the Programme Manager as to what to do next. The risk treatment options provide the alternatives to consider: Treat, take action to further reduce a risk; Tolerate, accept the risk; Transfer, pass responsibility; Terminate, avoid the activity; Take up, to maximise an opportunity; and Together, to share with partners.

Regular reporting would be required to demonstrate that action is being taken to manage risks and that this is regularly taking place. It would allow the MCA to respond to situations as they arise and make appropriate decisions to avoid issues before they happen.

5.8.4.5 Franchising Risks

The key Management Case risks associated with the Franchising Scheme are presented in Table 122. Other risks specific to other cases are covered in the respective cases.

Table 122 Franchising Risk Log

Risk Category	Risk Descriptor	Mitigation	Commentary on residual risk
Transition/ Implementation	There is the risk of operators withdrawing commercial services between the announcement of a Franchising Scheme and the tendering of the relevant services as part of the Franchising process.	The MCA to let short-term tenders to cover for withdrawn services, with a financial allowance set aside for this. The MCA can also draw on the experience and strategies of other authorities implementing the Franchising Scheme, notably Greater Manchester.	If the MCA lets short-term tenders to cover for potential withdrawn services, then the impact on passengers should be minimal, as the routes will still be covered. However, the risk post-mitigation may still exist if there is no financial allowance, so budget should be set aside accordingly, especially as other LTAs experienced this.
Transition/ Implementation	If there are delays to the planned three-year transition for example due to delays in acquiring depots and procuring fleet upgrades, then this could delay the overall deliverability of the Franchising Scheme programme.	Strong and robust programme management and governance, highlighting risks and issues where appropriate. Robust contingency plans to be implemented should delays occur. Robust commercial plans to acquire depots and procure fleet upgrades, as detailed in the Commercial Case.	Following strong programme management, governance and contingency planning, this risk still remains high. The MCA should allocate contingency budget to address occurring risks and issues to further mitigate this risk.
Transition/ Implementation	There is a risk around disruption during transition to a Franchising Scheme as existing services are phased out and franchised services are phased in, including existing operator performance issues during transition. This means that service quality for passengers would be impacted and could lead to MCA reputational damage.	Effective monitoring and management by the MCA of existing services as these are phased out in parallel with management of phasing in of Franchised Services. Dedicated MCA staff to manage these issues.	Monitoring and management of existing services will be key when implementing the Franchise lots, however there may still be some misalignment due to operator capacity and commerciality, as they bid for the new services. Therefore, strong stakeholder engagement with operators during the transition could also help to minimise the impact on customers
Transition/ Implementation	There is a risk around mobilisation for Franchised Services, including issues with ITS, transferring staff (via TUPE), accessing depots and operating fleets, which could lead to delays and additional costs.	Ensure operators have robust mobilisation plans which are monitored, which include ensuring smooth staff transfers via TUPE and ability to effectively secure assets such as depots and fleet. Ensure "Mobilisation" is a key aspect of bid evaluation.	If operators do not have robust mobilisation plans to ensure a smooth transition in terms of assets and staff, then this could cause delays still. Hence, strong stakeholder engagement to ensure mobilisation is considered thoroughly will be key to ensure mobilisation is effectively considered.
Transition/ Implementation	An unclear definition of the split of responsibilities in operating services could lead to a duplication of roles in the MCA and bus operators, therefore this may increase the cost of operating the bus network during transition.	Ensuring clarity of roles and responsibilities between the MCA, franchised operators and other operators, as per Management Plan. Resourced and capable MCA procurement and performance management teams communicating and managing relations with bus operators. Ensuring the contracts are clear.	Robust communications with operators through the procurement and performance management teams, alongside contract clarity and precision, should minimise the risk of duplication of efforts. However, if the risks persists then the impact would not be extremely significant.
Transition/ Implementation	There could be insufficient MCA staff or capability to implement change in delivery structure. There is a risk of failure to recruit an adequate number of additional people or people with the requisite skills to manage transition and/or staffing costs are higher than anticipated.	Clear planning and costing of MCA resources and early recruitment of Bus specific roles that will be deployed in the Implementation phase. Develop contingency plans to source additional staff and capability through transition stage.	If there is a shortage of required staff and capabilities within the Bus team despite planning, costing and contingency planning, then there will be delays in transitioning to a Franchising Scheme, or certain areas will not be delivered in time. Recruitment should begin as soon as possible to minimise this,

Risk Category	Risk Descriptor	Mitigation	Commentary on residual risk
			and the MCA could also consider training internal staff using the National Bus Centre of Excellence.
Transition/ Implementation	There is a risk that the transition to zero-emission buses could be delayed due to issues around procurement and delivery of zero-emission buses and associated infrastructure such as depot upgrades and charging points. This could delay the achievement of net zero targets and associated benefits.	Ensure there is robust project management around zero-emission fleet transition, with dedicated delivery resource. Early market engagement with ZEB fleet providers and associated charging infrastructure to ensure deliverability of timescales.	Some residual risk around zero-emission bus transition will potentially remain post-mitigation, meaning the MCA may not achieve its net zero ambitions. However, this would not impact the delivery of the Franchising Scheme and other associated benefits.
Technological	There is a risk that the MCA's IT systems are not fit for purpose and require significant enhancement or replacement, which could cause delays in transition, additional costs and failure to meet customer needs	Conduct a detailed IT systems analysis review to understand the gap between the current and future state in more detail and allocate contingency budget and time for IT implementation.	If following the IT systems analysis review the gap between the current and future state is underestimated, then there will be delays to certain areas of the programme. Temporary manual workarounds for processes or other methods without technology should also be considered if this should occur.
Technological	If there are challenges in implementing and integrating new technologies required, such as real-time tracking and fare collection solutions, then this could impact timeframes and costs.	Specialist support in assessing and procuring the right technology and managing implementation processes, building in contingency.	If specialist support for technology procurement and implementation is not available, or effective, then temporary manual workarounds for processes or other methods without technology should also be considered.
Stakeholder	If there is resistance from existing bus operators and unions due to potential changes in ownership and employment structures, then this could delay implementation.	TUPE process to be followed for staff impacted and regular, effective communication to staff and operators.	If there is continued resistance during the TUPE process, then the MCA should consult with legal professionals who specialise in employment law and TUPE regulations to reduce subsequent delays.
Regulatory /Legal	If the MCA do not comply with the regulatory framework and due process is not followed, then there is a risk of stakeholders such as operating companies legally challenging the process, which could delay implementation of the franchise model and increase costs due to delay and legal fees.	Stakeholder management and engagement with operators through the process where the benefits of the scheme can be communicated. The MCA to retain legal advice and follow DfT guidance on Franchising.	Stakeholder engagement will be key throughout the process to ensure buy-in from operators. However, there may still be legal challenge, and so the MCA should implement lessons learned around this from Greater Manchester. Legal challenge would increase costs and timeframes.
Regulatory /Legal	Failure of the MCA to secure all required legal consents and approvals to implement a Franchising Scheme could cause delays or additional costs.	Ensure all required consents and approvals to enable a Franchising Scheme are identified and a plan devised to ensure that all consents and approvals are owned, tracked and managed by the MCA.	If not all consents and approvals are identified, or if there are delays in securing these then this could cause delays to the Franchising transition programme. Contingency should be built in the programme plan accordingly to mitigate the impact.
Operational	Service delivery performance issues in-life caused by multiple factors including ITS	Ensure robust monitoring and managing by Operator of each asset and area which might impact performance, including	The residual risk around service delivery performance issues following stakeholder

Risk Category	Risk Descriptor	Mitigation	Commentary on residual risk
	performance (including poor integration with other systems), depots and rolling stock	effective reporting and discussion of any issues at regular contractual meetings.	engagement with operators could remain high. Therefore, stringent performance management processes should be designed alongside stakeholder engagement, covering all potential scenarios.
Operational	Operator staff performance issues in-life, including IR issues causing disruption.	Ensure effective ownership and management by Operator of staff performance, including availability and capability, including reporting and regular discussion of people issues at contractual meetings. Ensure effective engagement with Unions to ensure any staff issues are known about.	The risk around operator staff performance following operator and Union engagement could remain. Therefore, stringent performance management processes should be designed alongside stakeholder engagement, covering all potential scenarios.
Operational	Interfaces with other services (including Cross Border) and other modes, and other major transport schemes disrupt franchised services in-life.	The MCA to identify key interfaces with other bus services and modes, and ensure each interface is owned, monitored and managed to ensure co-ordination and disruption minimised.	If interfaces with other service interfaces have stringent monitoring and management, then the residual risk should be minimal. However, if the issue persists then an iterative process should be designed to ensure changes are effectively managed.

5.9.4.6 Enhanced Partnership Plus Risks

The table below sets-out the Management Case risks associated with EP Plus.

Table 123 EP Plus Risk Log

Risk Category	Risk Descriptor	Mitigation	Commentary on residual risk
Implementation/ Transition	If there is not strong alignment and collaboration between all bus operators, the local authorities and the MCA, then there could be delays to the implementation of EP Plus, or the benefits of EP Plus may not be fully realised, leading to a reduced quality of service to customers.	Close and early collaboration with bus operators, and a clearly defined stakeholder engagement approach to ensure EP Plus intervention delivery.	The residual risk remains high, despite strong stakeholder engagement with operators. This could lead to an ineffective use of investment and resources, if EP Plus interventions are not able to be deployed. The MCA could engage with other relevant Combined Authority areas or LTA to understand more about its EP Plus approach and plan to mitigate this.
Implementation/ Transition	There is a risk around the transition to an EP Plus in terms of operations, such as bus services and fares and ticketing, that may cause passenger disruption and confusion.	Clear and robust programme planning and governance reporting structures, with a well-considered transition plan, considering customer experience and communication to reduce the impact on passengers.	Following robust governance reporting and customer communication and marketing, the risk will be mitigated. However, as the passenger experience is currently confusing under EP, any residual risk of confusion under EP Plus should be accepted.
Regulatory /Legal	If there are changes in EP regulation, then this may cause challenges or disruptions to EP Plus delivery and ways of working with bus operators.	Seek continual legal counsel accordingly, with regular check-ins. Ensure EP regulation expertise is embedded within the MCA.	Once legal counsel is sought, with EP regulation expertise embedded in the MCA then the risk around disruptions to EP delivery should be sufficiently minimised. To further minimise, the MCA should build in time and budget contingency for EP Plus operational delivery.
Financial	If there are funding issues for the MCA, then not all EP Plus interventions would be delivered due to lack of investment.	Strong prioritisation of EP Plus interventions, clear mitigation planning and strategies. Consider alternative financial sources.	Prioritisation and mitigation planning around the EP Plus interventions should mitigate the risk and manage expectations for EP Plus benefits and interventions. However, if investment is not sufficient and there are no alternate available financial sources, then this risk should be accepted as not all interventions will be delivered.
Capabilities	If there are insufficient capabilities within the MCA to deliver EP Plus, such as network planning or stakeholder engagement, then the delivery of EP Plus and associated benefits may be at risk.	Clear planning and costing of MCA resources and early recruitment of Bus specific and wider supporting corporate roles that will be deployed in the Implementation phase. Develop contingency plans to source additional staff and capability through the transition stage.	Residual risk may remain if the MCA is not able to recruit or develop resource adequately in time for the proposed timeframes. Therefore, this would delay the transition to EP Plus.

Risk Category	Risk Descriptor	Mitigation	Commentary on residual risk
Implementation	There is a risk around the delivery of ZEB and associated depot and charging point infrastructure upgrades, for example due to procurement or technological issues. This could impact the achievability of the MCA's net zero ambitions and associated benefits through EP Plus.	Ensure there is robust project management around zero-emission fleet transition, with dedicated delivery resource. Guarantee early market engagement with ZEB fleet providers and associated charging infrastructure to ensure deliverability of timescales.	If the transition to zero-emission buses is considered as part of the wider EP Plus transition with dedicated resource and funding, then the risk is reduced. However, delays could still occur due to factors outside of the MCA's control.

5.8.5 Programme Team – Enhanced Partnership Plus

Similar to a Franchising Scheme, for EP Plus the change programme will be delivered in two phases, design and implementation. The Design phase will include designing the Target Operating Model and associated business processes and change, whereas the Implementation phase will enact the change and processes with a focus on Operational Readiness.

The programme team structure for the Design phase and Implementation phase is depicted below in Figure 9 for EP Plus. The roles would be similar to those within the Franchising Scheme programme team structure detailed in section 5.8.7, although there would be less FTE required overall for EP Plus. This is because there would still be a significant organisational change required to successfully transition to EP Plus to ensure MCA investment is maximised. For example, the bus team will need to be reorganised to more adeptly perform bus technical tasks such as network planning, and more stringent performance management on contracts for tendered services for socially necessary routes. Also, commercial and marketing roles would still be needed in the programme team to deliver the proposed EP Plus interventions. However, the EP Plus programme team will not include the separate projects for depots and fleets as these assets will remain with the operators and thus there is little to no involvement from the MCA.

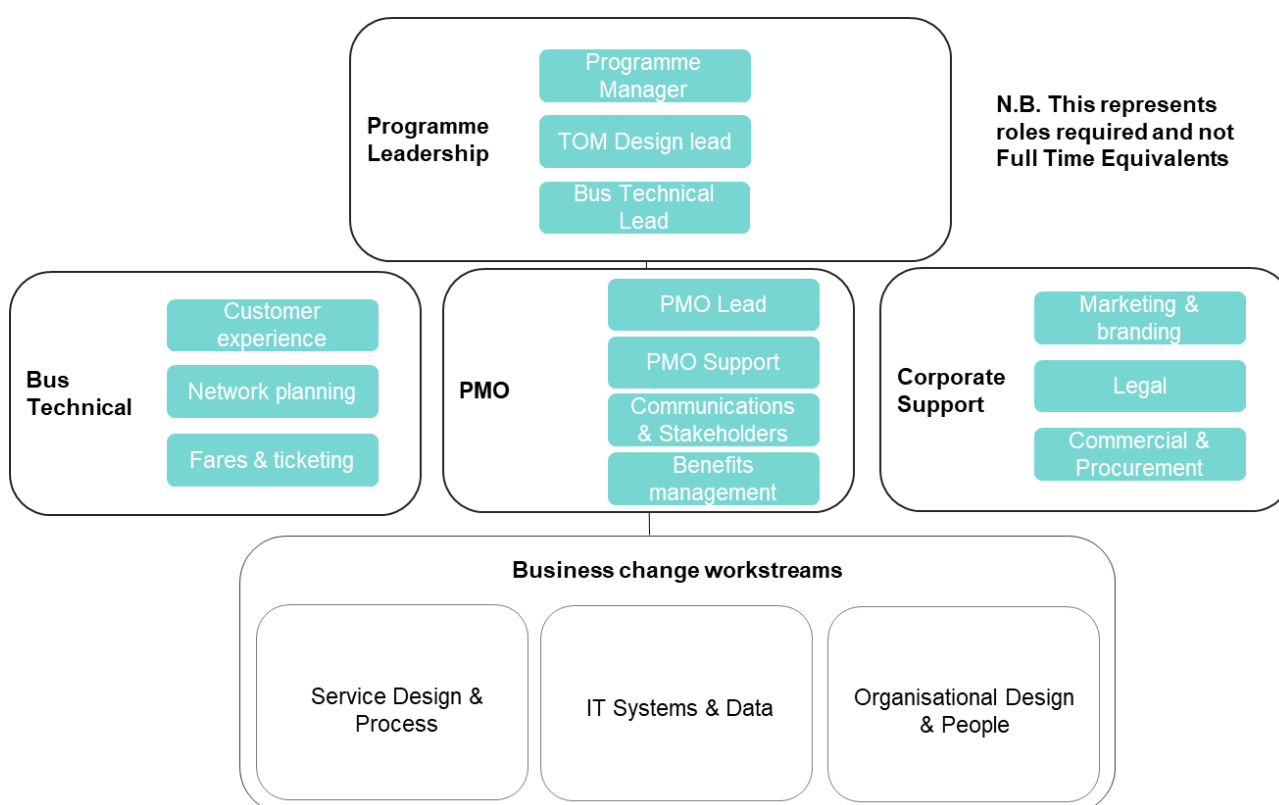


Figure 75 Programme Team for the Enhanced Partnership Plus Programme

5.8.6 Programme Plan - Enhanced Partnership Plus

This section outlines the programme plan for the delivery of EP Plus within the MCA, shown in Figure 76. As with the Franchising Programme Plan, the plan begins following the completion of the Franchising Scheme assessment in 2024 and shows two main phases following a Mayoral Decision to proceed.

1. **Design** – this phase is focused on developing the design of the operating model and associated business change which will be required to deliver the EP Plus. A key element of this will be the

new processes required, particularly around commercial elements such as performance management. It outlines a 9-month phase of exploring the required elements of the EP Plus operating model. This represents a critical stage in preparing for EP Plus and putting in place the associated functions, capabilities and processes which would be required for implementation and ongoing operation.

- 2. Transition** – This phase includes the implementation and delivery of the new operating model in terms of functions and capabilities. Additionally, this phase includes the delivery of the new network and procurement procedures, Operational readiness and change management will be key in this phase, particularly around testing and training of new processes. IT implementation will also potentially be key, but this will be dependent on an IT systems and data review.

Underpinning both the Design and Transition phases are activities in relation to Governance & Assurance and Programme Management.

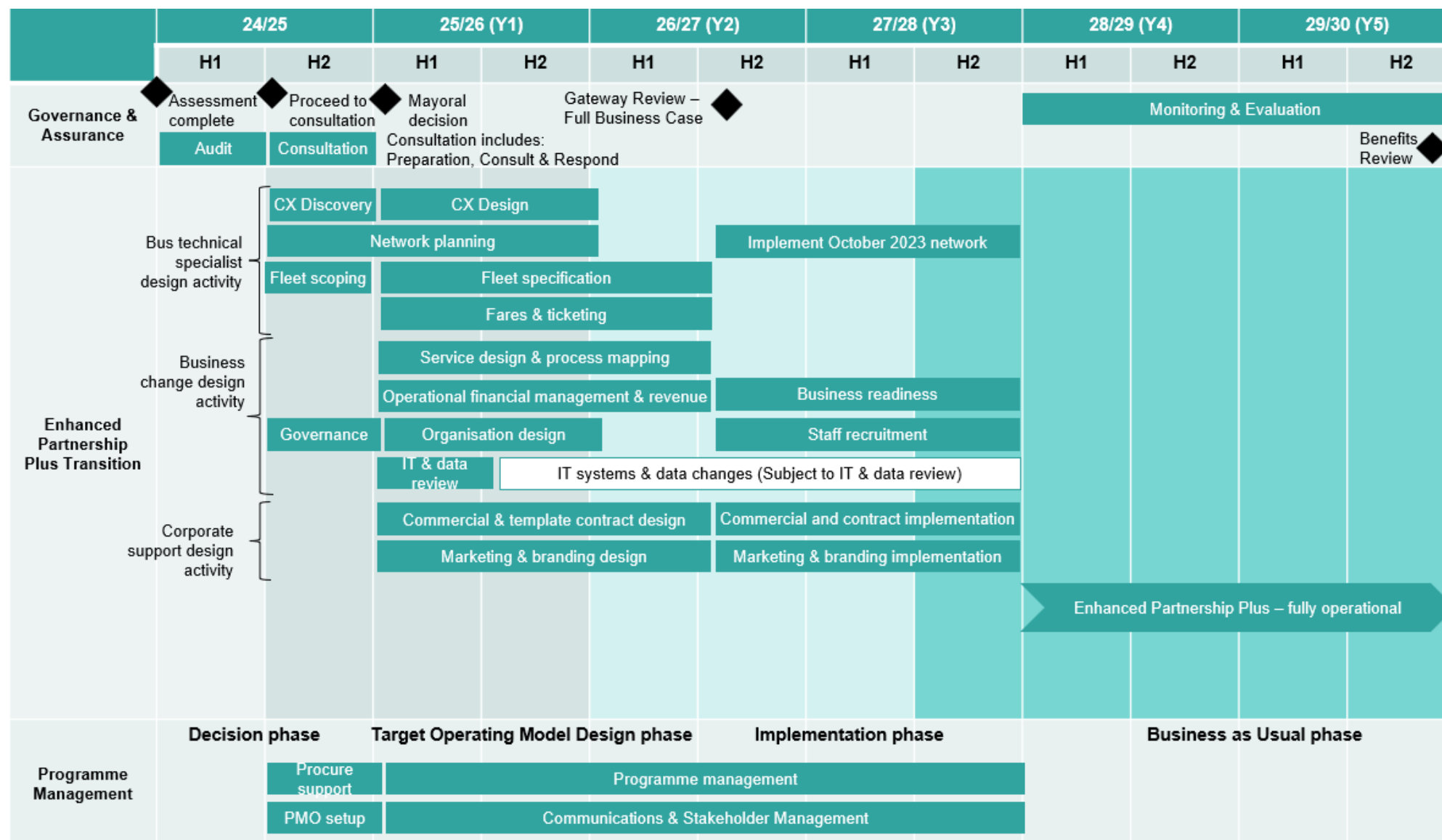


Figure 76 EP Plus Programme Plan

5.9.6.1 Enhanced Partnership Plus Design Phase Activities

CX discovery and design - A customer experience (CX) discovery and design phase will develop plans to maximise the positive impact of the change on the customer. This will include developing a set of customer principles to meet the needs of bus users and non-users in collaboration with operators; grouping the breadth of existing and prospective users into customer segments and personas to make it simpler to target tailored interventions to their needs and producing design concepts, which articulate the interventions to be applied at each moment along the customer journey to materialise the vision of EP Plus, in collaboration with operators.

Network planning – Although a full-scale redesign of the network is not planned or necessarily possible under EP Plus, as the bus operators are accountable for the network, there will be a need to streamline the network removing any potential ‘over bussing’ and creating network integration between services. The MCA would have to negotiate with bus operators and design future ways of working regarding network enhancements to deliver additional value to customers, so this activity would involve a significant portion of stakeholder engagement activities.

Fares and ticketing – The MCA would influence and collaboratively design the approach for simplified ticketing products and a simplified fare structures by working with the bus operators to understand what can be done and negotiate around this.

Service design and process mapping/design – New processes around the EP Plus interventions need to be designed, including stakeholder engagement with the bus operators and data management for example. The current processes under EP should be mapped, identifying gaps to perform the additional interventions for EP Plus.

IT systems and data changes – IT systems changes are to be determined in more detail following a separate IT systems review. For EP Plus, this may include a new network planning and contract management system to more effectively deliver on the interventions outlined in the Strategic Case.

Governance - Developing and agreeing a streamlined and agile approach to how the change will be governed and reported. Involving the constituent decision-makers will be critical through the design and implementation phase, and this can be done through a PMO and the existing MCA Boards.

Organisation design - Understanding and defining the skills, knowledge and expertise required in a newly formed bus function will be an important activity as part of designing the organisation structure and roles. There may be a need to follow a staff consultation process led by HR to produce a restructured bus team that is proposed in the EP Plus operating model.

Commercial process and strategy design – Under EP Plus the MCA may develop an updated commercial strategy around the investment for tendered services and additional investment associated with EP Plus to enable better decision making and prioritisation. Additionally, new processes around bus operator performance management, contract management, and the enabling data analysis would be defined to align with a new commercial strategy.

Marketing & branding – For EP Plus, this could include the development of a consistent brand across the bus system in South Yorkshire. This will be complementary to the existing public transport branding across livery and design, which will have a positive impact on behaviour change. Alongside branding a marketing plan will be required to clearly communicate any changes associated with EP Plus, such as the network and simplified ticketing, linked with broader messaging to encourage people to use public transport and change their travel behaviours and patterns.

5.9.6.2 Enhanced Partnership Plus Transition Phase Activities

Implement October 2023 network – As outlined in the Strategic and Economic Cases, under EP Plus option the MCA would work together with bus operators to implement to the October 2023 network of tendered routes. In collaboration with operators, the MCA may also make further enhancements to rationalise the network or improve links to other transport modes to ensure passengers receive a holistic experience.

Implement simplified fares and ticketing – The simplified fare structure and ticketing product suite would be implemented in collaboration with bus operators. This includes successful product implementation, and communication with passengers around the changes.

Operational readiness - Operational readiness activities will be deployed so that the MCA, operators and stakeholders are ready to adopt the new ways of working. The outputs from the Target Operating Model design phase will create a baseline scope which would be structured and planned. Specific activities undertaken will include assigning change leads; stakeholder management and communications; readiness reviews; testing; training; cutover planning and go-live support.

Process implementation – Once the Target Operating Model design phase is completed, and in parallel to Operating readiness activities, the new processes for EP Plus will be implemented. Implementation will include testing and training with MCA staff and other stakeholders such as operators to ensure new processes are resilient and efficient. New processes would include but are not limited to stakeholder negotiation with operators on changes under EP Plus, and new data analysis processes.

Staff recruitment - Following on from organisational design activities which will determine the impact of the change on current MCA staff and operators there may be a need for external recruitment from the market, which will require co-ordination and management. This recruitment would be carried out in line with existing MCA policies and processes.

Commercial process implementation – Once new commercial processes around bus operator performance management, contract management, and the enabling data analysis are defined, the MCA would implement these processes.

Marketing & branding delivery – Marketing and branding interventions under EP Plus would be delivered in the Implementation phase. This includes a single brand of buses in South Yorkshire and a potentially a single South Yorkshire travel app to facilitate travel information, ticketing purchasing and customer complaints or queries. These interventions would need to be delivered in close collaboration with operators under EP Plus.

Change management – Change management activities such as training and communication around new ways working, processes and policies, and any potential new technology implementation will key for the transition to business-as-usual. Change management should include a chance to feedback so any iterative improvements can be delivered around new technology, processes and ways of working.

Performance management – Under EP Plus, there will be ongoing and more stringent performance management of bus operators, by analysing available data and metrics.

5.8.7 Programme Team - Franchising

The scope and change to bus services in the MCA under and Franchised Scheme operating model would be delivered and managed over two main phases of work - Design and Implementation.

- The Design phase represents a year of Target Operating Model development to prepare for transition to a fully franchised bus operation throughout the MCA.

- Implementation would take place over a phased approach based on the different procurement tranches described in the Commercial Case. Implementation would start at the launch of the franchise procurement process for services.

Through completion of design and implementation activities, responsibility would transfer to business-as-usual structures and governance, with ongoing monitoring and evaluation as aligned with the MCA Assurance Framework.

Figure 77 represents the Programme Team required for the Design phase and Implementation phase of the Franchising Scheme. For the purpose of the Assessment, this resource is assumed to be bought in externally from the supply chain, which is reflected in the Financial Case. The Programme Team resource is in addition to the business-as-usual roles detailed in section 5.7.1.7 Organisation.

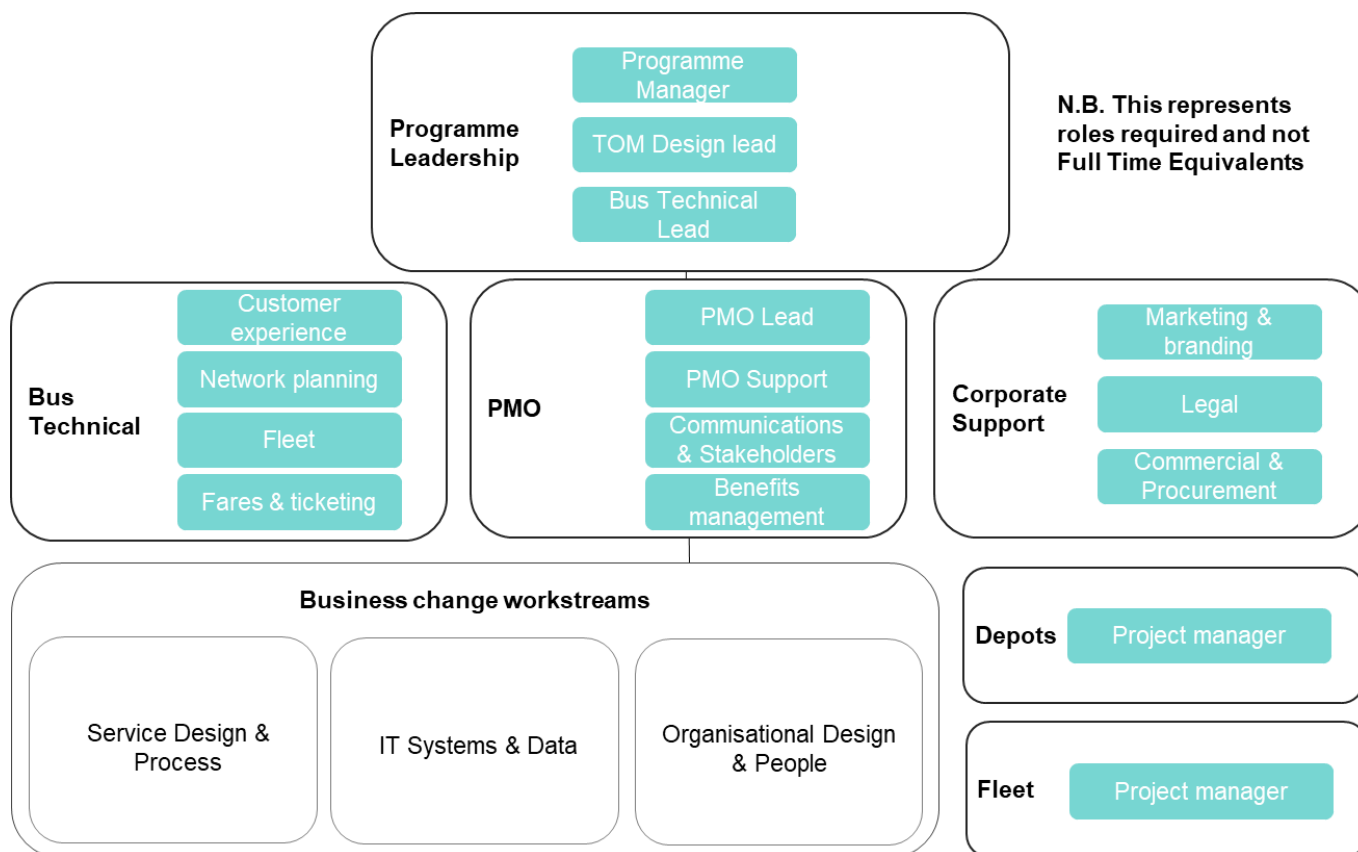


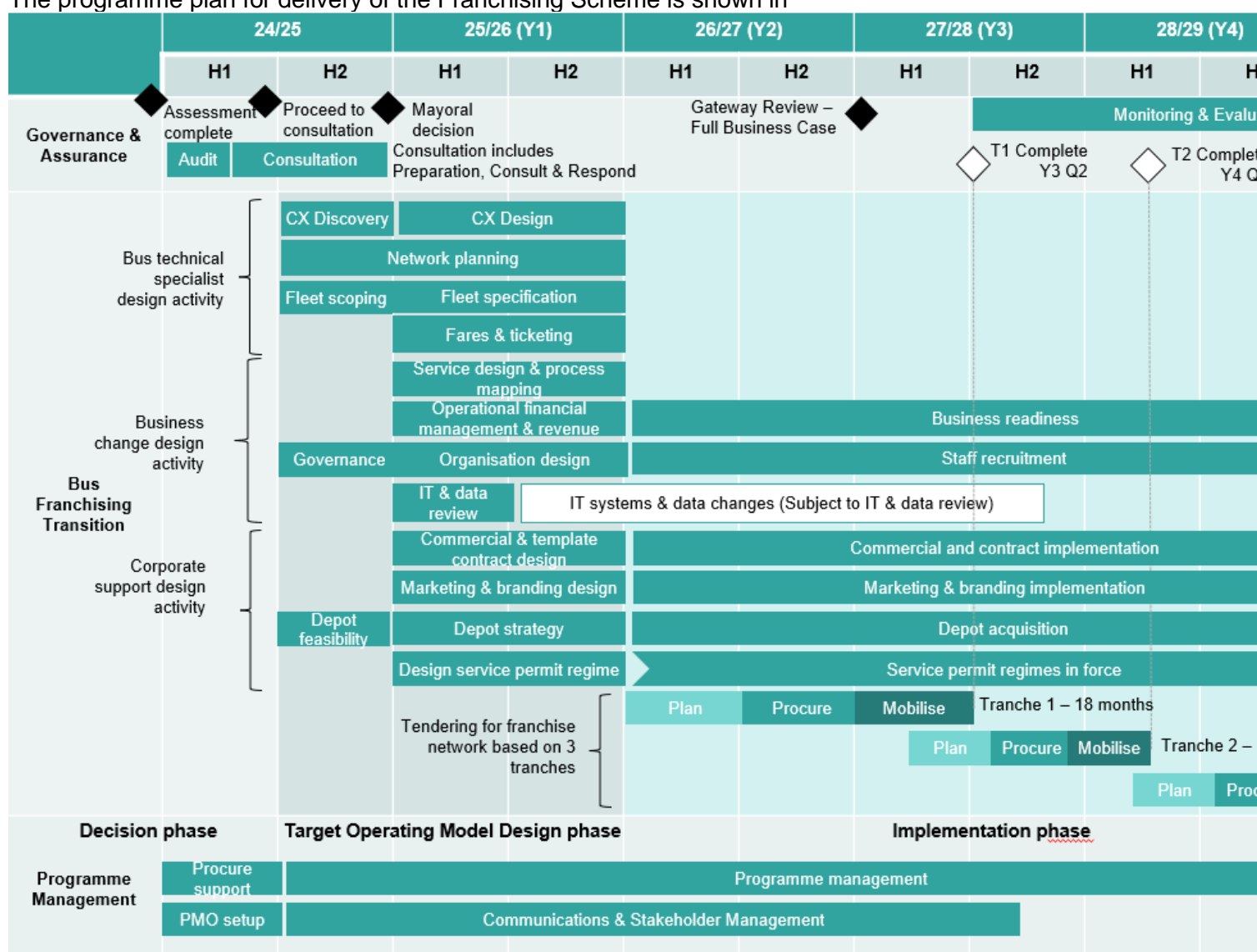
Figure 77 Programme Team for the TOM Design Phase

This team includes:

- **Programme leadership** – this group would provide guidance, strategic direction, management and oversight for the Franchising Scheme following the vision outlined in the Strategic Case, whilst aligning with the MCA's wider organisational objectives.
- **Bus technical team** – this group would consider the bus technical aspects of the programme including network planning and fleet specification. The team would also manage customer experience to ensure the end-to-end passenger experience is considered throughout the Franchising programme.
- **PMO** – this team would ensure there are robust project management governance and standards in place for the programme, provide oversight and reporting to senior and wider stakeholders. PMO would also perform benefits management to ensure the Franchising Scheme delivers the benefits outlined in the Economic Case.

- **Corporate Support** – this function would provide the wider support for the Franchising Scheme such as marketing and branding, legal support and commercial procurement activity particularly around contract design and the tendering and contracting processes for the bus network.
- **Business Change Workstreams** – these three workstreams would design and deliver the organisational change required for a Franchising Scheme, including but not limited to process design, continuous improvement measures, organisational design and technological systems change. This is to enable the MCA's strategic objectives for a Franchising Scheme.
- **Depot and Fleet** – Depots and fleets would operate as separate projects in their own right, reporting into the programme management structure. The bus technical team would be responsible for the specification of vehicles to be procured. Depots would be acquired and managed by the MCA through these project resources.

The programme plan for delivery of the Franchising Scheme is shown in



1. **Design** – this phase is focused on developing the design of the operating model and associated strategies which will be required to deliver the Franchising Scheme and depot ownership. It

outlines an 18-month phase of exploring the required elements of the Franchising Scheme operating model. This represents a critical stage in preparing for the Franchising Scheme and putting in place the associated functions and capabilities which would be required for implementation and ongoing operation.

- 2. Transition** – This phase cycles through 12 to 18-month iterations for Franchising Scheme lots in 3 tranches, the first cycle of which includes preparation, procurement and mobilisation before the deployment of contracts. The staggered nature of the three tranches enables efficient use of future capability and resource, as the renewal and upgrade of each lot could be spread across a 3-year period for future cycles.

Underpinning both the Design and Transition phases are activities in relation to Governance & Assurance and Programme Management.

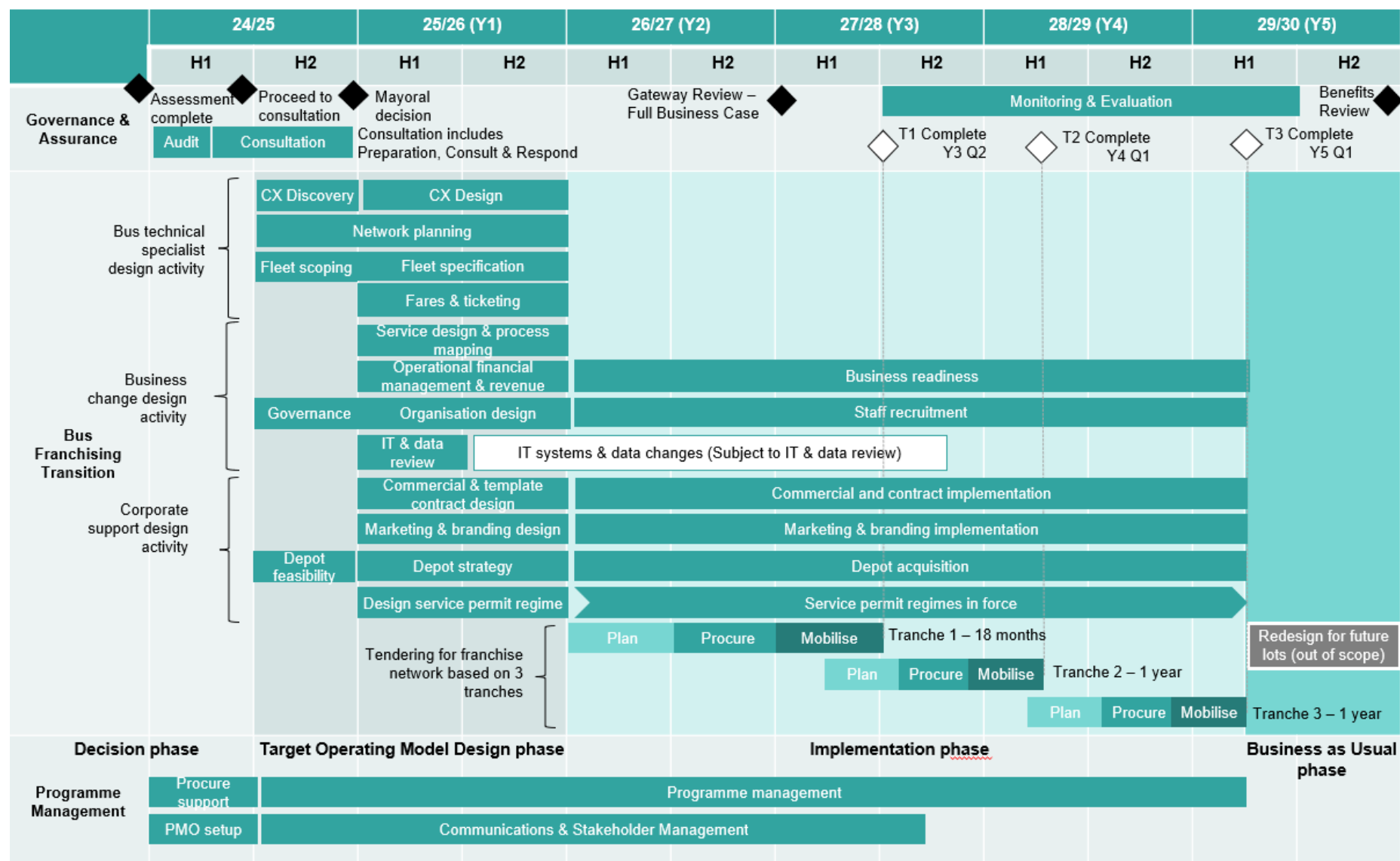


Figure 78 Franchising Programme Plan

5.8.8.1 Bus Franchising Scheme Design Phase

The Design phase of the Target Operating Model for the Franchising Scheme will develop the future operating model described in the Management Case and will consist of the following activities. This is then succeeded by an Implementation phase which is described subsequently.

CX Discovery and Design - A customer experience (CX) discovery and Design phase will develop and inform the plans to maximise the positive impact of the change on the customer. This will include developing a set of customer principles that should guide the bus service design to meet the needs of bus users and non-users; grouping the breadth of existing and prospective users into customer segments and personas to make it simpler to target tailored interventions to their needs; producing a set of design concepts, which articulate the interventions to be applied at each moment along the customer journey to materialise the vision.

Network Planning - Planning a bus network which better meets the delivery model objectives will be critical in the long-term to achieving the ambitions for the bus network outlined in the Strategic Case. This will include devising the areas for each Franchising Scheme and the services and routes contained in each based on the existing network using the work completed in this Assessment as a basis. Although a full-scale redesign of the network is not planned as part of the initial franchising process, there will be a need to streamline the network removing any potential 'over bussing' and creating network integration between services. This will follow on from work completed in this Assessment and will require transport modelling and network planning skillsets optimised by a collaborative transport and analysis platform. These emerging skills within the MCA would then be built on over time to create a redesigned network that better achieves the MCA's objectives.

Service Permit Regime Design - The Franchising Guidance requires the Franchising Authority to design a service permit regime for bus routes that would continue to operate within the area of the Franchising Scheme but not subject to Franchising. These would generally be cross-boundary services, but this may include some other types of services that operate wholly within the MCA area, notably tourist services. This Service Permit Regime will need to be developed in consultation with neighbouring local authorities and operators and will serve to enable the continued operation of cross-boundary services, in line with other local authorities' plans and policies, while maintaining the integrity of the franchised network.

Fleet Specification - The MCA will specify fleet vehicle standards within franchising lots, through direct procurement from manufacturers to deliver against the customer experience aims and drive decarbonisation of the network. There will be a need for the MCA to develop a residual value mechanism whereby the incumbent franchise operator has a guarantee of the value of the vehicle at the end of the franchise. This activity will include working with incumbent operators to offer up a proportion of their fleet before Day 1 of the Franchising Scheme, although there are no powers to require this from operators.

Commercial & Template Contract Design - Commercial arrangements are required to enable effective development and deployment of contracts and the required clauses to best achieve the desired benefits. This activity will further develop the Packaging and Lotting Strategy and will define the length, size and sequence of the different tender packages; define the fleet, depot and IT system requirements; and determine the commercial terms and service standards. A confirmed strategy based on input from the consultation exercise and further operator engagement will be critical in informing the business change requirements across technology, data, people, skills and organisation. This strategy will include a template contract design that can be used across each of the franchise lots.

Marketing & Branding - There is a need to deploy marketing expertise with the MCA taking accountability for the development of a consistent brand across the bus system. This will be complementary to the existing public transport branding across livery and design, which will have a positive impact on behaviour change. Alongside branding a marketing plan will be required to clearly communicate the proposed changes linked with broader messaging to encourage people to use public transport and change their travel behaviours and patterns.

Fares & Ticketing - The MCA will need to expand the capability it has to manage fares and ticketing across Franchising lots and South Yorkshire, enabling accurate data and performance indicators, as well as managing the commercial model associated with fare income. There is a need to design the fares model based on demand forecasting, and consideration of existing fares models, which will apply across the region in a Franchise environment.

Governance - Developing and agreeing a streamlined and agile approach to how the change will be governed involving the constituent decision-makers will be critical through the Design phase and Implementation phase. This will involve taking governance models where a franchise model is in place such as TfL and, Transport for Greater Manchester, and adapting to the needs of the South Yorkshire region.

Organisation Design - Understanding and defining the skills, knowledge and expertise required in a newly formed bus function will be an important activity as part of designing the organisation structure and roles. There would be a need to follow a staff consultation process led by HR to produce a restructured bus team that is proposed in the Franchising Scheme operating model. With functions transferring from operators and TravelMaster to the MCA there are likely to be TUPE implications during the Transition phase, requiring advice on the process and legalities. Such transfers would be anticipated to occur as the MCA assumes greater responsibility over areas such as network planning and fares and ticketing. These TUPE transfers during the Implementation phase of the Franchising Scheme would need to take place following consultation with operators and other relevant bodies, such as TravelMaster, to determine who is “principally connected” under the definition required for TUPE to take place. It is assumed that transfers under TUPE between one operator and another, both at the inception of Franchising and upon retendering where a contract changes hands between operators, would be the responsibility of the participating operators and not the MCA. This is common practice in London’s established bus franchising system.

Recruitment - Following on from organisational design activities which will determine the impact of the change on current MCA staff and operators there may be a need for external recruitment from the market, which will require co-ordination and management. This recruitment would be carried out in line with existing MCA policies and processes.

Financial Management & Revenue - As part of the Franchising Scheme, financial expertise will be required to manage the commercial delivery model with the MCA taking on revenue risk. Clear, robust and assured financial management and revenue processes will be required to manage the risk that this delivery model brings to the authority.

Service Design & Process Mapping - Activities to ensure the delivery of business change including the re-design of business processes, embedding new behaviours and ways of working, development and delivery of training plans. This will involve working with the business users to process map current and future ways of working. Service design will inform the future proposals for IT systems, financial management, organisational design, data requirements and technologies. The Franchising Scheme Operating Model – Process and Accountabilities will be used as a starting point to determine the services that will need to be designed and the processes to be mapped.

Depot Strategy - It is critical to prepare for the Implementation phase by developing a depot strategy for the acquisition of depots for each Franchising Scheme lot competition as the MCA has chosen the option of owning depots. Through the Assessment, it has been determined that the MCA will provide depots to create a competitive market, encourage new entrants and facilitate the future provision of zero emission buses. Options to be pursued include: the purchase of the depot sites from existing operators for a market rate; the potential provision of temporary or permanent facilities using public sector assets and lands; the potential need to use compulsory purchase order powers. Engagement with the existing owners of depots as part of developing an approach to depot acquisition and management will be critical to ensuring a positive response from the market in tendering.

IT & Data Review - The MCA will require IT systems and data that efficiently and effectively support the new Franchising Scheme model of working. This activity will set the principles for future functional and

non-functional requirements that would be used to determine whether systems are fit for purpose. There will be a need to map the current IT architecture and compare it to the future requirements building on the initial activity taken place as part of this Assessment. This will determine any gaps and change in IT functionality which will need to be filled, which would follow this review.

5.8.8.2 Bus Franchising Scheme Transition Phase

The Transition phase follows the Design phase and will deliver the changes as designed and provide feedback into monitoring and evaluation and Benefits Realisation performed by the Benefits Manager in the programme team, which would guide the design of future Franchising Scheme lots. This phase includes:

- **Depot Acquisition** - Acquisition of depots in sufficient time for delivery of Franchising Scheme lots is a critical pre-requisite. Informed by the Depot Strategy, this could be completed in staggered stages to utilise resource most efficiently, ahead of each Franchising Scheme tranche.
- **Fleet Procurement** – Procurement of the bus fleet, including zero-emission buses, in time for the Franchising Scheme lots. Similarly, to depot acquisition, this could be completed in staggered stages to utilise resource most efficiently, ahead of each Franchising Scheme tranche.
- **Preparation, Procurement and Mobilisation of Franchise Lots** - This cyclical process should allow staggered starts between each the three franchise tranches. Each lot will go through a delivery plan consisting of Depot Acquisition, Preparation, Procurement and Mobilisation before the commencement of each contract. As this activity gets nearer in timescale, consideration will be given to other Combined Authorities that are pursuing a Franchising Scheme to understand and gain visibility of lessons learned and best practice. Engagement with the bus operator market should consider the other tenders that they may be responding to in order to gain the best response possible from operators.
- **Operational Readiness** - Operational readiness activities will be deployed to ensure that the MCA, operators and stakeholders are ready to adopt the new ways of working. The outputs from the Target Operating Model design phase will create a baseline scope which would be structured and planned. Specific activities undertaken will include assigning change leads; stakeholder management and communications; readiness reviews; testing; training; cutover planning and go-live support.
- **Performance Management** - The cyclical nature of lot renewal will provide a consistently staggered feedback loop via stage-gates. Monitoring and Evaluation should inform a lessons-learned input into delivery of future contracts.

5.8.8.3 Programme Management for Franchising

The Programme Management workstream sets out the fundamental delivery requirements across all phases. This includes:

- **PMO Set-up:** A sufficiently resourced PMO should be enabled with the specific methodology and principles to best manage the design and implementation stages of this change project. This activity will involve defining the process, systems and design of the PMO based on best practice and the MCA's project management standards.
- **Procure Support:** Sourcing external support as this will be required to support the Design phase and Implementation phase of the programme which will need to be procured in advance of a Mayoral decision to proceed.
- **Communications and Stakeholder Management:** This will include the management of communications and stakeholders to generate the best circumstances for successful delivery and implementation of the franchised bus network across South Yorkshire.

5.8.8.4 Programme Assurance, Post Implementation and Evaluation Arrangements

The MCA utilise an Assurance Framework¹³⁰, which outlines how public money would be used responsibly, openly and transparently, and achieve best value for money. This framework is updated annually and outlines how decisions are made in a robust, evidenced, and transparent manner, as well as the approach to assurance. The Assurance Framework would be applied to the design and implementation of a Franchising Scheme operating model.

The Assurance Framework includes a Monitoring and Evaluation Framework implemented in South Yorkshire, which adheres to the latest guidelines and principles set by HM Treasury, including the Magenta and Green Book principles. This comprehensive framework ensures effective assessment of projects and programmes, throughout their delivery and post-delivery phases, which would be applied on this project.

The Assurance Framework outlines the processes in detail, enabling the MCA Executive Team to gather reliable feedback on delivery performance and evaluate the inputs, outputs, and impacts of this investment.

5.8.8.5 Assurance

This subsection details the governance and assurance frameworks that would be in place to ensure that the MCA fulfils its statutory requirements when planning for and implementing the Franchising Scheme.

5.9.8.5.1 Audit

The Audit, Standards and Risk Committee monitors the operation of the MCA. Their role is to ensure that the MCA is fulfilling its legal obligations, complies with statutory requirements, is managing risk effectively and has robust control measures in place for all devolved powers and funding. Following completion of the Assessment, a period of independent external audit will commence, that will report into this committee.

5.9.8.5.2 Consultation

A public consultation and response period will be undertaken during Summer 2024 before a Mayoral decision point to determine whether to move to a Franchising Scheme delivery model.

5.9 CONCLUSION

In conclusion, this Management Case describes the processes and accountabilities under the current South Yorkshire EP operating model (section 5.6), which would continue under the EP option, those that would be required under an EP Plus (section 5.7) and those that would be required under the Franchising Scheme under the preferred option, Franchising Option B (section 5.8).

This case also details, in section 5.9, the programme management methodology and strategy for a change from the current EP to the Franchising Scheme and EP Plus options, if the MCA were to decide to implement one of these options. This also includes an identification of the key deliverability risks inherent in the transition to the Franchising Scheme and EP Plus, and the MCA's approach to mitigating these, in section 5.9.4. Finally, the programme plan for the design, implementation and transition for the Franchising Scheme and EP Plus options is detailed in section 5.9.8 and 5.9.6 respectively.

The MCA would become accountable for the delivery of more activities through the Franchising Scheme with an accompanying increase in people, skills, technology and data. An EP Plus would have the same legal set up as the current EP, therefore, the MCA would not take on more legal accountability. However, additional people, skills, technology and data would be required to deliver the proposed EP Plus interventions, as the MCA is proposing to increase their responsibilities to deliver similar outcomes as

¹³⁰ SYMCA March 2023 Assurance Framework

those proposed in the Franchising Scheme. Table 124 below summarises the resource requirements for the Franchising Scheme and the proposed EP Plus option. Both options require significant additional resource to deliver, with a Franchising Scheme requiring a greater level of resource than EP Plus. However, EP Plus would still require additional resource and a different organisation set up like the Franchising Scheme, to implement a dedicated Bus Team.

Table 124 Franchising versus EP Plus total resource requirements

		Franchising (FTE)	EP Plus (FTE)
Transition Resource		Up to 28	Up to 17
Business as usual resource	Bus functions	22	20
	Organisation-wide functions	12	13

The graphs below show the resource profiles across the Franchising Scheme and EP Plus delivery programmes to enable a comparison of both the internal BAU resource and external programme resource needed to deliver from quarter one of financial year 2024/2025 to 2029/2030.

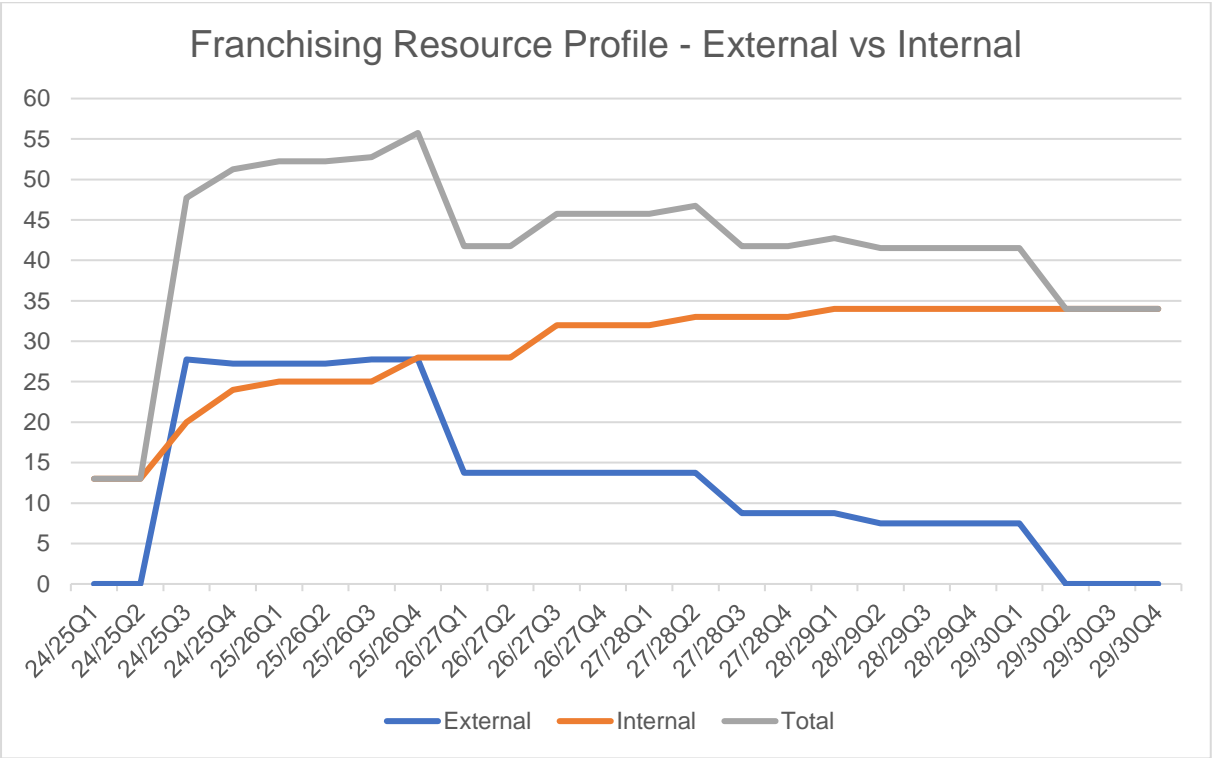


Figure 79 Franchising Resource Profile – External vs Internal

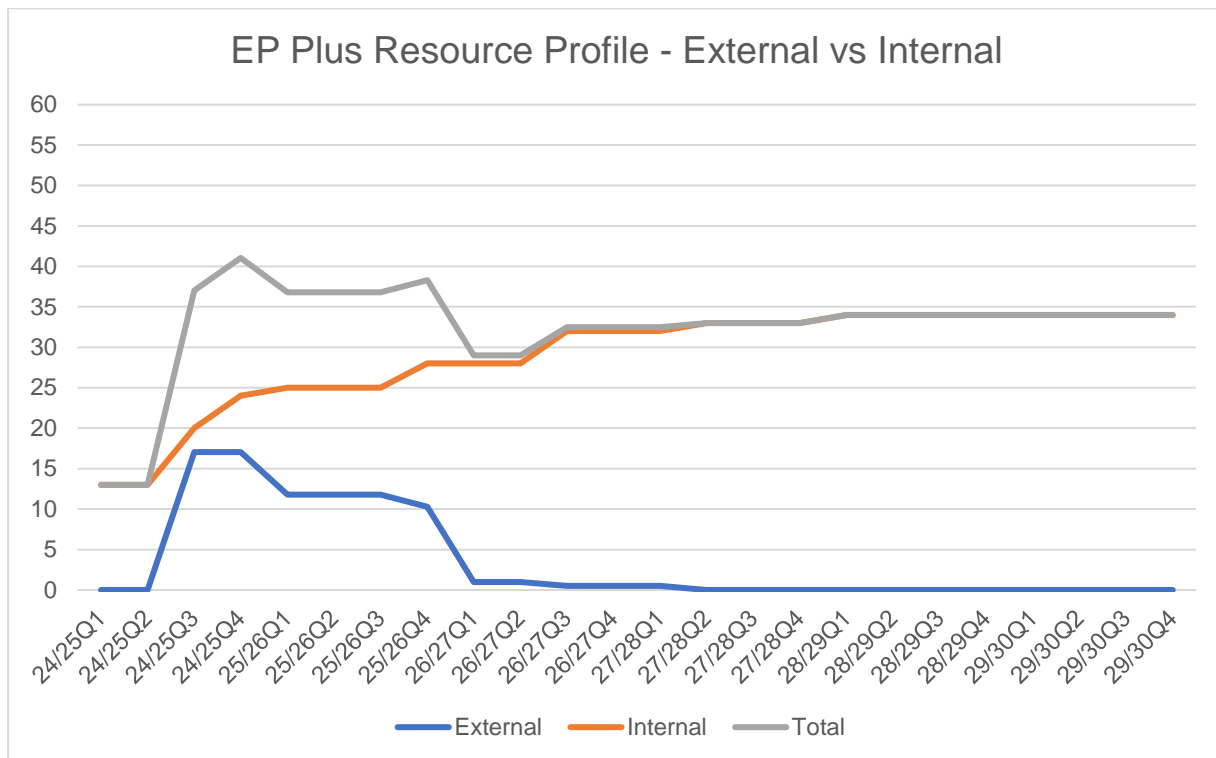


Figure 80 EP Plus Resource Profile - External vs Internal

The programme for both delivery options, EP Plus and the Franchising Scheme, would utilise the MCA's existing programme management standards and arrangements used on other projects and programmes. The programme would adopt a Project Management Office (PMO) and utilise processes put in place by the existing Programme Controls teams within the MCA. The PMO in the MCA Executive Team would be responsible for oversight including opportunity appraisal and further business case development activities.

The MCA utilises an Assurance Framework, which outlines how public money would be used responsibly, openly and transparently, and achieve best value for money. This would be applied to the design and implementation of either operating model to assure delivery enabling the MCA Executive Team to gather reliable feedback on delivery performance and evaluate the inputs, outputs, and impacts of the investment.

From a Management Case perspective, both options are deliverable and would require programmes of change to manage the transition involving programme management and governance, with the Franchising Scheme again being more significant than EP Plus. This Management Case has detailed the required programme management, risk mitigation, resource requirements and governance to successfully implement the Franchising Scheme or EP Plus option. Therefore, through additional resourcing and the application of robust governance, assurance and risk management, both options would be manageable and deliverable by the MCA.



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